



Fire & Flower Holdings Corp.

Management Discussion and Analysis

For the quarter ended March 31, 2023

Dated May 15, 2023

INTRODUCTION

The following management's discussion and analysis ("MD&A") of financial condition and results of operations of Fire & Flower Holdings Corp. and its wholly-owned subsidiaries ("Fire & Flower" or "FFHC" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the quarter ended March 31, 2023 ("Q1 2023").

The information in this MD&A is current as of May 15, 2023 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto for the quarter ended March 31, 2023 (the "Interim Financial Statements") and the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2022 (the "2022 Annual Financial Statements"), and together with the Interim Financial Statements, collectively referred to as the "Financial Statements"). The Financial Statements referenced above have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with the Interim Financial Statements being prepared in accordance with International Accounting Standards ("IAS") 34 ("Interim Financial Reporting") and interpretations of the IFRS Interpretations Committee for all periods presented.

The Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and approved by the Company's board of directors (the "Board of Directors") as of May 12, 2023.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. All references to the Company contained herein include references to its subsidiaries, as applicable, in the context. The Financial Statements and the Company's most recent annual information form ("2022 AIF") are filed on www.sedar.com. Additional information about the Company can also be found on www.sedar.com.

ACCOUNTING PERIODS

As at December 31, 2022, the Company's fiscal year was changed from a 52 or 53-week period ending the Saturday closest to January 31 to a calendar 12-month period ending December 31 to enhance comparability of its periodic financial statements with those of its peers. Accordingly, these Interim Financial Statements are prepared for the calendar quarter ended March 31, 2023, whereas the comparative figures reflect the 13 weeks ended April 30, 2022 ("Q1 2022").

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

Throughout this MD&A, references are made to non-IFRS and supplementary financial measures, including same store sales, free cash flow ("FCF") and Adjusted EBITDA. These measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-IFRS measures provide investors with a supplemental measure of the Company's operating performance and therefore highlight trends in the Company's core business that may not otherwise be apparent when relying solely on IFRS measures. Management uses non-IFRS measures in measuring the financial performance of the Company.

FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A, and the documents incorporated by reference in this MD&A, may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

These forward-looking statements include, among other things, statements relating to:

- the performance of the Company's business and operations;
- the expected timing and cost of the Company's business objectives and milestones;
- the intention to grow the business, operations and potential activities of the Company;
- the expected timing and completion of certain filings, acquisitions and other transactions;
- the competitive conditions of the cannabis industry;
- the intended expansion of the Company's operations, its costs and receipt of all requisite regulatory approvals to complete such expansion and increase sale capacity;
- the applicable laws, regulations and any amendments thereof;
- the competitive and business strategies of the Company;
- the expected impact of new product offerings and certain cost saving initiatives;
- the grant, timing and impact of any licence or supplemental licence to conduct activities or any amendments thereof;
- the intention of the Company to complete any offering of securities;
- the intention of the Company to make certain elections;

Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company's financial performance, financial position and cash flows as of and for periods ended on certain dates and to present information about management's current expectations and plans relating to the future, and the reader is cautioned that the forward-looking statements may not be appropriate for any other purpose. Such assumptions include, but are not limited to, assumptions regarding: (a) the demand for the Company's products and services and fluctuations in future costs and revenues; (b) sufficiency of current working capital to support future operating and working capital requirements; (c) equity and debt markets continuing to provide access to capital on acceptable terms; (d) policies of enforcement of applicable laws; (e) the expected actions of third parties; (f) the Company's future growth prospects and business opportunities; (g) the expected demand for current and future product offerings, including growth in the amount of cannabis sold by the Company and the expected size of and pricing of products in the recreational cannabis market; (h) expectations with respect to the renewal and/or extension of the Company's licences and permits; (i) capital cost of the Company's expected expansion; (j) the competitive conditions of the cannabis industry; (k) the applicable laws, regulations and any amendments thereof; (l) the grant and impact of any licence or supplemental licence to conduct activities with cannabis or any amendments thereof; (m) the Company's ability to comply with applicable governmental regulations and standards; (n) the Company's success in implementing its strategies and achieving its business objectives; (o) the number of stores to be operated by the Company; and (p) general business and economic trends and conditions.

The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. Forward-looking statements are made as of the date they are made and are based on the beliefs, estimates, expectations and opinions of management on that date. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise or to explain any material difference between subsequent actual events and such forward-looking statements, except as required by law. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of various risk factors.

The forward-looking statements contained herein and in other reports filed by the Company and made by the Company's directors, officers and other persons authorized to speak on the Company's behalf are expressly qualified in their entirety by these cautionary statements.

COMPANY OVERVIEW AND STRATEGY

Overview of the Company

The Company's principal business is the operation of a fully integrated cannabis consumer technology platform, supported by a fulfillment network of retail stores and rapid delivery to cannabis consumers. The Company is focused on delivering a seamless customer experience, from online customer acquisition and discovery to purchase and fulfillment. The Company's fully-integrated platform allows it to own the customer relationship from customer acquisition and discovery through customer acquisition channels, such as PotGuide.com and Wikileaf.com, to a personalized online or in-store shopping experience through our proprietary Fire & Flower™, Friendly Stranger™ and Happy Dayz™ retail banners, powered by our proprietary technology platform, Hifyre Inc. ("Hifyre") and the Spark Perks™ membership program, supported by our delivery subsidiary, Pineapple Express Delivery Inc. ("Pineapple Express Delivery").

The Company's common shares (the "Common Shares") trade on the Toronto Stock Exchange (the "TSX") under the ticker symbol "FAF".

On August 7, 2019, 2707031 Ontario Inc. (the "Investor"), an indirect wholly-owned subsidiary of Alimentation Couche-Tard Inc. ("ACT"), made a strategic investment in the Company (the "Strategic Investment") and received convertible debentures (the "Investor Debentures") and warrants (the "Investor Warrants"). Pursuant to the terms of the Strategic Investment, the Investor acquired the right, but not the obligation, to acquire that number of Common Shares that may result in the Investor holding 50.1% of the issued and outstanding Common Shares, on a fully-diluted basis, if the principal amount of the Investor Debentures, Investor Warrants and Top-up Rights (as defined in the Amended and Restated Investor Rights Agreement dated September 16, 2020 between the Company and the Investor (the "IRA")) are converted and exercised, respectively, in full. As of the date of this MD&A, the Investor held 35.7% of the issued and outstanding Common Shares.

The Company's material wholly-owned subsidiaries are Fire & Flower Inc. ("FFI"), Hifyre, Hifyre US, Inc., PGED Corp., Pineapple Express Delivery, 10926671 Canada Ltd. (operating as Open Fields Distribution) ("Open Fields"), 11180703 Canada Ltd. (operating as Hi-Line Ventures), 13318184 Canada Inc. and Friendly Stranger Holdings Corp. ("Friendly Stranger").

The Company's head office, registered office and records office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1.

Description of the Business

The Company's mission is to "Deliver cannabis to the World" through a fully-integrated cannabis consumer technology platform enabled by advanced technology and data analytics to focus on consumer needs and transform the way consumers learn about and purchases cannabis. Through Hifyre's online cannabis platforms, along with the Company's retail brands and partner branded online dispensaries, the Company drives cannabis consumers into its data-driven retail network, powered by the proprietary Hifyre™ Digital Retail and Analytics Platform and the cross-platform Spark Perks™ membership program, including the Spark Perks™ Member Pricing program, to deliver a highly personalized consumer shopping experience. Fulfilment is carried out through the Company's Fire & Flower™, Friendly Stranger™ and Happy Dayz™ retail networks, Firebird Delivery™ rapid delivery platform and its wholesale distribution and fulfilment capabilities. The Company's complete platform and asset-light retail strategy provides a significant competitive advantage, additional revenue opportunities, as well as a growth platform to enter international markets in a flexible and compliant manner.

Retail

As at March 31, 2023, the Company, through its wholly-owned subsidiaries FFI and Friendly Stranger, owned and operated ninety-two (92) licensed cannabis retail stores. In addition to serving as traditional brick-and-mortar retail shops, the Company's network of retail stores also serve as distribution nodes and last-mile fulfilment outposts for delivery direct to consumers. The Company has recently signed a Master Licensing Agreement (the "MLA") with a wholly-owned subsidiary of ACT which will allow the Company to expand its retail franchise arrangement in Canada and potentially to other legal cannabis markets outside Canada on an asset light model. Under the MLA, the Company and ACT will be rebranding the five (5) licensed cannabis retail stores in Ontario next to Circle K locations to the Fire & Flower brand, which already are being operated on the Hifyre™ Digital Platform licensed from the Company. The Company has also licensed the Fire & Flower™ brand and Hifyre™ Digital Platform to Fire & Flower US Holdings Inc. ("Fire & Flower US"), an arm's length party currently operating one (1) Fire & Flower™ branded retail cannabis store licensed under California state laws and one (1) retail cannabis store licensed under Colorado state laws, which have each deployed certain aspects of the Hifyre™ Digital Platform.

The Company's retail experience model is designed to be continuously optimized through insights garnered from the Hifyre™ Digital Platform to provide a highly personalized shopping experience to both long-time cannabis users as well as customers who are new to consuming cannabis. In addition, the Hifyre™ IQ Data and Analytics Platform is one of the leading products that provide market industry data to the cannabis industry across North America.

The Company's purchase of cannabis product inventory is determined by the applicable provincial regime and optimized through automated tolls included in the Hifyre™ Digital Platform. In the provinces of Alberta, British Columbia, Ontario, Manitoba and the Yukon Territory, all purchases of cannabis products are made through an exclusive government-operated wholesaler. In the province of Saskatchewan, no such intermediary exists, and the Company engages directly with Licensed Producers through its Wholesale and Logistics business. Pricing for cannabis products purchased by the Company for sale in its cannabis retail stores in Alberta, Manitoba, Ontario, British Columbia and the Yukon Territory is set by the provincial/territorial regulator.

On May 19, 2022, the Company launched Firebird Delivery™, a virtual marketplace in Ontario with a focus on the Greater Toronto / Hamilton Area. Delivery expands our consumer reach beyond that of our physical stores. Firebird Delivery™ leverages the Hifyre™ Digital Platform and proprietary CannDeliv delivery logistics software to power the fulfillment by the Company's retail network with same-day delivery.

During the fiscal year ended December 31, 2022, the Company opened two (2) additional locations and entered into an asset purchase agreement to acquire two (2) additional locations in Kingston, Ontario from a wholly-owned subsidiary of ACT, which is subject to customary closing conditions including receipt of all required regulatory approvals to transfer licensing of the locations to the Company. The Company anticipates being able to grow both organically as well as through acquisition in the future.

During the quarter ended March 31, 2023, the Company licensed the Hifyre™ Digital Platform to a wholly owned subsidiary of ACT for operation of five (5) licensed stores in Ontario. As at the date of this MD&A, there are five (5) licensed stores operated by a wholly-owned subsidiary of ACT in Ontario, in addition to two (2) locations owned and operated by the Company in Alberta which are located adjacent to Circle K stores.

The following table sets out the Company's retail operations and licensed stores across Canada and the United States as at March 31, 2023:

As at March 31, 2023:	Stores Operated ⁽¹⁾⁽²⁾	Licensed Stores⁽³⁾
Jurisdiction		
Alberta	33	-
Saskatchewan	15	-
Manitoba	9	-
Yukon Territory	1	-
Ontario	32	5
British Columbia	2	-
California	-	1
Colorado	-	1
Total Stores	92	7

(1) All operated stores as of March 31, 2023 were owned by the Company.

(2) Exclusive of sites that were in the process of being licensed and sites under construction.

(3) Reflects stores that are not corporate owned/operated but which are operated by a third party pursuant to a license granted by the Company.

Wholesale and Logistics

The Wholesale and Logistics segment is comprised of the Company's wholly-owned subsidiaries, Open Fields and Pineapple Express Delivery. The Company, through Open Fields, operates a cannabis wholesale business in Saskatchewan under a cannabis wholesale permit issued by the Saskatchewan Liquor and Gaming Authority ("SLGA"). Open Fields purchases cannabis products directly from Licensed Producers that are authorized to sell into Saskatchewan and distributes such products to the Company's licensed corporate-owned and branded retail stores as well as third-party independent licensed retailers in Saskatchewan. Sales to third-party retailers provides the Company with additional revenue and margin opportunities. Pricing for cannabis products purchased by Open Fields for re-sale through the Company's retail stores and independent retailers in Saskatchewan is determined through negotiation with provincially authorized Licensed Producers.

Pineapple Express Delivery provides delivery and logistics services to recreational and medical cannabis customers across Canada utilizing its proprietary technology, the CannDeliv logistics platform. CannDeliv is integrated with the Hifyre™ Digital Platform to provide the Company with a full cannabis e-commerce and delivery service, supporting the Company's same-day delivery to cannabis consumers through Firebird Delivery™ in certain key markets in Ontario. Pineapple Express Delivery operates primarily in the provinces of British Columbia, Saskatchewan, Manitoba and Ontario.

Through Open Fields, the Company has entered into a cannabis distribution agreement (the "**Distribution Agreement**") with Manitoba Liquor & Lotteries Corporation ("**MBLL**") granting the right to Open Fields to offer distribution of cannabis products from Licensed Producers to cannabis retailers in the province of Manitoba at the direction of MBLL. Under the Distribution Agreement, Open Fields will not purchase or sell cannabis or cannabis products directly but will receive fees from Licensed Producers for its distribution services. Since October 2022, Open Fields has set up and begun operating a cross-docking cannabis logistics and distribution facility to provide distribution and logistics services to Licensed Producers for recreational products through existing commercial agreements and will also offer a broad range of logistics options to retailers in the province of Manitoba. Pricing for Open Fields' cross-docking and distribution services in Manitoba is determined through negotiation with provincially authorized Licensed Producers.

Hifyre™ Digital Platform

Hifyre™ has developed and deployed a proprietary, omni-channel, data-driven system to drive the Company's advanced retail operations and provide insight into consumer behaviours. The fully-integrated Hifyre™ Digital Platform allows the Company to own the customer relationship from digital customer acquisition through to a personalized online or in-store purchase experience and, ultimately, rapid delivery to the customer's door. The Hifyre™ Digital Platform allows customers to discover and interact with cannabis brands independent of a brick-and-mortar store, but still provides them the unparalleled convenience of rapid delivery from a robust and well-organized physical fulfilment network. The Hifyre™ Digital Platform has also integrated Pineapple Express Delivery's proprietary technology, the CannDeliv platform, to provide logistics services to users of the platform.

The first generation of the platform was successfully launched for legalization on October 17, 2018, and Hifyre™ continues to execute development activities on the platform and acquire complimentary technology that can be integrated into the existing Hifyre technology stack. By capturing user behaviour data and applying predictive analytics, Hifyre™ is able to facilitate the retail business' delivery of a highly personalized customer experience. This both allows the Company to connect customers with products that match their buying habits and interests, and helps the Company efficiently manage its inventory and product assortment to offer products its customers enjoy most.

The Hifyre™ Digital Platform provides the Company with a significant competitive advantage for its Retail segment, allowing the Company to control its customer relationships, create opportunities for additional high-margin revenue streams and a platform for growth into international markets. Hifyre™ also licenses certain data analytics components of the Hifyre™ Digital Platform to allow its customers to better understand consumer preferences, behaviour and market dynamics. The Hifyre™ Digital Platform includes the industry-leading data platform and high-margin subscription revenue stream, Hifyre™ IQ, which is subscribed to by a significant number of Canadian licensed producers, equity research analysts and a variety of customers in business, finance, banking and consulting. Hifyre™ has also launched a digital advertising offering, Hifyre™ Reach, which uses the Company's advanced consumer segmentation engine to deliver targeted advertising services, compliant with the highly regulated cannabis marketing restrictions.

The Hifyre™ Digital Platform has allowed the Company to closely monitor its retail operations in real-time and rapidly adapt to regulatory and operational changes, including expanding its Spark Fastlane™ in-store and curbside pickup services, implementing its Firebird Delivery™ services, and introducing its Spark Perks™ Member Pricing program.

In 2021, Hifyre™ acquired certain assets of Wikileaf Technologies Inc. and its subsidiaries ("**Wikileaf**"), an online platform for cannabis enthusiasts, as well as PGED Corp. ("**PotGuide**"), one of the world's largest cannabis websites and content platforms. The Company leverages the user traffic on the Wikileaf and PotGuide platforms and Hifyre's proprietary white-label dispensary e-commerce software to convert traffic into cannabis and accessories purchases across the Fire & Flower retail network.

On May 19, 2022, Firebird Delivery™, a virtual marketplace and last mile delivery service, was launched in Ontario leveraging the full technology stack of the Hifyre™ Digital Platform and CannDeliv delivery logistics software. Firebird Delivery™ provides a new customer acquisition and engagement channel to Spark Perks™ age-verified membership, creating new connection opportunities for the Hifyre™ Reach advertising network and Hifyre™ IQ data platform, with the ability to expand to other age-verified categories in multiple geographies.

Q1 2023 AND RECENT HIGHLIGHTS

Financial and Operational Summary

<i>(in thousands of dollars, except per share information and as otherwise noted)</i>		Q1 2023	Q4 2022	Q1 2022
		quarter ended	9 weeks ended	13 weeks ended
		March 31, 2023	December 31, 2022	April 30, 2022
Financial Highlights				
Revenue	\$	43,108	30,501	40,944
Gross profit	\$	12,463	7,424	12,166
Adjusted EBITDA ⁽¹⁾	\$	(1,790)	(3,809)	(2,311)
Net loss	\$	(10,096)	(29,945)	(9,906)
Net loss per share, basic	\$	(\$0.22)	(\$0.66)	(\$0.27)
Net loss per share, diluted	\$	(\$0.22)	(\$0.66)	(\$0.27)
Gross margin percentage	%	28.9%	24.3%	29.7%
Operating Highlights				
Operated ⁽²⁾ cannabis stores - beginning of period	#	92	90	102
Operated ⁽²⁾ cannabis stores - end of period	#	92	92	100
Licensed stores - beginning of period		7	3	1
Licensed stores - end of period		7	7	1
Balance Sheet Data				
Cash	\$	8,185	12,425	19,847
Total assets	\$	147,031	160,277	222,880
Total liabilities	\$	88,601	92,316	107,188
Debentures, loans, and conversion option derivatives	\$	13,949	14,009	22,898
<i>Debenture and loans principal amount outstanding</i>	\$	13,958	13,651	22,477

(1) Refer to the "Adjusted EBITDA" section for further details and reconciliation to the Company's IFRS measures.

(2) Includes directly owned licenced stores and certain store locations operated by the Company pursuant to the terms of certain consulting service agreements, which are consolidated.

Highlights

- Consolidated revenue of \$43.1 million for Q1 2023, compared with \$40.9 million for Q1 2022, representing a year-over-year increase of \$2.2 million or 5.3%.
- Consolidated gross profit of \$12.5 million for Q1 2023 compared with \$12.2 million for Q1 2022, representing a year-over-year increase of \$0.3 million or 2.4%.
- 17.2% year-over-year increase in same-store sales for stores that operated continuously during 2023 and the same period in 2022.
- Retail gross margin continued to increase to 25.9% during Q1 2023, representing the third consecutive quarterly sequential improvements since Q2 2022.
- Consolidated net loss of \$10.1 million for the Q1 2023 compared with a net loss of \$9.9 million for the Q1 2022, including restructuring and impairment charges of \$1.7 million in the current quarter (Q1 2022: \$nil)
- On March 15, 2023, the Company expanded its market presence in Winnipeg by opening a store in the Sports Hospitality Entertainment District (SHED) bringing the total number of Fire & Flower stores in Manitoba to eight (8).
- On April 17, 2023, the company announced that it had signed the Master Licensing Agreement (the "MLA") with a wholly-owned subsidiary of ACT to expand the Company's retail franchise arrangement in Canada and potentially to other legal cannabis markets outside Canada on an asset light model. The Company and ACT are now in the process of rebranding the five existing Circle K co-located licensed stores in Ontario to the Fire & Flower brand.

RESULTS OF OPERATIONS - CONSOLIDATED

The following table sets out the summary consolidated financial information for the periods indicated and have been derived from the Financial Statements.

<i>(in thousands of dollars, except per share amounts)</i>	Quarter ended		
	March 31, 2023 (\$)	April 30, 2022 (\$)	% Change
Statement of Income and Loss			
Revenue	43,108	40,944	2,164 5%
Cost of goods sold	(30,645)	(28,778)	(1,867) 6%
Gross profit	12,463	12,166	297 2%
Selling, general and administrative	14,723	15,209	(486) -3%
Depreciation & amortization	4,740	4,764	(24) -1%
Foreign exchange gain	(7)	-	(7) 100%
Restructuring and impairment, net of reversals	1,706	-	1,706 100%
(Gain) loss on revaluation of derivative liability, net	(415)	(261)	(154) 59%
Finance costs, net	1,160	1,741	(581) (33%)
Total expenses	21,907	21,453	(454) -2%
Loss before tax	(9,444)	(9,287)	157 -2%
Income tax (expense) recovery, net	(652)	(619)	(33) 5%
Net loss	(10,096)	(9,906)	190 2%
<i>Net loss per share, basic</i>	<i>(\$0.22)</i>	<i>(\$0.27)</i>	<i>\$0.05</i> 19%
<i>Net loss per share, diluted</i>	<i>(\$0.22)</i>	<i>(\$0.27)</i>	<i>\$1.67</i> -88%
Adjusted EBITDA ⁽¹⁾	(1,790)	(2,311)	521 (23%)

(1) Refer to the "Adjusted EBITDA" section for further details and reconciliation to the Company's IFRS measures.

Overview of Consolidated Results

Revenue

Consolidated revenue for the quarter ended March 31, 2023 amounted to \$43.1 million, compared with \$40.9 million for the quarter ended April 30, 2022. The increase from the prior year comparable period reflects an increase in revenues from the Retail segment of \$2.7 million or 9.1% offset by a decrease in Wholesale and Logistics segment of \$0.6 million or negative 7.1% and an increase in the Digital Platform segment of \$0.1 million or 2.4%.

Further analysis of revenue is provided in the discussion of the respective operating segments results below.

Gross Profit

Consolidated gross profit for the quarter ended March 31, 2023 totalled \$12.5 million or 28.9% of consolidated revenue, compared with \$12.2 million or 29.7% for the quarter ended April 30, 2022. Gross profit of \$12.5 million for the quarter ended March 31, 2023 is made up of \$8.4 million contributed by the Retail segment, \$1.2 million from Wholesale and Logistics and \$2.9 million from Digital platform segment.

Further analysis of gross profit is provided in the discussion of the respective operating segments results below.

Selling, General and Administrative (“SG&A”) Expenses

Consolidated SG&A expenses for the quarter ended March 31, 2023 were \$14.7 million, compared with \$15.2 million for the quarter ended April 30, 2022, a decrease of \$0.5 million.

Consolidated SG&A expenses for the quarter ended March 31, 2023 was 34.1% of consolidated revenue compared with 37.1% for the quarter ended April 30, 2022, this represents an improvement from 48.8% for the 9-week period ended December 31, 2022, reflecting the impact of the Company’s cost control measures.

The year-over-year decrease in SG&A expenses was contributed by a reduction in payroll costs, sales and marketing, share-based compensation, and acquisition and strategic initiative expenses, offset by increases in facility expenses and professional fees. Payroll costs for Q1 2023 decreased to \$8.2 million from \$9.4 million in Q1 2022 as a result of business restructuring implemented during 2022 and the current quarter to reduce headcount and overall salaries and benefits throughout the Company. Facility expenses increased from \$1.9 million to \$2.6 million due to common area maintenance cost on new leases and security cost. The Company has now taken additional steps to reduce facility expenses including aggressively subleasing underutilized sites. Since 2022, the Company has also put in additional cost reduction measures to reduce sales and marketing and other general and administrative expenses.

Depreciation and Amortization

For the quarter ended March 31, 2023, depreciation and amortization expenses totalled \$4.8 million (quarter ended April 30, 2022 – \$4.8 million).

Restructuring and Impairment, Net of Reversals

For the quarter ended March 31, 2023, the Company recorded \$1.7 million (April 30, 2022 - \$nil) in restructuring and impairment charge in relation to property and equipment, right-of-use (“ROU”) assets net of lease liability remeasurement, acquired intangible assets including goodwill relating to Pineapple Express Delivery and severance costs incurred under the Company’s restructuring plan.

(Gain) loss on Revaluation of Derivative Liability, Net

For the Q1 2023, the Company recorded a gain on revaluation of derivative liabilities of \$0.4 million (April 30, 2022: \$0.3 million). The derivative liabilities are related to the conversion option for the Investor Debentures, as well as certain Investor Warrants that are categorized as derivative liabilities. The change in value of these liabilities is usually impacted by conversions, passage of time, volatility assumptions and the movements in the price of the underlying shares of the Company. These inputs are described in further detail under Note 17 of the 2022 Annual Financial Statements.

Decrease in the Company’s share price combined with high share price volatility and shorter maturity period as at the valuation date March 31, 2023 are the predominant drivers of the revaluation gain during the quarter ended March 31, 2023.

Finance Costs, Net

For the quarter ended March 31, 2023, net finance costs totalled \$1.2 million (April 30, 2022: \$1.7 million). The \$1.2 million in costs are primarily due to accretion expense of \$1.1 million on lease liabilities and interest expense of \$0.5 million on convertible debentures and loan principal, net of interest income from lease receivables and other finance income of \$0.3 million.

Income Taxes, Net

For the quarter ended March 31, 2023, the Company recognized \$0.7 million net income tax expense (April 30, 2022: \$0.6 million). The Company's effective tax rate differs from the statutory tax rate primarily due to the profitability of the Company's Digital Platform entity even though the Company has incurred consolidated net losses historically.

Net Loss

Net loss for the quarter ended March 31, 2023 was \$10.1 million (\$0.22 loss per share) compared to a net loss of \$9.9 million (\$0.27 loss per share) for the quarter ended April 30, 2022.

Net loss for Q1 2023 was lower than the net loss for the quarter ended Q1 2022 primarily due to higher gross margin and lower total expenses.

Adjusted EBITDA

Adjusted EBITDA for the quarter ended March 31, 2023 was negative \$1.8 million compared with negative \$2.3 million for the quarter ended April 30, 2022 and negative \$3.8 million for the 9-week ended December 31, 2022.

The year-over year increase reflects gains from cost controlling measures and improvements in gross profit.

This item is a non-IFRS measure, refer to the "Adjusted EBITDA" section for further details and reconciliation to the Company's IFRS measures.

RESULTS OF OPERATIONS – REPORTABLE OPERATING SEGMENTS

The Company's reportable segments, organized based on products and services, are as follows: (1) The Retail segment which sells cannabis products and accessories to the adult-use market in provinces where the sale of cannabis by private retailers is legal, and operates under retail banners Fire & Flower™, Friendly Stranger™ and Happy Dayz™; (2) The Wholesale and Logistics segment which distributes and delivers cannabis products; and (3) The Digital Platform segment which sells products and services provided by the Hifyre™ digital and analytics platform, PotGuide content platform and CannDeliv logistics platform.

The Chief Operating Decision Maker ("CODM") assesses segment performance based on segment operating income or loss. As a result of certain acquisitions and strategic license agreements, the Digital Platform segment expanded its presence into the USA. All other segments operate within Canada. Information on the Company's reporting segments are detailed below. Sales between segments are made at prices that approximate market prices.

The following tables sets out the summary consolidated financial information of the Company's reportable segments for the periods indicated and have been derived from the Financial Statements.

Information about reportable segments	Retail		Wholesale & Logistics		Digital Platform		Corporate		Consolidated	
	March 31, 2023 (\$)	April 30, 2022 (\$)	March 31, 2023 (\$)	April 30, 2022 (\$)	March 31, 2023 (\$)	April 30, 2022 (\$)	March 31, 2023 (\$)	April 30, 2022 (\$)	March 31, 2023 (\$)	April 30, 2022 (\$)
Segment revenues	32,248	29,556	7,862	8,459	2,998	2,929	-	-	43,108	40,944
Segment gross profit	8,353	8,229	1,242	1,310	2,868	2,627	-	-	12,463	12,166
(loss) / Income before tax	(1,552)	(2,686)	390	(108)	1,221	1,714	(9,503)	(8,207)	(9,444)	(9,287)
Gross profit - % of net revenues (%)	25.9%	27.8%	15.8%	15.5%	95.7%	89.7%			28.9%	29.7%

Retail Segment

The Company had ninety-two (92) corporate cannabis stores in operation at the end of March 31, 2023, compared to ninety-two (92) cannabis stores at the end of December 31, 2022 and one-hundred (100) cannabis stores at the end of April 30, 2022.

Revenue

Retail revenue for the quarter ended March 31, 2023 was \$32.2 million, compared to \$29.6 million for the quarter ended April 30, 2022. Retail revenue increased year-over-year as a result of the implementation of member pricing and the continuing effort to improve product assortment and customer experience through both brick-and-mortar and online channels. The Company monitors same-store sales in assessing performance of its Retail segment. Same-store sales is the comparison of sales of stores that are operating during the period relative to the sales generated by those stores in the prior comparative period. Same-store sales for the period ended March 31, 2023 compared to the same period in 2022 increased by 17.2%.

Retail performance continues to improve in Q1 2023 reflecting the strength of the Company's store portfolio and the customer adoption of the Spark Perks™ Member Pricing program, countering the continued price pressure faced by the industry, as the Consumer Price Index on recreational cannabis in Canada declined 2.4% during the 12-month period through March 2023¹.

Access to Spark Perks™ Member Pricing and Firebird Delivery™ options require Spark Perks™ membership and as a result, there has been a significant increase in Spark Perks™ member sign-ups since May 2022 when the program was introduced from 415,000 members to more than 560,000 members as at the date of this MD&A. Transactions from Spark Perks™ members accounted for about 77% of total revenue in the Retail segment.

¹ Statistics Canada. Table 18-10-0004-10 Consumer Price Index, monthly, percentage change, not seasonally adjusted, Canada, provinces, Whitehorse and Yellowknife - Alcoholic beverages, tobacco products and recreational cannabis

Gross Profit

Gross profit for the quarter ended March 31, 2023 was \$8.4 million or 25.9% of revenue compared to \$8.2 million or 27.8% of revenue for the quarter ended April 30, 2022. The gross margin % for Q1 2023 represents the third consecutive quarterly improvement in Retail, from 25.4% in Q4 2022, 24.3% in Q3 2022 and 23.3% in Q2 2022.

Income or Loss Before Tax

Income before tax for Q1 2023 increased from to a loss of \$1.6 million from a loss of \$2.7 million in Q1 2022, mostly due to a reduction in SG&A expenses.

Wholesale and Logistics Segment

The results for the quarter ended March 31, 2023 include the operations of Open Fields wholesale business in the province of Saskatchewan, the cross-docking service in the province of Manitoba and Pineapple Express Delivery.

Firebird Delivery™ (a virtual dispensary operated by the Retail segment) leverages Pineapple Express Delivery's CannDeliv routing technology and logistics expertise to power the fulfillment by the Company's retail network with same-day delivery windows and "Rush Delivery" option for estimated delivery completion within one hour.

Revenue

Wholesale and Logistics revenue for the quarter ended March 31, 2023 were \$7.9 million compared with \$8.5 million for Q1 2022. The year-over-year decrease in sales is primarily due to lower revenues from Pineapple Express Delivery.

Gross Profit

Wholesale and Logistics gross profit for the quarter ended March 31, 2023 was \$1.2 million compared with \$1.3 million for Q1 2022. Gross margin of 15.8% for Q1 2023 represents a year-over-year improvement of 0.3% over the 15.5% gross margin for Q1 2022.

Income or Loss Before Tax

Income before tax for Wholesale and Logistics for Q1 2023 was \$0.4 million, representing a year-over-year increase of \$0.5 million from a loss of \$0.1 million in Q1 2022, primarily as a result of decreases in SG&A expenses.

Digital Platform Segment

Revenue

Digital Platform revenue for the quarter ended March 31, 2023 was \$3.0 million, compared with \$2.9 million for the quarter ended April 30, 2022. The year-over-year increase in revenue is partly due to timing, as revenue for the Digital Platform segment is dependent on the timing of renewals of data subscription agreements and data analytics product offerings, which may fluctuate from month to month.

Gross Profit

Gross profit for the quarter ended March 31, 2023 was \$2.9 million (95.7% of revenue) compared to \$2.6 million (90% of revenue) for the quarter ended April 30, 2022. The year-over-year improvement in gross profit and gross margin is due to cost reduction efforts implemented by the Company, including improvements on data source costs.

Income or Loss Before Tax

Income before tax for Digital segment for Q1 2023 decreased to an income of \$1.2 million from \$1.7 million in Q1 2022, as a result of higher gross profit offset by increases in expenses related to product development.

Corporate

Corporate results are comprised of corporate overhead in excess of the amounts allocated to Retail, Wholesale and Logistics and Digital Platform segments.

The loss for the year is attributable to SG&A expenses for the quarter ended March 31, 2023 of \$2.3 million (April 30, 2022: \$2.0 million), restructuring and impairment expense of \$1.7 million (April 30, 2022: nil) and depreciation expenses of \$4.7 million.

ADJUSTED EBITDA

The Company's "Adjusted EBITDA" is a Non-IFRS metric used by management that does not have any standardized meaning prescribed by IFRS and may not be fully comparable to similar measures presented by other companies. Management defines Adjusted EBITDA as the income (loss) for the period, as reported, before income taxes and other expense (income) items such as finance costs, finance income, gains and losses related to derivative liability revaluations and debt extinguishments, and adjusted for share-based compensation, depreciation and amortization, impairment expenses, restructuring charges, foreign exchange differences and acquisitions and strategic initiative professional fees.

A reconciliation of net loss to Adjusted EBITDA is presented below:

	Quarter ended	
	March 31, 2023 (\$)	April 30, 2022 (\$)
<i>(in thousands of dollars)</i>		
Net loss – as reported	(10,096)	(9,906)
(Gain) loss on revaluation of derivative liability	(415)	(261)
Finance costs, net	1,160	1,741
Income taxes, net	652	619
Share-based compensation	470	632
Acquisition and strategic initiative professional fees	-	100
Depreciation & amortization	4,740	4,764
Restructuring, impairment and other costs, net	1,706	-
Foreign exchange gain	(7)	-
Adjusted EBITDA	(1,790)	(2,311)

STATEMENT OF FINANCIAL POSITION DATA

Statement of Financial Position Information (in thousands of dollars)	As at March 31, 2023	As at December 31, 2022
Cash	8,185	12,425
Trade and other receivables	10,607	15,289
Merchandise inventories	13,139	12,271
Prepaid expenses, deposits and other assets	6,004	5,523
Property and equipment, net	33,287	36,845
Lease receivables	2,984	1,656
Right-of-use assets, net	28,410	31,971
Intangible assets, net	28,696	31,156
Refundable deposit to acquire	7,327	7,112
Goodwill	5,407	6,029
Deferred Tax Asset	105	-
Assets Held for Sale	2,880	-
Total assets	147,031	160,277
Accounts payable, accrued liabilities and income tax payable	24,756	27,676
Debentures, loans and derivative liability	13,992	14,009
Lease liabilities	42,818	44,800
Deferred tax liability	108	108
Provisions, contact liability and other liabilities	5,471	5,723
Liabilities Held for Sale	1,456	-
Total liabilities	88,601	92,316
Total shareholders' equity	58,430	67,961

As at March 31, 2023, the Company had total assets of \$147.0 million, a decrease of \$13.2 million compared to \$160.3 million as at December 31, 2022. The decrease in total assets was primarily due to depreciation costs exceeding capital investments leading to a net decrease of \$3.6 million in property and equipment, decrease of right-of-use assets, net of \$3.6 million, decrease of intangible assets, net of \$2.5 million, decrease in trade and other receivables of \$4.7 million and a \$4.2 million decrease in cash offset by an increase in merchandise inventory by \$0.9 million. Assets relating to Pineapple Express Delivery have been reclassified from the respective asset category to Asset Held for sale therefore accounting for some of the changes in the respective line items.

As at March 31, 2023, the Company had total liabilities of \$88.6 million, a decrease of \$3.7 million compared to \$92.3 million as at December 31, 2022. The decrease in total liabilities was primarily due to reduction in lease liabilities of \$2.0 million, gain on derivative liabilities of \$0.4 million, payments made for income tax and to vendors after the fiscal year ended December 31, 2022.

As at March 31, 2023, total shareholders' equity was \$58.4 million, a decrease of \$9.5 million compared to \$68.0 million at December 31, 2022. Total shareholders' equity decreased primarily due to increase of the accumulated deficit, which now stands at \$314.3 million.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying Financial Statements have been prepared on the assumption that the Company will continue as a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of business as they come due. The ability of the company to continue operations as a going concern is ultimately dependent upon increasing revenues, improving profitability and cash flows, availability of funding from debt, warrants and other capital market alternatives. Management continually evaluates the Company's liquidity by reviewing immediate capital requirements and ensuring planning and budgeting controls and processes are in place to plan that sufficient funds are available to finance the Company's ongoing operations, including lease payments for locations secured for future store operations.

As at March 31, 2023, cash was \$8.2 million (December 31, 2022: \$12.4 million). As at March 31, 2023, the Company had negative working capital (current assets less current liabilities) of \$12.8 million (December 31, 2022 – negative \$9.8 million). The Company's financial liabilities are comprised of accounts payable and accrued liabilities, loans and convertible debentures, which have varying contractual maturity/expiry dates, and are described under notes 10 and 11 of the Interim Financial Statements.

The Company incurred a net loss of \$10.1 million for the quarter ended March 31, 2023 (April 30, 2022: \$9.9 million) and negative cash flow from operating activities of \$2.6 million (April 30, 2022: \$6 million). As at March 31, 2023, accumulated deficit was \$314.3 million (December 31, 2022: \$304.2 million).

The Company's primary sources of liquidity are cash from sales of goods and services to its customers, debt financing, warrants proceeds and equity financing. As at March 31, 2023, 17,796,284 Series C Warrant units were held by the Investor exercisable at any time after October 1, 2022 until June 30, 2023, 13,339,078 of such Series C Warrants having an exercise price of the lesser of: (A) \$30.00; and (B) 125% of the 20-day VWAP of the common shares on the last trading day prior to the date on which the Series C Warrants are exercised (the "Initial Exercise Price") and 4,457,206 of such Series C Warrants having an exercise price of the greater of (A) \$4.7732; and (B) the Initial Exercise Price. As of March 31, 2023, ACT held 35.7% of the issued and outstanding Common Shares of the Company. The Investor held a total of 17,796,284 warrants as at March 31, 2023 (December 31, 2022: 26,084,351) which are exercisable after October 1, 2022 until June 30, 2023, with maximum exercise price of \$30.00.

The Company's ability to continue as a going concern is dependent on future profitable operations, management's ability to manage costs and the future availability of equity or debt financing. The Company will require additional financing from debt, equity, and/or other capital market alternatives in the next 12 months. The Company is actively pursuing additional financing options to raise additional capital in order to fund its operations and meet its future growth targets, including ongoing negotiations in respect of both non-dilutive debt financing and equity financing at preferred rates. There is no assurance that these initiatives will be successful, timely or sufficient. These material uncertainties cast significant doubt as to the ability of the Company to continue as a going concern.

The Interim Financial Statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Financing and Investing Activities

2022 Investor Loan

On October 18, 2022, the Company entered into a loan agreement (the "2022 Loan Agreement") with the Investor. Pursuant to the terms of the 2022 Loan Agreement, the Investor loaned \$11 million principal amount to the Company ("2022 Investor Loan") with an interest rate of 11% per annum and payable quarterly, provided that for the first six months of the term of the 2022 Investor Loan, the Company may elect to increase the principal amount of the 2022 Investor Loan by the amount of accrued interest during such period in lieu of paying such accrued interest to the Investor. The 2022 Investor Loan matures on December 31, 2023 and the Investor has first priority security on all of the assets of the Company and its subsidiaries including all intellectual property subject only to permitted liens. Pursuant to the 2022 Loan Agreement, the Company may prepay all or any portion of the 2022 Investor Loan without bonus or penalty upon five business days' notice. As at December 31, 2022, the Company has \$11.2 million in principal and accrued interest outstanding which includes interest that was elected to be capitalized as permitted pursuant to the 2022 Loan Agreement.

2021 Investor Loan

On December 13, 2021, the Company entered into a loan agreement (the "2021 Loan Agreement") with ACT pursuant to which ACT shall loan to the Company a maximum aggregate amount of \$30 million which may be drawn down in three separate tranches of \$10 million (the "2021 Investor Loan"). The 2021 Investor Loan accrued interest at a rate of 8.0% per annum, payable quarterly, and matures on October 1, 2022. The 2021 Loan Agreement contemplated prepayment of amounts drawn from the 2021 Investor Loan from the net proceeds received by the Company upon exercise of the Series B Warrants held by the Investor, which were exercisable by the Investor as of January 1, 2022 until September 30, 2022. As at January 29, 2022, a total of \$20.0 million was withdrawn under the 2021 Investor Loan and as at December 31, 2022, no amounts are outstanding on the 2021 Investor Loan (refer below for repayment of the 2021 Investor Loan).

Warrants Exercise and Repayment of 2021 Investor Loan during the fiscal year ended December 31, 2022

During the fiscal year ended December 31, 2022, the Company received net proceeds of \$17.3 million (the "Proceeds") from the exercise of the Series B Warrants, comprising (a) 6,717,554 Series B Warrants exercised at a price of \$4.5103, representing the 20-day volume-weighted average price of the common shares of the Company and (b) 1,570,513 Top-up Series B Warrants exercised at a price of \$4.7732. Pursuant to the terms of the 2021 Loan Agreement, a portion of the warrant amount of \$37.8 million was used to repay the principal of \$20.0 million and interest of \$0.5 million to the Investor as prescribed within the 2021 Loan Agreement.

Additional Common Shares Issued and Common Shares held in Escrow

On August 12, 2022, the Company issued an additional 150,281 Common Shares, reflecting an upwards adjustment to the aggregate purchase price, and released 52,800 Common Shares with a carrying value of \$0.2 million from escrow, all of the foregoing as settlement of certain working capital adjustments in connection with the acquisition of Pineapple Express Delivery.

During the quarter ended March 31, 2023, the Company released 333,304 Common Shares from escrow and 452,923 Common Shares were cancelled and returned to treasury as a result of Pineapple Express Delivery not achieving certain performance-based milestones during the fiscal 2022 year.

Cash Flow Statement

Sources and Uses of Cash <i>(in thousands of dollars)</i>	Quarter Ended	
	March 31, 2023 (\$)	April 30, 2022 (\$)
Cash used in operating activities before changes in non-cash working capital	(2,592)	(3,398)
Net change in non-cash working capital items	(51)	(2,560)
Cash used in operating activities	(2,643)	(5,959)
Cash (used in) provided by financing activities	(2,410)	14,933
Cash provided by/ (used in) investing activities	814	(380)
Effect of foreign exchange on cash and cash equivalents	(1)	2
(Decrease) / Increase in cash and cash equivalents	(4,239)	8,596

Operating Activities

For the quarter ended March 31, 2023, cash used in operating activities was \$2.7 million (April 30, 2022: \$6.0 million used in), and cash used in operating activities before changes in non-cash working capital was \$2.6 million (April 30, 2022: \$3.4 million). Operating activities were affected by the net change in non-cash working capital of \$0.1 million (April 30, 2022: \$2.6 million) due to the following activity in the quarter ended March 31, 2023:

- trade and other receivables reduced by \$3.8 million (April 30, 2022: \$0.6 million increase) primarily due to increased collections from both the Wholesale and Logistics, Digital Platform business customers in addition to reclassification of Pineapple Express Delivery's receivables of \$0.9 million to Assets Held for Sale;
- an increase in merchandise inventories of \$0.9 million (April 30, 2022: \$0.3 million) due to the timing of purchases;
- an increase in prepaids expenses, deposits and other current assets of \$0.5 million (April 30, 2022: \$1.1 million decrease) primarily due to timing of receiving prepaid inventories at the end of March 2022 as explained in inventory above; and
- a decrease in accounts payable, accrued liabilities and other of \$2.5 million (April 30, 2022: \$2.6 million) due to timing of payments to vendors;

Financing Activities

For the quarter ended March 31, 2023, cash used in financing activities was \$2.4 million (April 30, 2022: \$14.9 million cash provided by), which was driven largely by lease liability cash outflows of \$2.5 million (April 30, 2022: \$2.4 million) offset by lease payment received of \$0.1million.

Investing Activities

For the quarter ended March 31, 2023, total cash provided by investing activities was \$0.1 million (April 30, 2022: \$0.4 million used in) and was primarily due to \$0.9 million of cash received from the disposal of property and equipment, offset by amount used to acquire property and equipment of \$0.2 million (April 30, 2022: \$0.4 million).

FREE CASH FLOW

The Company's "Free Cash Flow" is a Non-IFRS metric used by management that does not have any standardized meaning prescribed by IFRS and may not be fully comparable to similar measures presented by other companies. Management defines Free Cash Flow as cash provided by operating activities less cash used for normal course capital expenditures, which is comprised of cash used to purchase or develop intangible assets and property and equipment and less lease liability payments net of lease payments received. Free Cash Flow is a key metric that measures the Company's ability to repay debt, finance strategic business acquisitions and investments, pay dividends and repurchase shares.

Fiscal Quarter Ended								
(in thousands of dollars)								
	March 31, 2023	December 31, 2022	October 29, 2022	July 30, 2022	April 30, 2022	January 29, 2022	October 30, 2021	July 31, 2021
Cash (used in) provided by operating activities before changes in non-cash working capital items	(2,592)	(3,756)	(4,312)	(7,566)	(3,398)	(4,121)	1,653	1,577
Net change in non-cash working capital items	(51)	985	1,857	1,948	(2,560)	(965)	(1,925)	(8,907)
Cash (used in) provided by operating activities	(\$2,643)	(\$2,771)	(\$2,455)	(\$5,618)	(\$5,958)	(\$5,086)	(\$272)	(\$7,330)
Less: Lease liability payments net of lease payments received	(2,410)	(1,672)	(2,560)	(2,540)	(2,401)	(2,413)	(2,333)	(2,082)
Less: Capital expenditures	(176)	(505)	(1,018)	(1,683)	(383)	(4,000)	(5,897)	(3,415)
Free Cash Flow (FCF)	(\$5,229)	(\$4,948)	(\$6,033)	(\$9,841)	(\$8,742)	(\$11,499)	(\$8,502)	(\$12,827)

Free Cash Flow for the quarter ended March 31, 2023 was negative \$5.2 million (9-week period ended December 31, 2022: negative \$5.0 million). The improvement in Free Cash Flow is as a result of savings realized by initiatives introduced by management which has improved cash from operating activities.

Contingencies

The Company is involved in certain claims and litigation on matters related to employment and lease arrangements. The Company views these as routine litigation matters that the Company is expected to be involved with in the normal course of business. Outcomes of these matters are uncertain, and therefore there can be no assurance that such matters will be resolved in the Company's favour.

On April 28, 2021, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia by Flora (Dawson Creek) Enterprises Inc., Flora (Prince George) Enterprises Inc. and Tridelion Enterprises Inc., as plaintiffs, with respect to four asset purchase agreements for cannabis retail store locations in Kamloops, Vernon, Prince George and Quesnel, British Columbia which the parties agreed to terminate on April 6, 2020. The claim alleges breach by the Company of the asset purchase agreements and seeks an undefined amount of damages, a portion of which includes claims for the remainder of the purchase price under the terminated asset purchase agreements related to such cannabis retail stores, totalling \$8.1 million. The Company intends to vigorously defend itself against the claims made by the plaintiffs. As of March 31, 2023, the Company has not recorded any amount related to this contingency.

SUMMARY OF QUARTERLY RESULTS

The following table sets out certain selected financial information for the eight fiscal quarters:

Fiscal Quarter Ended								
(in thousands of dollars, except per share amounts)								
	March 31, 2023	December 31, 2022	October 29, 2022	July 30, 2022	April 30, 2022	January 29, 2022	October 30, 2021	July 31, 2021
Total Revenue	\$43,108	\$30,501	\$43,835	\$40,742	\$40,944	\$42,697	\$45,412	\$43,306
Net (Loss)/ Income	(\$10,096)	(\$29,945)	(\$28,085)	(\$21,557)	(\$9,906)	(\$19,461)	(\$1,983)	\$19,450
Income taxes, net	652	(239)	669	607	619	1,330	(933)	1,368
Finance costs, net	1,160	1,009	1,235	1,355	1,741	1,505	1,333	1,096
Depreciation & amortization	4,740	3,501	5,384	6,110	4,764	5,495	5,074	4,182
	(\$3,544)	(\$25,674)	(\$20,797)	(\$13,485)	(\$2,782)	(\$11,131)	\$3,491	\$26,096
(Gain) loss on revaluation of derivative liability	(415)	(78)	(484)	(59)	(261)	(7,558)	(12,686)	(25,321)
Foreign exchange gain	(7)	31	(388)	-	-	-	-	-
Share-based compensation	470	124	640	678	632	468	855	1,319
Acquisition and strategic initiative professional fees	-	314	320	459	100	1,306	740	259
Restructuring, impairment and other costs, net	1,706	21,474	17,898	6,370	-	14,505	9,677	793
Adjusted EBITDA	(\$1,790)	(\$3,809)	(\$2,811)	(\$6,037)	(\$2,311)	(\$2,410)	\$2,077	\$3,146
Net (Loss) / Earnings Per Share – Basic ⁽¹⁾	(\$0.22)	(\$0.66)	(\$0.62)	(\$0.48)	(\$0.27)	(\$0.54)	(\$0.06)	\$0.58
Net (Loss) / Earnings Per Share – Diluted ⁽¹⁾	(\$0.22)	(\$0.66)	(\$0.62)	(\$0.48)	(\$0.27)	(\$0.54)	(\$0.06)	\$0.18

(1) Quarterly earnings per share are not additive and may not equal the annual earnings per share reported. This is due to the effect of stock issued, cancelled, or repurchased during the year on the basic and diluted weighted average number of Common Shares outstanding together with the effects of rounding. Per share amounts are restated retrospectively for the ten-to-one share consolidation completed effective December 1, 2021.

On December 1, 2021, the Company completed a ten-to-one share consolidation of its issued and outstanding Common Shares (the “**Share Consolidation**”) and began trading on the TSX on a post-consolidation basis on December 2, 2021. The Share Consolidation has been applied retrospectively and as a result, the per share and Common Share amounts are stated on an adjusted post-consolidation basis.

Results for the past eight quarters reflect changes in revenues and expenses as the Company optimizes its retail store network and executes its strategy of becoming a leading cannabis consumer technology platform. Net income or losses are also subject to the changes in the fair values and interest expense incurred on the Company’s convertible debentures and derivative liabilities. These changes are a function of market price and estimate of the Company’s share price volatility. These are further described under “*Statement of Financial Position Data*” and “*Results of Operations – Consolidated*”.

With respect to operations, the results have varied between these fiscal quarters principally because of, (i) the evolution of the adult-use cannabis market, including increased competition as provinces increase the number of store operator licenses issued, as well as aggressive price discounting by competitors, (ii) the seasonal nature of the cannabis retail business, (iii) changes in marketing and branding expenses related to building and growing the Company’s brands, (iv) professional and consulting fees supporting acquisitions and business development activities, (v) share-based compensation expenses increasing as stock options vest, (vi) increased salaries and wages as the organization grows and expands its retail operations, (vii) restructuring costs, (viii) impairment charges and (ix) debt and financing costs to support the expansion of the Company’s retail and technology platform. It is anticipated that certain costs are non-recurring and/or will normalize over time.

OUTSTANDING SHARE DATA

As at May 15, 2023, the Company had 45,154,031 Common Shares issued and outstanding.

As at March 31, 2023, the Company had the following securities outstanding, which are exercisable for Common Shares:

Securities Outstanding	Number of Securities	Weighted Average Exercise/ Conversion Price
Convertible Investor Debentures	\$2,407,415 principal amount	\$9.00
Stock Options	1,935,529	\$6.29
Restricted Share Units	148,035	N/A
Deferred Share Units	14,945	N/A
Investor Warrants ⁽¹⁾	13,339,078	variable
Investor Top-up Warrants	4,457,206	variable

(1) The conversion / exercise price for these instruments are variable and not disclosed on a weighted average basis. See the 2022 AIF for terms of these instruments. Additional Investor Warrants may be issued pursuant to certain Top-up Rights (as defined in the IRA) to ensure that the Investor holds a number of Investor Warrants that may result in the Investor holding 50.1% of the issued and outstanding Common Shares, on a fully diluted basis, if the principal amount of the Investor Debentures, Investor Warrants and Top-up Rights are converted and exercised, respectively, in full.

On January 18, 2022, pursuant to the terms of the IRA between the Company and the Investor, the Investor's Top-up Rights were triggered and the Company issued an additional 1,570,513 Series B Warrants, and 4,457,206 Series C Warrants, for an aggregate issuance of 6,027,719 warrants ("**Top-up Warrants**"). Under the IRA, the Investor is entitled to certain Top-up Rights (as defined in the IRA) when its fully diluted interest in the Company drops below 49.1%.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

SUBSEQUENT EVENTS

Subsequent events are described under "*Q1 2023 and Recent Highlights*" and relate to the following transactions/events that occurred after the fiscal period ended March 31, 2023:

- On April 17, 2023, the company announced that it had signed a Master Licensing Agreement ("**MLA**") with MC Cannabis Inc. ("**MC Cannabis**", an indirect wholly-owned subsidiary of ACT). The MLA governs the licensing of the Fire & Flower brand, platform and systems in Ontario, includes a commitment to open seven (7) co-located stores, and gives the Company exclusive first right to negotiate entries in additional legal cannabis markets.

RELATED PARTY TRANSACTIONS

The remuneration of directors and key management personnel during the quarter ended March 31, 2023, is set out below:

<i>(in thousands of dollars)</i>	Quarter Ended	
	March 31, 2023 (\$)	April 30, 2022 (\$)
Consulting fees, salaries, benefits, and other remuneration – key management	445	250
Consulting and fees - directors	110	140
Share based payments - key management and directors	-	197
	555	587

During the quarter ended March 31, 2023, a total of nil stock options was granted to the Company's officers and directors (April 30, 2022: 453,599), with an exercise price of nil (April 30, 2022: \$3.78), and maturity date of nil (April 30, 2022: March 23, 2025 to April 26, 2026).

During the quarter ended March 31, 2023, the following transactions occurred with the Investor or its affiliates:

- Accrued \$308 interest expense under the 2022 Loan Agreement

As at March 31, 2023, \$0.4 million of capital expenditure charges remain payable to the Investor (December 31, 2022: \$0.4 million). Debenture related transactions with the Investor are described under "Overview of the Company" and "Q4 2022 and Recent Highlights".

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

A summary of significant accounting policies applied is included in Note 4 of the 2022 Annual Financial Statements, including recent accounting pronouncements of significance or potential significance and management's evaluation of impact and implementation progress. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The preparation of the Financial Statements in accordance with IFRS requires the Company to make judgments in applying its accounting policies, estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and other items in net operating earnings or loss and the related disclosure of contingent assets and liabilities included in the Financial Statements. The Company evaluates its estimates on an ongoing basis. The estimates are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of revenues and other items. Actual results may differ from these estimates under different assumptions or conditions.

Significant judgments and estimates made by management in the preparation of the Company's financial information are listed below and are more fully described in Note 7 of the 2022 Annual Financial Statements:

- Determination of acquisition date fair values for business combinations;
- Provisions over restructuring and other costs;
- Estimates over calculation of deferred income taxes;
- Unobservable inputs used in the estimation of fair value of convertible debentures and warrants financial instruments;
- Lease liability related estimates for expected lease term and incremental borrowing rate;
- Recoverable amounts and impairment assessments of goodwill, intangible assets, PP&E and lease ROU assets;
- Valuation of share-based compensations

NEW STANDARDS AND INTERPRETATIONS

New standards and amendments to existing standards have been issued and may be applicable to the Company for its annual periods beginning on or after January 1, 2023.

The Company adopted the following new standards and amendments to standards that were effective January 1, 2023. These changes did not have a material impact on the Interim Financial Statements.

- Amendments to IAS 1 Presentation of Financial Statements (“IAS 1”)
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (“IAS 12”)

See note 6 of the Company’s Annual Financial Statement for a summary of future accounting standards not yet adopted.

FINANCIAL INSTRUMENTS

See Note 22 of the 2022 Annual Financial Statements for a discussion of the Company’s financial instruments and risk management.

INTERNAL CONTROLS

In accordance with National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings (“**NI 52-109**”) of the Canadian Securities Administrators, the Company issues a “Certification of Annual Filings.” This Certification requires certifying officers to certify, among other things, that they are responsible for establishing and maintaining Disclosure Controls and Procedures (“**DC&P**”) and Internal Controls over Financial Reporting (“**ICFR**”) as those terms are defined in NI 52-109. The control framework used to design the Company’s ICFR is based on the framework established in Internal Control - Integrated Framework (2013) by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company’s ICFR are designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in the Company’s ICFR during the quarter ended March 31, 2023, that have materially affected, or are reasonably likely to materially affect, its ICFR.

The Company’s DC&P have been designed to provide reasonable assurance that material information required to be disclosed by the Company is accumulated and communicated to senior management as appropriate to allow timely decisions regarding issuing disclosures as required under applicable regulations.

The Company’s ICFR and DC&P, no matter how well designed, can have inherent limitations that may not prevent or detect all misstatements and can provide only reasonable assurance that the objectives of the control systems are met.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks which may impair the Company's business operations and its operating results and as a result could materially impact its business, results of operations, prospects and financial conditions.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in the Company’s 2022 AIF, which is available on the Company’s profile on SEDAR at www.sedar.com.

OUTLOOK

Driven by the proprietary Hifyre™ Digital Platform, the Company remains focused on bolstering its fully-integrated cannabis consumer technology platform to own the customer relationship from digital customer acquisition through to a personalized online or in-store shopping experience and, ultimately rapid delivery to a customer's door. The Company intends to utilize the Hifyre™ Digital Platform to deliver differentiated service offerings in the highly competitive adult use cannabis market and create a sustainable, global, long-term competitive advantage.

As of the date of this MD&A, the Company has more than 560,000 Spark Perks™ members, from which it collects data on consumer purchase behaviors to help the Company better understand the preferences of its customers and cultivate a convenient, personalized & curated shopping experience, whether online or in-store. The Company will continue to use this data to grow its retail network in an asset-light way that leverages corporate or franchise shops. Leveraging powerful predictive analytics, Fire & Flower and our suppliers can ensure the right products are in the right location, at the right price to meet customer demand and thereby drive sales and profitability for the Company.

The Company's Digital Platform also provides the Company with additional high-margin revenue streams through Hifyre™ IQ, which is subscribed to by a significant number of Canadian licensed producers, equity research analysts and a variety of customers in business, finance, banking and consulting, and Hifyre™ Reach, a Cannabis Act compliant marketing platform that connects brands to intended consumers through targeted consumer segmentation.