

Avicanna Inc.
Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Nine Months Ended September 30, 2022, and 2021
(Expressed in Canadian dollars, except share amounts)

Avicanna Inc.
Condensed Consolidated Interim Statements of Financial Position
Unaudited
(Expressed in Canadian Dollars)

	Note	September 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		\$ 271,463	\$ 31,004
Amounts receivable	4	2,779,979	2,335,828
Prepaid assets		657,791	901,292
Biological assets	5	184,865	1,083,447
Inventory	6	5,449,910	3,002,059
Total current assets		9,344,008	7,353,630
Right of use asset	9	-	147,192
Property and equipment	7	12,299,732	14,321,597
Intangible assets	8	203,234	299,195
Investment	11	-	180,000
Total assets		\$ 21,846,974	\$ 22,301,614
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and accrued liabilities		\$ 3,966,872	\$ 7,289,380
Lease liability – current portion	13	-	156,247
Loan payable – current portion	15	836,483	1,090,107
Convertible debentures	14	1,650,697	-
Derivative liability	16	29,088	-
Due to related party	17	4,049,358	3,659,931
Total current liabilities		10,532,498	12,195,665
Loan payable	15	249,161	415,826
Deferred revenue	12	2,457,880	2,782,101
Total liabilities		13,239,539	15,393,592
Shareholders' Equity			
Share capital	18	72,649,210	66,243,911
Warrants	18	11,222,502	9,621,935
Share-based payment reserve	19	6,934,376	6,847,200
Accumulated other comprehensive loss		(2,308,883)	(4,159,392)
Deficit		(85,955,458)	(77,407,467)
Equity attributable to owners of the parent		2,541,747	1,146,187
Non-controlling interest	20	6,065,688	5,761,835
Total equity		8,607,435	6,908,022
Total liabilities and shareholders' equity		\$ 21,846,974	\$ 22,301,614

Nature of operations and going concern uncertainty – Note 1
Subsequent events – Note 26

Approved by the Board

/s/ Dr. Chandra Panchal, Chairman of the Board of Directors

/s/ John McVicar, Audit Committee Chair, Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Avicanna Inc.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
For the Three and Nine Months Ended September 30, 2022, and 2021
Unaudited
(Expressed in Canadian Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenue					
Service Revenue		\$ 74,272	\$ 82,372	\$ 168,797	\$ 87,945
License Revenue	12	381,364	100,750	973,115	302,250
Product Sales		315,627	804,845	1,769,869	1,660,900
Total Revenue		771,263	987,967	2,911,781	2,051,095
Cost of goods sold		(395,209)	(851,641)	(1,525,439)	(1,339,228)
Gross margin before the undernoted		376,054	136,326	1,386,342	711,867
Fair value changes in biological assets included in inventory sold		4,949	(66,835)	(56,136)	(101,481)
Unrealized gain on changes in fair value of biological assets		145,573	437,679	1,709,772	533,498
Gross margin		526,576	507,170	3,039,978	1,143,884
Expenses					
General and administrative	22	2,402,887	2,762,910	6,793,946	8,122,602
Share-based compensation	19	158,241	155,025	807,484	556,036
Depreciation and amortization	7,8,9	217,693	210,532	720,149	665,442
Expected credit loss	4	143,922	(46,802)	203,151	(5,163)
Total Expenses		(2,922,743)	(3,081,665)	(8,524,730)	(9,338,917)
Other income (expenses)					
Foreign exchange loss		(7,058)	(6,186)	(42,641)	(31,309)
Gain on disposal of capital assets	7	5,001	-	5,001	51,975
Gain (loss) on fair value of derivative liability	16	(9,676)	60,025	38,809	(80,543)
Other income		52,181	55,427	147,475	81,487
Interest expense	15	(67,012)	(12,922)	(218,797)	(68,775)
Accretion	14,15	(467,143)	(192,690)	(1,106,836)	(300,916)
Loss on sale of Sativa Nativa S.A.S.	25	-	-	(1,530,994)	-
Net loss		\$ (2,889,874)	\$ (2,670,841)	\$ (8,192,735)	\$ (8,543,114)
Exchange differences on translation of foreign operations		(169,253)	(273,906)	1,551,948	(2,615,838)
Net comprehensive loss		\$ (3,059,127)	\$ (2,944,747)	\$ (6,640,787)	\$ (11,158,952)
Net comprehensive loss attributable to non – controlling interest	19	(174,231)	73,505	56,695	(897,144)
Net comprehensive loss attributable to Shareholders of the Company	19	(2,884,896)	(3,018,252)	(6,697,482)	(10,261,808)
		\$ (3,059,127)	\$ (2,944,747)	\$ (6,640,787)	\$ (11,158,952)
Weighted average number of common shares – basic and diluted		59,726,627	41,271,574	52,297,861	38,957,977
Net loss per share – basic and diluted		\$ (0.05)	\$ (0.07)	\$ (0.13)	\$ (0.29)

The accompanying notes are an integral part of these condensed consolidated interim financial statement

Avicanna Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2022, and 2021
Unaudited
(Expressed in Canadian Dollars)

		Common shares		Common shares to be Issued		Warrants	Share-based payment Reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	Note	#	\$	#	\$	\$	\$	\$	\$	\$	\$
December 31, 2021		45,884,282	66,243,911	-	-	9,621,935	6,847,200	(77,407,467)	(4,159,392)	5,761,835	6,908,022
Share based compensation	19	-	-	-	-	-	807,484	-	-	-	807,484
Settlement of RSUs	19	2,421,220	1,097,416	-	-	-	(720,308)	-	-	-	377,108
March 2022 Financing	18	7,210,194	1,959,837	-	-	531,231	-	-	-	-	2,491,068
May 2022 Financing	18	4,210,931	1,200,837	-	-	227,989	-	-	-	-	1,428,826
August 2022 Financing	18	7,949,433	2,147,209	-	-	635,092	-	-	-	-	2,782,301
Sale of Sativa Nativa S.A.S.	25	-	-	-	-	-	-	-	-	247,158	247,158
Warrants issued with debentures	14,18	-	-	-	-	206,255	-	-	-	-	206,255
Foreign exchange translation		-	-	-	-	-	-	-	1,850,509	(298,561)	1,551,948
Net income (loss)		-	-	-	-	-	-	(8,547,991)	-	355,256	(8,192,735)
September 30, 2022		67,676,060	72,649,210	-	-	11,222,502	6,934,376	(85,955,458)	(2,308,883)	6,065,688	8,607,435
December 31, 2020		35,871,941	57,355,314	101,722	113,526	6,780,037	5,916,475	(62,036,238)	(2,112,995)	7,893,712	13,909,830
Settlement of shares to be issued	19	101,722	113,526	(101,722)	(113,526)	-	-	-	-	-	-
Share based compensation	19	-	-	-	-	-	556,036	-	-	-	556,036
Exercise of RSUs	19	104,781	136,130	40,389	245,913	-	(382,043)	-	-	-	-
Conversion of debentures	14	613,535	1,513,175	-	-	-	-	-	-	-	1,513,175
Exercise of warrants	18	99,595	124,883	-	-	(40,227)	-	-	-	-	84,656
Issuance of units	18	4,480,000	3,599,023	-	-	1,751,027	-	-	-	-	5,350,050
Warrants issued with term loan	15,18	-	-	-	-	577,060	-	-	-	-	577,060
Forfeiture of RSUs and options	19	-	-	-	-	-	(69,793)	69,793	-	-	-
Foreign exchange translation		-	-	-	-	-	-	-	(1,924,422)	(691,416)	(2,615,838)
Net loss		-	-	-	-	-	-	(8,337,386)	-	(205,728)	(8,543,114)
September 30, 2021		41,271,574	62,842,050	40,389	245,913	9,067,897	6,020,675	(70,303,831)	(4,037,417)	6,996,568	13,044,517

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Avicanna Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the Nine months Ended September 30, 2022, and 2021
Unaudited
(Expressed in Canadian Dollars)

		For the Nine months Ended September 30,	
	Note	2022	2021
Cash flows from operating activities			
Net loss		\$ (8,192,735)	\$ (8,543,114)
Depreciation and amortization	7,8,9	720,149	665,442
Interest on lease liability	13	12,465	17,660
Accretion	14,15	1,106,836	301,310
Share-based compensation	19	807,484	556,036
Expected credit losses	4	203,151	(5,163)
Gain on sale of capital assets	7	(5,001)	-
Loss (gain) on fair value of derivative liability	16	(38,809)	80,543
Deferred revenue incurred, net of recognized revenue	12	(324,221)	(185,554)
Loss on sale of Sativa Nativa S.A.S.	25	1,530,994	-
Changes in non-cash operating elements of working capital	24	(2,387,060)	(449,198)
Cash used in operating activities		(6,566,747)	(7,562,038)
Cash flows from investing activities			
Purchase of capital assets	7	(30,054)	(784,452)
Proceeds from disposal of capital assets	7	15,301	261,703
Purchase of intangible assets	8	(17,611)	(19,293)
Proceeds from sale of investments	11	180,000	1,250,000
Proceeds from sale of Sativa Nativa S.A.S.	25	669,446	-
Cash used in investing activities		817,082	707,958
Cash flows from financing activities			
Payment of lease liability	13	(168,712)	(173,217)
Increase in balance due to related parties	17	613,206	315,987
Proceeds from loans payable, net of repayments	15	(1,063,254)	1,700,000
Proceeds from debentures, net of issuance costs and repayments	14	1,473,237	(300,000)
Exercise of warrants	18	-	84,656
Proceeds from issuance of shares, net of issuance costs	18	6,702,195	5,350,050
Cash provided by financing activities		7,556,672	6,977,476
Net increase in cash		1,807,007	123,396
Effect of foreign exchange differences		(1,566,548)	(866,680)
Cash, beginning of period		31,004	1,266,732
Cash, end of period		\$ 271,463	\$ 523,448

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Avicanna Inc. (“Avicanna” or the “Company”) was incorporated in Ontario, Canada. Avicanna is a Canadian vertically integrated biopharmaceutical company developing and driving biopharmaceutical advancements of plant-derived cannabinoid-based products with operations in both North and South America. To date, the Company has commercialized several product lines in both North and South America.

The registered office of the Company is located at 480 University Avenue, Suite 1502, Toronto, Ontario. The Company’s common shares are listed under the symbol “AVCN” on the Toronto Stock Exchange (“TSX”); the OTC US exchange under the symbol “AVCNF”; and the Frankfurt Stock Exchange under the symbol “0NN”.

These condensed consolidated interim financial statements have been prepared on a going concern basis which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

As of September 30, 2022, the Company has an accumulated deficit of \$85,955,458 (December 31, 2021 - \$77,407,467), cash of \$271,463 (December 31, 2021 – \$31,004), and a working capital deficit of \$1,188,490 (December 31, 2021 – deficit of \$4,842,035). Additionally, the Company incurred a net loss after taxes of \$8,192,735 and used \$6,566,747 of cash from operating activities during the nine months ended on September 30, 2022. When compared to the same period in prior year, the Company incurred a net loss of \$8,543,114 and used \$7,562,038 of cash from operating activities. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2021.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Company’s Board of Directors on November 11, 2022.

Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets and derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. The Company currently views the business as one operating segment but expects this to change in future periods.

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency of each subsidiary is presented in the table below.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, over an entity and is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through the power it has. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries.

Subsidiaries	Jurisdiction of Incorporation	Ownership Interest	Functional currency
Avicanna (UK) Limited ("Avicanna UK")	United Kingdom	100%	British Pound Sterling
Avicanna USA Inc. ("Avicanna USA")	United States of America	100%	United States Dollar
2516167 Ontario Inc. ("My Cannabis")	Ontario, Canada	100%	Canadian Dollar
Sigma Magdalena Canada Inc.	Ontario, Canada	60%	Canadian Dollar
Sigma Analytical Magdalena S.A.S. ("Sigma Colombia")	Republic of Colombia	60%	Colombian Peso
Santa Marta Golden Hemp S.A.S. ("SMGH")	Republic of Colombia	60%	Colombian Peso
Avicanna LATAM S.A.S. ("LATAM")	Republic of Colombia	100%	Colombian Peso

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount recognized initially, plus the non-controlling interests' share of changes in the capital of the company in addition to changes in ownership interests. Total comprehensive income or loss is attributed to non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within gain (loss) on foreign exchange.

Foreign currency translation

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates at the reporting date. The income and expenses of foreign operation are translated into Canadian dollars at the dates of the transactions. Foreign currency differences due to translation are recognized in other comprehensive income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests ("NCI").

Use of judgments, estimates and assumptions

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements:

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case-by-case basis. As outlined in IFRS 3, the components of a business must include inputs, processes and outputs.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company may utilize an independent external valuation expert to develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Biological assets and inventory

In calculating the fair value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. Inventories of harvested cannabis are valued at the lower of cost or net realizable value. The Company estimates the net realizable value of inventories, considering the most reliable evidence available at the reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross profit.

Estimated useful life of long-lived assets

Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate to calculate present value.

In addition to assessing evidence of possible impairment, the Company also determines whether there is any indication that a previously recognized impairment loss for an asset other than goodwill no longer exists or may have decreased. The Company determines whether there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss is recognized.

Long-term investment

The fair value of the Company's long-term investments is subject to limitation as the financial information for private companies in which the Company holds investments may not be readily available. Adjustment to the fair value of a long-term investment is based on management's judgement and may be a result of subsequent equity financing provided by third-party investors resulting in a valuation different than the current value of the investee company, significant events and restructuring of the investment company that may result in a material impact on the Company's fair value, and financial information received from the investor company.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Provisions

Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the condensed consolidated interim financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Leases

The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease-by-lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option.

Income tax provisions

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the condensed consolidated interim statement of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate future taxable income in order to utilize the deferred income tax assets. Estimates of future taxable income are based on forecasted cash flows from operations or other activities. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the reporting date could be impacted.

The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Determination of share-based payments

The estimation of share-based payments (including warrants and stock options) requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model at the date of the grant. The Company makes estimates as to the volatility, the expected life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of share prices of similar companies over the period of the expected life of the applicable warrants and stock options. The expected life is based on historical data. These estimates may not necessarily be indicative of future actual patterns.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended December 31, 2021.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

4. AMOUNTS RECEIVABLE

	September 30, 2022		December 31, 2021	
Trade and other receivables	\$	2,035,194	\$	1,130,087
Sales tax receivable		1,835,850		2,088,844
Expected credit loss provision		(1,091,065)		(883,103)
Total amounts receivable	\$	2,779,979	\$	2,335,828

Of the expected credit loss provision recognized as at September 30, 2022, \$594,994 related to sales tax receivable (December 31, 2021 - \$594,994).

5. BIOLOGICAL ASSETS

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

	September 30, 2022		December 31, 2021	
Opening balance	\$	1,083,448	\$	650,780
Production costs capitalized		348,329		501,975
Gain in fair value less costs to sell due to biological transformation		1,669,651		1,522,038
Transferred to inventory upon harvest		(2,891,064)		(1,498,034)
Foreign exchange translation		(25,499)		(93,312)
Ending balance	\$	184,865	\$	1,083,447

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants and seeds currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram. During the period, the Company also cultivated seeds which have been transferred into inventory.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

The following table quantifies each significant unobservable input and provides the impact that a 10% increase/decrease in each input would have on the fair value of biological assets.

Assumptions: CBD Resin	As of September 30, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Resin Yield	12%	\$19,419	8.8%	\$23,497
CBD Resin Price (USD/KG)	\$3,022	\$19,419	\$3,022	\$24,198
Weighted average of expected loss of plants until harvest [i]	0%	-	3.5%	\$668
Expected yields for cannabis plants (average grams per plant)	153	\$18,808	145	\$18,276
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	60%	\$18,808	74%	\$18,276
Estimated fair value less costs to complete and sell (per gram) [ii]	\$0.44	\$19,419	\$0.23	\$19,653
After harvest cost to complete and sell (per gram)	\$0.01	\$611	\$0.02	\$1,377

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

5. BIOLOGICAL ASSETS (CONTINUED)

Assumptions: THC Resin	As of September 30, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
THC Resin Yield	-	-	12.6%	\$100,963
THC Resin Price (USD/KG)	-	-	\$5,129	\$102,689
Weighted average of expected loss of plants until harvest [i]	-	-	6.7%	\$3,135
Expected yields for cannabis plants (average grams per plant)	-	-	145	\$90,078
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	50%	\$90,078
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	\$0.65	\$94,325
After harvest cost to complete and sell (per gram)	-	-	\$0.04	\$4,247

Assumptions: CBD Seeds	As of September 30, 2022		As of December 31, 2021	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Seeds Price (USD/unit)	-	-	\$0.90	\$40,913
Weighted average of expected loss of plants until harvest [i]	-	-	10%	\$4,531
Expected yields for cannabis plants (average grams per plant)	-	-	3,000	\$40,783
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	45%	\$40,783
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	\$0.7	\$40,896
After harvest cost to complete and sell (per gram)	-	-	\$0.00	\$113

[i] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[ii] The estimated fair value less costs to complete and sell (per gram/unit) represents the expected sales price for the Company's active ingredients including isolate and resins less the remaining costs to complete and sell that product as finished product which is inclusive of all production activities.

These estimates are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2022, it is expected that the Company's cannabis plants biological assets will yield approximately 757,244 grams of dry cannabis (December 31, 2021 – 4,022,145 grams) and nil seeds (December 31, 2021 – 942,300 seeds).

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

6. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
Harvested Cannabis				
Seeds	\$ 314,163	\$ -	\$ (314,163)	\$ -
Wet Flower	56,764	243,921	-	300,685
Dried Flower	369,576	2,355,515	(151,363)	2,573,728
	740,503	2,599,436	(465,526)	2,874,413
Active Pharmaceutical Ingredients				
Work in process	514,530	862,711	(300,632)	1,076,609
Finished goods	87,320	54,046	(141,366)	-
	601,850	916,757	(441,998)	1,076,609
Supplies and consumables	1,388,776	-	(407,309)	981,467
Finished goods	598,598	-	(81,177)	517,421
September 30, 2022	\$ 3,329,727	\$ 3,516,193	\$ (1,396,010)	\$ 5,449,910

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
Harvested Cannabis				
Seeds	\$ 322,552	\$ -	\$ (339,072)	\$ (16,520)
Wet Flower	113,909	204,705	(33,940)	284,674
Dried Flower	232,181	680,139	(179,397)	732,923
	668,642	884,844	(552,409)	1,001,077
Active Pharmaceutical Ingredients				
Work in process	548,276	229,329	(407,163)	370,442
Finished goods	70,013	(51,633)	(18,380)	-
	618,289	177,696	(425,543)	370,442
Supplies and consumables	1,420,053	-	(394,399)	1,025,654
Finished goods	688,221	-	(83,335)	604,886
December 31, 2021	\$ 3,395,205	\$ 1,062,540	\$ (1,455,686)	\$ 3,002,059

The value of inventory transferred to cost of goods sold during the nine months ended September 30, 2022, was \$1,352,637 (September 30, 2021 - \$1,942,478)

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

7. PROPERTY AND EQUIPMENT

	Equipment \$	Land \$	Construction in Progress \$	Infrastructure and Buildings \$	Total \$
Cost					
December 31, 2021	5,416,121	7,785,272	262,298	2,199,845	15,663,536
Additions	3,148	-	-	26,906	30,054
Disposals	(627,515)	(186,382)	-	(738,240)	(1,552,137)
Foreign exchange translation	(100,996)	(132,591)	(63,168)	(37,847)	(334,602)
September 30, 2022	4,690,758	7,466,299	199,130	1,450,664	13,806,851
Accumulated Depreciation					
December 31, 2021	1,040,960	-	-	300,979	1,341,939
Depreciation	330,839	-	-	128,445	459,284
Disposals	(32,961)	-	-	(238,695)	(271,656)
Foreign exchange translation	(18,411)	-	-	(4,037)	(22,448)
September 30, 2022	1,320,427	-	-	186,692	1,507,119
Net Book Value					
December 31, 2021	4,375,161	7,785,272	262,298	1,898,866	14,321,597
September 30, 2022	3,370,331	7,466,299	199,130	1,263,972	12,299,732

During the nine months ended September 30, 2022, the Company recognized depreciation expense on its property and equipment of \$459,282 (September 30, 2021 - \$583,852).

8. INTANGIBLE ASSETS

	Customer Relationships \$	Ecommerce Platform \$	Licenses and Permits \$	Software Licenses \$	Intellectual Property \$	Total \$
Cost						
December 31, 2021	141,327	455,994	43,549	88,115	88,890	817,875
Additions	-	-	-	17,611	-	17,611
Foreign exchange translation	-	-	(1,026)	(3,073)	(1,092)	(5,191)
September 30, 2022	141,327	455,994	42,523	102,653	87,798	830,295
Accumulated Amortization						
December 31, 2021	124,878	194,700	38,215	77,886	83,001	518,680
Amortization	16,449	68,399	6,335	15,300	7,190	113,673
Foreign exchange translation	-	-	(2,027)	(872)	(2,393)	(5,292)
September 30, 2022	141,327	263,099	42,523	92,314	87,798	627,061
Net Book Value						
December 31, 2021	16,449	261,294	5,334	10,229	5,889	299,195
September 30, 2022	-	192,895	-	10,339	-	203,234

During the nine months ended September 30, 2022, the Company recognized amortization on its intangible assets of \$113,673 (September 30, 2021 - \$528,696).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

9. RIGHT OF USE ASSETS

As of September 30, 2022, and December 31, 2021, the Company's right of use assets consisted of the following:

	September 30, 2022		December 31, 2021	
Cost				
Opening balance	\$	670,549	\$	670,549
Additions		-		-
Ending balance	\$	670,549	\$	670,549
Accumulated Amortization				
Opening balance	\$	523,357	\$	327,097
Depreciation		147,192		196,260
Ending balance	\$	670,549	\$	523,357
Net Book Value	\$	-	\$	147,192

During the nine months ended September 30, 2022, the Company recognized depreciation on its right of use assets of \$147,192 (September 30, 2021 - \$147,194).

10. DERIVATIVE ASSET

	September 30, 2022		December 31, 2021	
Opening balance	\$	-	\$	526,312
Change in fair value		-		(526,312)
Ending Balance	\$	-	\$	-

On November 26, 2019, the Company entered into a license agreement (the "License Agreement") with LC2019, Inc. ("LC2019") pursuant to which the Company has agreed to license certain proprietary formulations and brand elements to LC2019 for commercialization in the United States. As consideration for entering into the License Agreement, LC2019 and its shareholders have entered into a definitive option agreement (the "Option Agreement") that grants the Company the option (the "Option") to acquire 100 percent of the issued and outstanding shares of LC2019. The Option is exercisable in the event that cannabis cultivation, processing, distribution and possession becomes federally legal in the United States (the "Triggering Event"), within 10 years from the grant date. The Company may elect to exercise the Option prior to the occurrence of the Triggering Event in its sole discretion or to assign the Option at any time. As of September 30, 2021, the option has not been exercised.

Pursuant to the terms of the Option Agreement, upon the occurrence of the Triggering Event, the Company will exercise the Option and purchase all of the issued and outstanding shares of LC2019, as follows: (i) all of the issued and outstanding Class A shares at a nominal amount; (ii) all of the issued and outstanding Class B shares at the applicable subscription price; and (iii) all of the issued and outstanding Class C shares for up to 10% of the increase in the fair market value of LC2019 between the date of the Option Agreement and the date that the Company provides notice of exercise to LC2019, up to a maximum aggregate amount of \$10,000,000. The Company is entitled to elect to satisfy the purchase price in cash or through the issuance of common shares of the Company, in its sole discretion, subject to the approval of, and in accordance with the policies of, the TSX.

The Option was classified as a derivative financial instrument and was initially recorded at its fair value of \$3,780,000. As of September 30, 2022, the fair value of the Option was \$nil (December 31, 2021 - \$nil).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

11. LONG-TERM INVESTMENTS

	September 30, 2022		December 31, 2021	
Balance at the beginning of the year	\$	180,000	\$	518,213
Unrealized (loss) gain on change in fair value		-		(338,213)
Disposition of long-term investment		(180,000)		-
Ending balance	\$	-	\$	180,000

Long-term investments consist of 720,000 shares in Southern Sun Pharma (“Southern Sun”) purchased for a total cost of \$72. During the year ended December 31, 2020, Southern Sun completed a financing through the sale of units at \$1.25 per unit. Each unit was comprised of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase an additional share at \$1.50 at any time up to 18 months following the closing date. Due to this financing, the Company recognized an unrealized gain from the change in fair value of \$518,141. The Company used an iterative calculation based on the Black-Scholes options pricing model to allocate the subscription price between the half-warrant and the common share. The residual value of each common share was valued at \$1.08; the Company further applied a discount of 7.5 % for the lack of marketability of this investment.

On February 2, 2022, all shares owned by the Company were redeemed by Southern Sun. The shares were redeemed for \$0.25 per share for gross proceeds of \$180,000. During the nine months ended September 30, 2022, the Company recognized a loss of \$nil on the fair value of these shares (December 31, 2021 - unrealized loss of \$338,213).

12. DEFERRED REVENUE

	September 30, 2022		December 31, 2021	
Opening balance	\$	2,782,101	\$	3,260,101
Additions		189,668		-
Revenue recognized		(513,889)		(478,000)
Ending Balance	\$	2,457,880	\$	2,782,101

[i] Pursuant to the terms of the License Agreement with LC2019 (note 10), the Company transfers brand/trademark as well as intellectual property related to product development. For LC2019 to benefit from the brand, there are activities that the Company would need to perform to support and maintain the value of the brand/ trademark. As ongoing activities are required to maintain the brand, the license to the brand/ trademark would be considered a right to access and therefore would be recognized over time. In addition, given the license is for cannabis related to product development, the Company meets the criteria for right of use of intellectual property and recognize at a point time. However, IFRS 15 states that revenue cannot be recognized for a license that provides a right to use intellectual property before the period during which the customer is able to use and benefit from the license. As cannabis remains federally illegal in the US, there exists restrictions in the benefits that the Company can derive from this license. Consequently, the revenue derived from the above license has been recorded as deferred revenue to be recognized into revenue evenly over a period of ten years. In relation to this contract, the Company recognized \$94,500 and \$283,500 as license revenue for the three and nine months ended September 30, 2022, respectively (September 30, 2021 - \$94,500 and \$283,500).

[ii] On August 11, 2020, the Company entered into an exclusive Distribution Agreement with a third-party, granting them the exclusive right to promote, market and sell the Company’s products. The Company received \$250,000 as consideration of the exclusivity partnership for a period of five years plus an automatic renewal period of five years (the “Exclusivity Fee”). The Company determined that its performance obligation with regards to the contract occurs over a period of time and therefore, revenue is to be recognized straight-line over a ten-year period based on the term of the contract and the automatic term renewal. On August 29, 2022, the Company terminated the Distribution Agreement, because the third-party had failed to meet its obligations, including failing to cure such failure, under the Distribution Agreement. As the Company no longer carries any obligation under the Distribution Agreement, the balance held as deferred revenue was recognized in full in the current period. The Company recognized \$202,083 and \$214,584 into License Revenue for the three and nine months ended September 30, 2022, respectively (September 30, 2021 - \$6,250 and \$18,750).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

12. DEFERRED REVENUE (CONTINUED)

[iii] On April 10, 2022, the Company entered into an exclusive license and supply agreement with a South American pharmaceutical company (the “Licensee”). The agreement provides the Licensee with the right to use the Company’s intellectual property (“IP”) to promote, market and sell the Company’s products within Licensee’s designated territory for an initial period of 5 years, commencing on the date of execution. As consideration for the licensing agreement, the Company is to receive a fee of USD\$1,000,000 (\$1,291,255), paid in five tranches; a USD\$100,000 (\$125,955) fee paid on signing of the agreement and the remainder paid in four tranches as the Company meets specific milestones in the transfer of IP. The Company determined that the fee paid upon signing contains a performance obligation which occurs over a period of time and therefore, revenue is to be recognized straight-line over a five-year period based on the term of the contract. In relation to this contract, the Company recognized \$6,298 and \$10,496 into License Revenue for the three and nine months ended September 30, 2022, respectively (September 30, 2021 - \$nil). Subsequent payments are to be recognized into revenue as each milestone has been met. As of September 30, 2022, the Company has met two milestones resulting in a balance of \$383,929 (USD\$300,000), recognized into revenue (September 30, 2021 - \$nil).

[iv] On April 22, 2022, the Company entered into an exclusive license and supply agreement with a Brazilian pharmaceutical company (the “Licensee”) . The agreement provides the Licensee with the right to use the Company’s IP to promote, market and sell the Company’s products within the Licensee’s designated territory for an initial period of 5 years, commencing on the date of execution. As consideration for the licensing agreement, the Company is to receive a fee of USD\$250,000 (\$322,814), paid in three tranches; a USD\$50,000 (\$63,713) fee paid on signing of the agreement and two USD\$100,000 (\$129,125) as the Licensee meets specific milestones. The Company determined that the fee paid upon signing contains a performance obligation which occurs over a period of time and therefore, revenue is to be recognized straight-line over a five-year period based on the term of the contract. In relation to this contract, the Company recognized \$3,186 and \$5,309 into License Revenue for the three and nine months ended September 30, 2022, respectively (September 30, 2021 - \$nil). Subsequent fees are to be recognized into revenue as each milestone is met. As of September 30, 2022, \$nil was recognized as neither milestone had been met (September 30, 2021 - \$nil).

13. LEASE LIABILITY

As of September 30, 2022, and December 31, 2021, the lease liability consisted of the following:

	September 30, 2022		December 31, 2021	
Opening balance	\$	156,247	\$	364,216
Interest incurred on lease liability		12,465		21,486
Lease payments		(168,712)		(229,455)
Ending balance	\$	-	\$	156,247
Lease liability – current portion		-		156,247
Lease liability – noncurrent portion		-		-

The Company has lease liabilities for leases related to its corporate offices. The weighted average discount rate for the nine months ended September 30, 2022, was 8% percent.

The Company’s lease ended on September 30, 2022. The total future minimum rent payable under the Company’s lease on September 30, 2022, was \$nil. The Company is currently occupying office space on a month-to-month basis while it works towards negotiating a new lease.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

14. CONVERTIBLE DEBENTURES

The following table is a break down of the convertible debenture balance on initial recognition and subsequent accretion:

	September 30, 2022		December 31, 2021	
Opening balance	\$	-	\$	1,573,695
Additions		1,199,085		-
Accretion expense		451,612		145,839
Converted to common shares		-		(1,172,639)
Repayments		-		(546,895)
Ending Balance	\$	1,650,697	\$	-

(i) On March 1, 2019, the Company completed a convertible debenture offering and raised gross proceeds of \$783,000. The debentures incurred interest at 8.0% per annum and had a maturity date of March 1, 2021. Each debenture was convertible, at the option of the holder, at any time before the maturity date, into fully paid and non-assessable common shares at the conversion price, representing a conversion rate of 125 common shares per \$1,000 of principal, subject to adjustment in accordance with the debenture certificates. On March 1, 2021, the principal of these debentures, and accrued interest of \$125,280, were converted into 113,535 common shares.

(ii) On November 2, 2020, the Company completed a convertible debenture offering and raised gross proceeds of \$1,100,000. The debentures bear interest at 8.0% per annum and have a maturity date one year from the date of the issuance of the debentures on November 2, 2021. The first year of interest payable will be capitalized into and added to the principal amount under the Debenture on the date of issuance. Each debenture is convertible in whole or in part, any time while any principal amount or interest remains outstanding, into common shares of the Corporation at \$1.00 per share.

Additionally, each subscriber received one common share purchase warrant per \$2.00 of principal for a period of two years from the date of issuance of the warrants, subject to the Company's right to accelerate the expiry date of the warrants in the event that the daily volume weighted average trading price is equal to or exceeds \$2.00 on the TSX for a minimum of 10 consecutive trading days. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$1.50 per common share. Between the issuance date and the date that is 60 days from the issuance date, if the Company issues common shares or securities convertible into common shares at a price or exercise price below \$0.80 then the conversion price would be reduced to match that price or exercise price.

The debentures and warrants issued pursuant to the Offering are subject to a statutory hold period in Canada of four months and one day following the closing of the Offering.

Additionally, the Company incurred \$199,926 in issuance costs in connection with this offering of convertible debentures. These costs were capitalized with debt and will be accreted over the term of the debentures.

A portion of proceeds is allocated to the conversion option and warrants based on the respective fair values of each instrument. The company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.24-0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options.

As a result, the Company recognized the following:

Convertible debenture	\$	754,923
Issuance Costs		199,926
Derivative liability (Note 16)		145,151
	\$	1,100,000

During the nine months ended September 30, 2022, the Company recognized accretion expense of \$nil (September 30, 2021 - \$77,351) and interest expense of \$nil (September 30, 2021 - \$31,824) in relation to these convertible debentures.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

14. CONVERTIBLE DEBENTURES (CONTINUED)

On February 25, 2021, holders of the convertible debenture exercised \$200,000 of principal into 200,000 Common Shares of the Company and on March 17, 2021, an additional \$300,000 of principal into 300,000 common shares were issued on the exercise of convertible debentures. On April 5, 2021, the Company repaid \$300,000 of the principal amount.

(ii) On January 28, 2022, the Company completed a convertible debenture offering through the issuance of 1,938 convertible debenture units, issued at a price of \$800 per unit for gross proceeds of \$1,550,400. Each debenture unit consists of an aggregate of \$1,000 principal of secured subordinated convertible debentures of 545 common share purchase warrants.

The debentures will mature one year following the closing date. Each debenture shall be convertible at any time following the date that is nine months from the closing date, at the option of the holder, into common shares at a price of: (A) \$1.20 per share, if converted between the period commencing nine months from the closing date and ending on the second business day prior to the maturity date; or (B) \$0.85 per share, if converted anytime after the second business day prior to the maturity date. The debentures will not bear interest prior to the Maturity Date, after which they will bear interest at a rate of 15%.

Each common share purchase warrant is exercisable into one common share at a price of \$1.10 per share for a period of three year from the closing date.

The portion of the proceeds will be allocated to the warrants and the conversion option, which has been accounted for as a derivative liability. The fair value assigned to the warrants was \$206,255 and was determined using the Black-Scholes Option Pricing Model using the following variables: risk-free rate of 1.4%, volatility of 95.3%, expected life of 3 years, dividend yield 0% and share price of \$0.47. Refer to note 16 for details on the fair value of the conversion option.

Convertible debenture	\$	1,199,085
Issuance Costs		77,162
Warrants		206,255
Derivative liability (Note 16)		67,897
	\$	1,550,400

During the nine months ended September 30, 2022, the Company recognized accretion expense of \$451,612 (September 30, 2021 - \$nil) and interest expense of \$nil (September 30, 2021 - \$nil) in relation to these convertible debentures.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

15. LOANS PAYABLE

	September 30, 2022		December 31, 2021	
Opening balance	\$	1,505,933	\$	-
Additions:				
Term loan		-		1,122,940
Bank loan		-		659,086
Repayments		(1,063,254)		(544,245)
Accretion		655,224		297,198
Foreign exchange translation		(12,259)		(29,046)
Ending Balance	\$	1,085,644	\$	1,505,933
Current	\$	836,483	\$	-
Non-current	\$	249,161	\$	212,515

Term loan

On August 18, 2021, the Company entered into a term loan agreement for principal of \$2,118,000, incurring 5% interest for a term of 13 months. The loan principal is to be repaid in 12 equal monthly payments, beginning 2 months after the issuance date. The balance was recognized net of the following discounts and issuance costs:

Principal	\$	2,118,000
Discount		(318,000)
Issuance Costs		(100,000)
Warrants		(577,060)
	\$	1,122,940

As part of the term loan agreement, the Company issued 1,636,364 common share purchase warrants to the lender, exercisable into common shares of the Company for 3 years from the date of issuance at a price of \$1.10 per common share. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: risk-free rate of 0.55%, volatility of 98%, expected life of 1.5 years, dividend yield 0% and share price of \$1.08.

During the nine months ended September 30, 2022, the Company incurred accretion expense of \$655,224 (September 30, 2021 - \$165,664) and interest expense of \$39,301 (September 30, 2021 - \$12,476) in relation to this loan.

Bank loan

On October 28, 2021, the Company's majority owned subsidiary, SMGH, received a bank loan from a financial institution in Colombia. SMGH borrowed principal of \$659,086 (COL\$2,000,000,000), incurring interest at 8.3% over a term of 3 years. The loan is to be repaid in 12 quarterly payments over the life of the loan.

During the nine months ended September 30, 2022, the Company incurred interest expense of \$45,157 (September 30, 2021 - \$nil) in relation to this loan.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

16. DERIVATIVE LIABILITIES

	September 30, 2022		December 31, 2021	
Opening balance	\$	-	\$	145,151
Additions		67,897		-
Repayment on convertible debenture		-		(79,789)
Conversions		-		(204,266)
Gain on change in fair value		(38,809)		138,904
Ending Balance	\$	29,088	\$	-

[i] On November 2, 2020, the Company completed a convertible debenture offering (note 14). The Conversion Option and the warrants issued in relation to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. At inception, the Company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options. As a result, the Company recognized, a derivative liability of \$145,151, representing the conversion option of \$111,297 and warrants of \$33,854.

On February 25, 2021, a fair value of \$72,714 was transferred to share capital on the conversion of debentures into 200,000 common shares. On March 17, 2021, a fair value of \$89,575 was transferred to share capital on the conversion of debentures into 300,000 common shares. As of September 30, 2022, and December 31, 2021, the fair value of the derivative liability was \$nil.

[ii] On January 28, 2022, the Company completed a convertible debenture offering (note 14). As there are more than one conversion price that investors can exercise at, the conversion option does not meet the fixed-for-fixed criteria under IFRS 9, and therefore is accounted for as a derivative liability at fair value through profit or loss. On the date of issuance, the conversion option had a fair value of \$67,897 which was determined using the Black-Scholes option pricing model with the following variables: risk-free rate of 0.98%, volatility of 63.2%, expected life of 1 year, dividend yield 0% and share price of \$0.47, exercise price of \$0.85 - \$1.20. As of September 30, 2022, the conversion option was determined to have a fair value of \$29,088 (December 31, 2021 - \$nil), therefore a gain on the change in fair value of \$39,809 was recognized (September 30, 2021 – loss of \$80,543).

17. RELATED PARTY TRANSACTIONS

The following outlines amounts that were paid to officers of the Company.

	For the three months ended September 30,				For the nine months ended September 30,			
	2022		2021		2022		2021	
Salaries	\$	229,573	\$	190,000	\$	606,689	\$	570,000
Stock-based compensation		53,246		38,812		541,326		186,644
	\$	282,819	\$	228,812	\$	1,148,015	\$	756,644

Salaries and shared based compensation include compensation paid to key management personnel. The Company defines key management personnel as the Chief Executive Officer, Chief Legal Officer, Interim Chief Financial Officer, and President of LATAM.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Additionally, as of September 30, 2022, the Company accumulated advances from certain related parties who represent the minority shareholders of SMGH in the amount of \$4,049,358 (December 31, 2021- \$3,659,931). The advances relate to minority partners contributions towards the expansion and operation of the cultivation facilities. The balance owed to the related party is interest free. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the nine months ended September 30, 2022, \$nil was converted into equity in SMGH (December 31, 2021 - \$nil).

Changes in the balances are disclosed in the following table:

		September 30, 2022		December 31, 2021
Opening Balance	\$	3,659,931	\$	4,319,545
Additions		613,206		68,120
Foreign exchange		(223,779)		(727,734)
Ending Balance	\$	4,049,358	\$	3,659,931

18. SHARE CAPITAL

Authorized and outstanding share capital:

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares with no par value. As of September 30, 2022, the Company had 67,676,060 common shares issued and outstanding (December 31, 2021 – 45,884,282).

- [i] On February 25, 2021, 99,595 common shares were issued on the exercise of common share purchase warrants. A total of 99,595 warrants were exercised at a price of \$0.85 per common share for gross proceeds of \$84,656. The common share purchase warrants exercised held a fair value of \$40,227.
- [ii] On March 4, 2021, the Company issued an aggregate of 4,480,000 Units (the “Units”) at a price of \$1.25 per Unit for net proceeds of \$5,350,050, comprised of aggregate gross proceeds of \$5,600,000 less share issuance costs of \$249,950. Each Unit was comprised of one (1) common share in the capital of the Company and one (1) common share purchase warrant (“Warrant”). Each Warrant is exercisable into one common share in the capital of the Company at a price of \$1.75 until March 4, 2024.

The net proceeds of \$5,350,050 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	3,599,023
Warrants		1,751,027
	\$	5,350,050

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$1.17, a risk-free interest rate of 1.62%, an expected annualized volatility of 90% and expected dividend yield of 0%.

- [iii] On October 19, 2021, the Company issued an aggregate of 4,587,022 Units (the “Units”) at a price of \$0.85 per Unit for net proceeds of \$3,740,642, comprised of aggregate gross proceeds of \$3,898,969 less share issuance costs of \$158,327. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant (“Warrant”). Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$1.10 until October 19, 2024.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

18. SHARE CAPITAL (CONTINUED)

The net proceeds of \$3,740,642 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	3,186,604
Warrants		554,038
	\$	3,740,642

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.85, a risk-free interest rate of 0.74%, an expected annualized volatility of 96% and expected dividend yield of 0%.

- [iv] On March 31, 2022, the Company issued an aggregate of 7,210,194 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$2,491,068, comprised of aggregate gross proceeds of \$2,523,568 less share issuance costs of \$32,500. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until March 31, 2025.

As compensation related to this financing, the Company issued 92,857 broker warrants, exercisable into one common share in the capital of the Company at a price of \$0.40 until March 31, 2025.

The net proceeds of \$2,491,068 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	1,959,837
Warrants		517,892
Broker warrants		13,339
	\$	2,491,068

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.35, a risk-free interest rate of 2.28%, an expected annualized volatility of 94.73% and expected dividend yield of 0%.

- [v] On May 6, 2022, the Company issued an aggregate of 4,210,931 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$1,428,826, comprised of aggregate gross proceeds of \$1,473,826 less share issuance costs of \$45,000. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until May 6, 2025.

The net proceeds of \$1,428,826 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	1,200,836
Warrants		227,990
	\$	1,428,826

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.30, a risk-free interest rate of 2.75%, an expected annualized volatility of 95.89% and expected dividend yield of 0%.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

18. SHARE CAPITAL (CONTINUED)

[vi] On August 17, 2022, the Company issued an aggregate of 7,949,433 Units (the “Units”) at a price of \$0.35 per Unit for net proceeds of \$2,782,301. Each Unit was comprised of one (1) common share in the capital of the Company and one-half common share purchase warrant. Each whole Warrant is exercisable into one common share in the capital of the Company at a price of \$0.40 until August 17, 2025.

The net proceeds of \$2,782,301 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	\$	2,147,209
Warrants		635,092
	\$	2,782,301

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$0.36, a risk-free interest rate of 3.30%, an expected annualized volatility of 99.79% and expected dividend yield of 0%.

Warrant Reserve

As of September 30, 2022, the following warrants were outstanding and exercisable:

	Warrants #	Weighted average exercise price \$
Outstanding as of December 31, 2020	7,800,048	2.62
Warrants issued	8,409,875	0.82
Warrants exercised	(99,595)	0.01
Warrants expired	(1,245,713)	0.82
Outstanding as of December 31, 2021	14,864,615	1.40
Warrants expired	(1,797,178)	0.12
Warrants issued	10,834,342	0.21
Outstanding as of September 30, 2022	23,901,779	0.96

The following table is a summary of the Company’s warrants outstanding as of September 30, 2022:

Exercise price range \$	Warrants Outstanding		Warrants Exercisable	
	Number outstanding #	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable #
0.85	240,235	0.00	0.01	240,235
1.00	25,000	0.00	0.00	25,000
1.20	3,842,327	0.17	0.17	3,842,327
1.50	550,000	0.00	0.03	550,000
1.75	4,480,000	0.27	0.33	4,480,000
1.10	4,986,085	0.43	0.23	4,986,085
0.40	9,778,132	0.62	0.10	9,778,132
Balance September 30, 2022	23,901,779	1.49	0.87	23,901,779

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

19. SHARE BASED PAYMENT RESERVE AND COMPENSATION

The Company has established a Long-Term Omnibus Compensation Plan (the “Omnibus Plan”) for directors, officers, employees, and consultants of the Company. The Company’s Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options and share units granted to individuals under the Omnibus Plan.

Each option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither the right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. Each share unit converts into a single common share of the Company on the vesting date. No amounts are payable on receipt of the share unit or at vesting.

The Company’s Omnibus Plan provides that the number of common shares reserved for issuances of options may not exceed 10%, and the number of common shares reserved for the issuance of share units must not exceed 4%, of the number of common shares outstanding. If any options or share units terminate, expire, or are cancelled, as contemplated by the Omnibus Plan, the number of options or share units so terminated, expired, or cancelled shall again be available under the Omnibus Plan.

Share-based compensation is comprised of the following:

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Stock options	\$ 63,640	\$ 105,520	\$ 180,304	\$ 386,493
Restricted Stock Units	94,601	49,505	627,180	169,543
	\$ 158,241	\$ 155,025	\$ 807,484	\$ 556,036

Employee and non-employee options

[i] Measurement of fair values

There were no options issued during the nine months ended September 30, 2022. The fair value of share options granted during the year ended December 31, 2021, was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2021
Grant date share price	\$0.85
Exercise price	\$1.00
Expected dividend yield	0%
Risk-free interest rate	0.74%
Expected option life	6 years
Expected volatility	96%

Expected volatility was estimated by using the historical volatility of other actively traded public companies that the Company considers comparable that have trading and volatility history. The expected option life represents the period that options granted are expected to be outstanding. The risk-free interest rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

19. SHARE BASED PAYMENT RESERVE AND COMPENSATION (CONTINUED)

[ii] Options Issued and Outstanding

	Options #	Weighted average exercise price \$
Outstanding on December 31, 2020	1,952,667	2.94
Options issued	320,000	1.00
Options cancelled and forfeited	(776,178)	3.15
Outstanding on December 31, 2021	1,496,489	2.39
Options cancelled and forfeited	(3,333)	-
Outstanding on September 30, 2022	1,493,156	2.39

During the three and nine months ended September 30, 2022, the Company recognized a total share-based compensation expense relating to options of \$63,640 and \$180,304, respectively (September 30, 2021 - \$105,520 and \$386,493).

The following table is a summary of the Company's share options outstanding as of September 30, 2022:

Options Outstanding			Options Exercisable		
Exercise price range \$	Number outstanding #	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable #	
1.00	709,667	2.00	0.48	436,250	
1.24	7,500	0.02	0.01	7,500	
1.39	13,000	0.03	0.01	8,000	
2.00	265,000	0.44	0.35	265,000	
2.50	85,194	0.39	0.14	85,194	
2.75	222,700	0.50	0.41	158,467	
5.00	14,595	0.01	0.05	13,730	
7.30	2,000	0.00	0.01	2,000	
8.00	173,500	0.36	0.93	173,500	
September 30, 2022	1,493,156	3.74	2.39	1,146,641	

Restricted Stock Units

The fair value of restricted stock units ("RSUs") granted is based on the market price of the Company's publicly traded common shares on the grant date.

The following table summarized the continuity of the Company's RSUs:

	RSUs Issued #	Weighted average issue price \$
Outstanding on December 31, 2020	440,636	2.30
RSUs vested	(232,190)	1.96
RSUs issued	713,748	1.25
RSUs forfeited and cancelled	(180,186)	0.74
Outstanding on December 31, 2021	742,008	1.45
RSUs vested [i]	(2,421,220)	0.46
RSUs issued [ii]	2,181,416	0.33
Outstanding on September 30, 2022	502,204	1.41

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

19. SHARE BASED PAYMENT RESERVE AND COMPENSATION (CONTINUED)

- [i] During the nine months ended September 30, 2022, 2,421,220 common shares were issued on the vesting of restricted stock units. The grant price of the exercised units ranged from \$0.32 to \$1.25.
- [ii] During the nine months ended September 30, 2022, 2,181,416 restricted stock units were issued with a fair value of between \$0.32 - \$0.35 per unit. Of the units issued, 2,024,276 vested immediately and 157,140 vest over two years.

During the three and nine months ended September 30, 2022, the Company recognized a total share-based compensation expense relating to restricted stock units of \$94,601 and \$627,180, respectively (September 30, 2021 - \$49,505 and \$169,543).

20. NON-CONTROLLING INTEREST

	September 30, 2022		December 31, 2021	
Opening Balance	\$	5,761,835	\$	7,893,712
Sale of Sativa Nativa S.A.S.		247,158		-
Foreign translation		(298,561)		(728,566)
Net loss attributed to non-controlling interest		355,256		(1,403,311)
Ending Balance	\$	6,065,688	\$	5,761,835

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

As of September 30, 2022, \$2,035,194 in trade and other receivables remained outstanding (December 31, 2021 - \$1,130,187). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

A summary of aged trade and other receivables is included below:

	September 31, 2022					Total
	Current	1 - 30	31 - 60	61 - 90	90 +	
	\$	\$	\$	\$	\$	\$
Trade and other receivables	244,825	196,450	167,228	607,162	819,529	2,035,194

	December 31, 2021					Total
	Current	1 - 30	31 - 60	61 - 90	90 +	
	\$	\$	\$	\$	\$	\$
Trade and other receivables	618,883	48,922	16,274	9,975	436,133	1,130,187

During the nine months ended September 30, 2022, the Company has recognized an estimated credit losses of \$203,151 (September 30, 2021, - recovery of \$5,163).

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

In addition to the commitments disclosed, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3 +
Trade payables and accrued liabilities	\$ 3,966,872	\$ 3,966,872	\$ 3,966,872	\$ -	\$ -
Convertible debentures	1,085,644	1,127,359	459,854	209,172	39,989
Loan payable	1,650,697	1,938,000	1,938,000	-	-
	\$ 6,703,213	\$ 7,032,231	\$ 6,364,726	\$ 209,172	\$ 39,989

The due to related party balance of \$4,049,358 is not intended to be repaid. As these amounts become due, the outstanding balances can be converted into common shares of SMGH, consistent with current ownership splits.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is exposed to foreign currency exchange risk as it has substantial operations based out of Colombia and record keeping is denominated in a foreign currency. As such the company has foreign currency risk associated with Colombian Pesos.

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate as it does not have any borrowings.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of the Company's cannabis products (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Fair values

The carrying values of cash, accounts receivable, prepaid assets, investments and amounts payable approximate the fair values due to the short-term nature of these items. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. It is not practicable to estimate the fair value of the balance due to related party due to the nature of this liability. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the condensed consolidated interim statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy as disclosed in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2021. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments recorded at fair value on the condensed consolidated interim statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy as disclosed in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2021. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety.

The Company's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market – based information.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. Warrants and derivative liability are classified as a level 2 financial instrument. During the periods presented, there were no transfers of amounts between Level 1, Level 2 and Level 3.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Office & General	\$ 538,158	\$ 471,345	\$ 1,520,712	\$ 1,859,585
Selling marketing and promotion	110,692	162,454	325,662	367,721
Consulting fees	414,281	287,696	1,121,645	1,210,670
Professional fees	223,083	708,283	691,402	1,214,612
Salaries and wages	1,030,452	1,104,261	2,950,186	3,327,033
Research and development	86,221	28,871	184,339	142,981
	\$ 2,402,887	\$ 2,762,910	\$ 6,793,946	\$ 8,122,602

During the nine months ended September 30, 2022, as part of its inventory costing process, the Company capitalized \$197,743 of salaries to inventory and biological assets (September 30, 2021 - \$255,816).

23. SEGMENT REPORTING

Operating segments are determined based on internal reporting that is regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to the segment and for assessing its performance. As of September 30, 2022, the Company determined that it has four operating segments, three organized by geographical area: North America, South America, and rest of world, and Corporate, comprised of costs which serve the Company's global administrative responsibilities.

North America includes sales of the Company's pharmaceutical and health products as well as revenue generated from the licensing of intellectual property and research and development services, all developed in North America and serving customers within Canada and the United States. South America includes sales of the Company's pharmaceutical and health products and sales of API to customers worldwide, all grown and developed in Colombia. Rest of world includes sales of products to customers in Europe and Central America. Corporate includes overhead and financing costs incurred by the Company to support its public company infrastructure and operating segments.

The Company has retrospectively reported segmented information for the comparative periods to conform to the disclosed segmented information structure.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

23. SEGMENT REPORTING (CONTINUED)

	North America	South America	Rest of World	Corporate	Total
Nine months ended September 30, 2022					
Segment revenue from external sources					
Service revenue	\$ 29,150	\$ 136,697	\$ -	\$ -	\$ 168,797
License revenue	498,083	475,032	-	-	973,115
Product revenue	1,221,483	513,005	35,381	-	1,769,869
Total Revenue	1,748,716	1,127,684	35,381	-	2,911,781
Gross Profit	787,847	2,227,320	24,811	-	3,039,978
Net loss before taxes	\$ (4,156,210)	\$ (311,175)	\$ (50,050)	\$ (3,675,300)	\$ (8,192,735)
Included in the measure of loss above are the following items					
Share-based compensation	\$ -	\$ -	\$ -	\$ 807,484	\$ 807,484
Depreciation and amortization	385,820	334,329	-	-	720,149
	385,820	334,329	-	807,484	1,527,633
Material expenses					
General and administrative	827,287	681,235	12,190	-	1,520,712
Selling marketing and promotion	307,467	17,663	532	-	325,662
Consulting fees	248,062	102,667	58,359	712,557	1,121,645
Professional fees	398	66,739	-	624,265	691,402
Salaries and wages	1,621,006	1,326,948	2,232	-	2,950,186
Research and development	182,463	-	1,876	-	184,339
	\$ 3,186,683	\$ 2,195,252	\$ 75,189	\$ 1,336,822	\$ 6,793,946
	North America	South America	Rest of World	Corporate	Total
Nine months ended September 30, 2021					
Segment revenue from external sources					
Service revenue	\$ 87,945	\$ -	\$ -	\$ -	\$ 87,945
License revenue	302,250	-	-	-	302,250
Product revenue	1,031,766	614,063	15,071	-	1,660,900
Total revenue	1,421,961	614,063	15,071	-	2,051,095
Gross Profit	324,640	808,046	11,198	-	1,143,884
Net loss before taxes	\$ (2,857,216)	\$ (2,279,197)	\$ (174,832)	\$ (3,231,869)	\$ (8,543,114)
Included in the measure of loss above are the following items					
Share-based compensation	\$ -	\$ -	\$ -	\$ 556,036	\$ 556,036
Depreciation and amortization	347,774	317,668	-	-	665,442
	347,774	317,668	-	556,036	1,221,478
Material expenses					
General and administrative	738,359	894,338	58,145	-	1,690,842
Selling marketing and promotion	202,822	160,011	4,888	-	367,721
Consulting fees	-	127,296	111,611	971,763	1,210,670
Professional fees	2,558	124,333	2,628	1,085,093	1,214,612
Salaries and wages	1,768,794	1,558,239	-	-	3,327,033
Research and development	133,598	-	9,383	-	142,981
	\$ 2,846,131	\$ 2,864,217	\$ 186,655	\$ 2,056,856	\$ 7,953,859

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

24. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL

	For the three months end September 30,		For the nine months end September 30,	
	2022	2021	2022	2021
Amounts receivable	\$ 162,701	\$ (438,122)	\$ (88,924)	\$ (989,888)
Biological assets	(92,922)	(477,288)	898,582	(33,960)
Inventory	(163,032)	(445,087)	(2,427,332)	(1,292,729)
Prepaid assets	164,929	451,164	257,451	789,847
Accounts payable	(930,982)	1,330,448	(1,026,837)	1,077,532
	\$ (859,306)	\$ 421,115	\$ (2,387,060)	\$ (449,198)

25. DIVESTITURE OF SATIVA NATIVA S.A.S.

On June 29, 2022, the Company and the non-controlling shareholders (collectively the “Shareholders”) of Sativa Nativa S.A.S (“SN”), closed an agreement to divest 100% of the outstanding common shares of SN to an unrelated third-party. SN operates a farm and processing facility in Santa Marta, Colombia and has licenses to harvest and extract medical cannabis in Colombia.

Pursuant to the agreement, the Shareholders received a cash payment of USD\$883,075 (\$1,137,935). The Shareholders are also entitled to additional funds of USD\$170,000 (\$219,063) upon successful transfer of the assets acquired. The Company’s compensation as a result of this transaction was USD\$519,513 (\$669,446) cash and additional cash consideration of USD\$98,600 (\$127,056) which is proportional to the Company’s ownership share of 59%.

Following the SN divestiture, the Company no longer controls SN and the Company derecognized the assets and liabilities of SN from the condensed consolidated interim financial statements, at their carrying amounts. Pursuant to the agreement with the acquirer, the balances owed to the Company, will be forgiven. The derecognized assets and liabilities on June 29, 2022, were as follows:

Current assets	\$ (448,246)
Capital assets	(1,270,071)
Current liabilities	1,918,563
Cumulative translation adjustment	425,405
	\$ 625,651
Consideration received in cash	1,137,935
Future cash consideration	219,063
Proportion of compensation allocated to non-controlling interests	(560,494)
	\$ 796,504
Forgiveness of balance receivable by Avicanna Inc.	\$ (2,953,149)
Loss on sale of Sativa Nativa S.A.S.	\$ (1,530,994)

The loss calculated on the derecognition of SN’s assets and liabilities is the difference between the carrying amounts of the derecognized assets and liabilities, inclusive of any cumulative translation adjustment amounts and the fair value of the consideration received.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

(Expressed in Canadian dollars, except share amounts)

26. SUBSEQUENT EVENTS

- [i] On October 31, 2022, the Company entered into an extension agreement (the “Extension Agreement”) in connection with its senior secured term loan issued on August 19, 2021 (the “Term Loan”) (note 15). In accordance with the Extension Agreement, the maturity date of the Term Loan was extended by five months, from October 19, 2022, to March 19, 2023. The Company will continue to make interest payments as required by the original loan agreement and will also make monthly repayments of principal beginning in November 2022 and ending in February 2023, following which the outstanding principal on the Term Loan will come due on the New Maturity Date. The Term Loan continues to bear interest at 5% per annum.

- [ii] On November 10, 2022, the Company closed a non-brokered private placement through the issuance of an aggregate of 1,790,750 units at a price of \$0.35 per unit for aggregate proceeds of approximately \$626,763. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of \$0.40 per share until November 10, 2025.