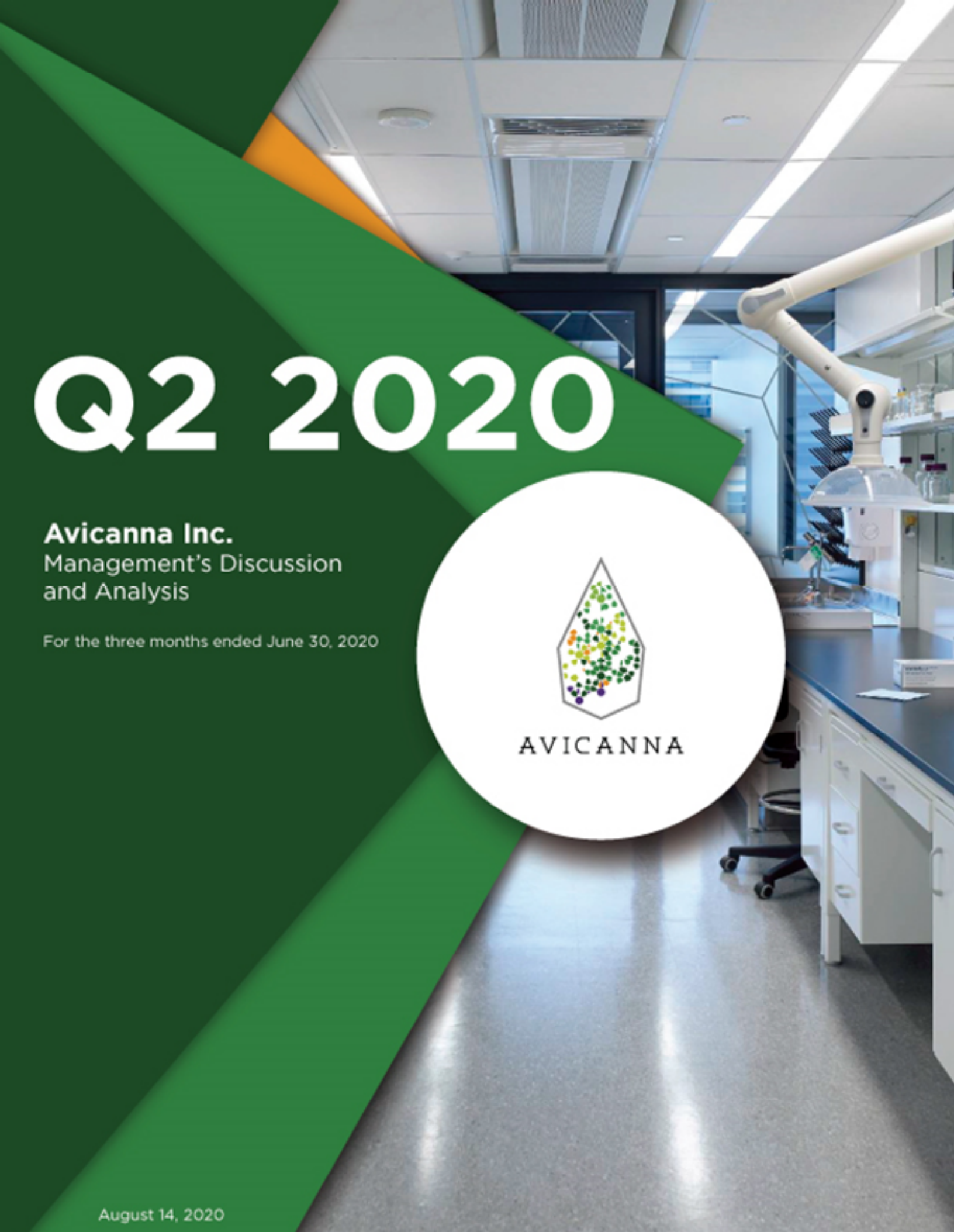
# Q2 2020

**Avicanna Inc.**
Management's Discussion and Analysis

For the three months ended June 30, 2020



AVICANNA

August 14, 2020

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY

This management's discussion and analysis ("MD&A") of Avicanna Inc. ("Avicanna" or the "Company") contains "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "objective", "predict", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "will", "could", "would", "should", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

The Company's anticipated future operations are forward-looking in nature and, as a result, are subject to certain risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them as actual results may differ materially from the forward-looking statements. Such forward-looking statements are estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. Such factors include but are not limited to:

- changes in general economic, market and business conditions and product demand;
- changing interest rates, income taxes and exchange rates;
- changes in the competitive environment in the markets in which the Company operates;
- changes in laws, regulations and decisions by regulators that affect the Company or the markets in which it operates;
- opportunities that may be presented to and pursued by the Company;
- the Company's ability to meet its working capital needs at the current level in the short term;
- expectations with respect to raising capital; and
- changes in prices of required commodities.

This MD&A was prepared by management as of August 14, 2020 and is supplemental to and should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and the accompanying notes thereto (collectively, "Financial Statements"). The information contained in this MD&A is presented as of the date of the Financial Statements and is current to that date unless otherwise stated. The results reported herein have been derived from consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All amounts are expressed in Canadian dollars unless otherwise noted.

This MD&A is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The Financial Statements and this MD&A have been reviewed and approved by the Company's Board of Directors on August 14, 2020.

The Company does not, directly or indirectly, have any business operations in jurisdictions where cannabis or hemp is not federally legal.

## OUR BUSINESS

Avicanna has developed, optimized, clinically studied, and commercialized its comprehensive commercial portfolio of advanced cannabinoid products for medical, consumer retail and pharmaceutical markets. The Company has established a multinational business model with production and sales channels in several markets to drive diversified revenue streams including seeds, cannabinoid API, bulk formulations, finished products and licensing of intellectual property. The Company has become a well-respected thought leader in the cannabinoid industry and has formed strategic research partnerships with renowned Canadian research institutions including its laboratories at the Johnson and Johnson Innovation Centre, JLABS @ Toronto, the University of Toronto, and University of Guelph. All three of these partnerships operate under their own Cannabis Research Licence issued by Health Canada.

Avicanna's dedication to research in conjunction with our world-class partnerships has facilitated the Company's ability to commence clinical trials, develop and launch a complete line of derma-cosmetic products, and commercialize its advanced "cannabis 2.0" medical line in partnership with Medical Cannabis by Shoppers™, a subsidiary of Shoppers Drug Mart Inc.

In an effort to manage costs and the quality of the Company's input materials, and in order to diversify our revenue streams, the Company has established a low cost, sustainable, and organic supply chain through the build out of its two cultivation and extraction assets in Colombia. As of June 30, 2020, the Company had 480,000 square feet of cultivation capacity with production capacity of over 30,000 kg of biomass per year with complete extraction, analytical testing and manufacturing infrastructure. The Company ranked highest amongst global cannabis companies in the SAM Corporate Sustainability Assessment ("CSA"), a sustainability index that has become the basis for numerous S&P Global ESG indices and showcases the sustainability performance of some of the world's largest companies.

The Company completed a long form prospectus and IPO, and its common shares are publicly traded on the Toronto Stock Exchange a R&D issuer (the "TSX") under the ticker symbol "AVCN". The Company's shares are also traded on the OTCQX in the United States under the ticker symbol "AVCNF", and on the Frankfurt Stock Exchange in Germany under the ticker symbol "0NN".

## Quarterly Highlights Q2-2020

- The Company continued to make strides in its strategic commercial initiatives, leading to an increase in revenues of 172% from $260,903 in the first quarter of 2020 to $709,468 in the second quarter of 2020, and an increase of 4,181% from $16,571 in the second quarter of 2019. At the same time, the Company was able to reduce general and administrative costs by approximately 8% from $3,185,943 in the first quarter of 2020 to $2,924,462 in the second quarter of 2020, and a decrease of 31% from $4,243,276 in the second quarter of 2019. In addition, the Company has approximately $3.9M of inventory available for sale.

- The Company announced the co-development of a cannabinoid-based product for treatment of COVID-19 related lung inflammation in partnership with the University of Toronto, with additional support and funding from the Mitacs Accelerate Program grant ("Mitacs grant"). Dr. Christine Allen is a global leader in the research and development of pharmaceutical formulations and for the past three years, Avicanna and Dr. Christine Allen's research group ("CARG") have developed novel cannabinoid-based products for commercialization. The combined expertise of Avicanna and CARG will fast-track the development of advanced pharmaceutical formulations of cannabinoids and their route to market.

- The Company announced the successful registration of the Company's initial line of products for its CBD-based derma-cosmetic product line, Pura H&W, in the European Union. The Company is anticipating the commercial launch of its Pura H&W line in the United Kingdom in the third quarter of 2020. Avicanna successfully met all regulatory requirements of the European Commission's Cosmetic Product Notification Portal (the "CPNP"). In addition to the clinical studies conducted on two of the registered products, Avicanna has provided the CPNP with long-term stability studies on these initial SKUs along with primary skin irritation evaluations for the entire portfolio in order to certify the safety and stability of the Pura H&W formulations.

- Through its genetics and seed division, Avesta Genetica, Avicanna completed its first industrial-scale seed harvest in Colombia. Approximately 80 million premium and feminized cannabigerol ("CBG") dominant seeds were successfully harvested. The seeds have been tested for germination and attained feminization rates of 99%, which are considered premium within the global seed market. The seeds will be utilized for sales, exports, and local production. Additionally, the Company's first export of hemp seeds (genetics) was approved by the Colombian government, which was also the first export of cannabis or hemp seeds in Colombian history.

- The Company entered a strategic manufacturing and intellectual property ("IP") licensing agreement with MediPharm Labs Inc. ("MediPharm"). Under the terms of the agreement, MediPharm will use its manufacturing capabilities under its Good Manufacturing Practice ("GMP") certification in Canada to produce Avicanna's advanced RHO Phyto™ medical cannabis products, and Pura H&W topicals for sale

by Medical Cannabis by Shoppers™. The partnership provides Avicanna with a route to market for Canadian and international sales, as well as pharmaceutical manufacturing for clinical trials with its Canadian research hospital collaborators. Additionally, Avicanna will grant MediPharm a license to use proprietary Avicanna formulations to develop additional white label branded products for the domestic and international market. MediPharm's pharmaceutical and GMP-certified manufacturing capabilities and its international supply chain capabilities will be leveraged to produce and deliver the proprietary finished products to partners worldwide.

- At the height of the COVID-19 pandemic, the Company closed a non-brokered private placement for approximately $2.56 million, issuing 3,200,000 units at a price of $0.80 per unit. The financing primarily included strategic partners, including Tasly International Capital Limited, a division of Tasly Holding Group Co., Ltd., a large healthcare and pharmaceutical group in China.

- The Company reduced its operating cash outflows by approximately 40%, for the six months ending June 30, 2020, compared to the six months ending June 30, 2019.

Subsequent to Quarter End

- The Company's RHO Phyto medical cannabis products launched on the Medical Cannabis by Shoppers portal, commencing with the "Micro Drop" oil formulations. Micro Drop" oil formulations are the first of the RHO Phyto formulary of advanced medical cannabis products available for patients and health care practitioners on the Medical Cannabis by Shoppers™ platform. This product line includes advanced formulations under the "Cannabis 2.0" regulations that have undergone years of research and development and been manufactured under GMP standards by MediPharm. RHO Phyto sublingual sprays and topical products are expected to be available through the Medical Cannabis by Shoppers platform in the third quarter of 2020, with capsules to follow in the fourth quarter.

- On August 11, 2020, the Company announced a strategic partnership with Red White & Bloom Brands Inc. ("RWB"), a multi-state operator active in the U.S. cannabis and hemp sectors, for the distribution of and commercialization of Pura H&W Hemp-Derived CBD-Based Topical Products in the United States. RWB will pay Avicanna an upfront fee in the amount of CAD$250,000 in cash, along with minimum purchase requirements, including the purchase of USD$250,000 worth of product within the first six months of the term, for the rights to be the exclusive distributor of Avicanna's Pura H&W branded cosmetic products in the US. Under the agreement, RWB also has the right to purchase Avicanna's cosmetic products for distribution into the US and certain other territories under brands of RWB's choosing. The initial product offerings under the agreement will include body and face lotions, cosmetic creams, gels and serums, as well as soaps and bath bombs.

- Avicanna, in collaboration with CARG at the Leslie Dan Faculty of Pharmacy at the University of Toronto, was awarded additional non-dilutive funding in the form of a peer-reviewed grant by the Natural Sciences and Engineering Research Council of Canada ("NSERC") to develop a cannabinoid-based formulation for the treatment of COVID-19 related lung inflammation. This peer reviewed grant provides funding support in addition to the recently awarded Mitacs grant.

- In collaboration with Dr. Jibran Khokhar, an Assistant Professor at the University of Guelph, Avicanna was also awarded a two-year NSERC Alliance grant to evaluate the neurobiological underpinnings of

cannabis toxicosis in a preclinical model, and to test the potential efficacy of Avicanna's naturally-derived cannabinoids and formulations for treatment of tetrahydrocannabinol ("THC") overdose.

- In anticipation of the launch of the RHO Phyto product line in Canada, Avicanna hosted its third annual symposium, "Medical Cannabis 2.0", on July 21st through a virtual format. The presentations focused on the evolution of medical cannabis including the Avicanna led advancements in R&D for novel cannabinoid delivery forms and formulations. Presenters including Dr. Ruth Ross (Professor and Chair, Department of Pharmacology & Toxicology, Faculty of Medicine, University of Toronto, Senior Scientist, Campbell Family Mental Health Research Institute, Centre for Addiction and Mental Health) and Dr. Hance Clarke (Staff Anesthesiologist, Director Pain Services, Director Good Hope Ehlers Danlos Clinic, Medical Director of The Pain Research Unit, Department of Anesthesia and Pain Management, Toronto General Hospital, University Health Network, Associate Professor, Department of Anesthesia, University of Toronto). Over 1,000 participants attended the symposium.

- Avicanna announced that it's RHO Phyto line of products will be participating in a Medical Cannabis Real-World Evidence ("MC-RWE") clinical study at the University Health Network ("UHN") in partnership with Medical Cannabis by Shoppers™. The study will be led by Dr. Hance Clarke, Director of Pain Services at Toronto General Hospital, and will examine the efficacy of a select group of medical cannabis products including Avicanna's RHO Phyto™ line of products on patient reported outcomes of pain, sleep and anxiety. All products used in MC-RWE must complete analytical testing through select testing laboratories and entered through the TruTrace StrainSecure™ platform. This provides Avicanna with a second commercial channel to the Medical Cannabis by Shoppers portal for its medical products to UHN, which is Canada's largest network of research hospitals and doctors.

## RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's research and development activities have been focused on the development of intellectual property across the cannabinoids value chain including, optimization of cannabinoid formulations and delivery methods for various product types in addition to research and optimization of genetics, cultivation and extraction methodologies. The Company's products include consumer derma-cosmetics, medical cannabis products and a pharmaceutical pipeline. Avicanna has commercialized several of these product lines from its research and development activities including cannabinoid API's, seeds, consumer and medical cannabis products. The Company is committed to further research through developing and optimizing formulations and finished products to better address patient needs. Furthermore, Avicanna is involved in several clinical and real-world evidence ("RWE") trials to demonstrate safety and efficacy of product lines.

Initial SKUs for Avicanna's medical cannabis 2.0 products branded as RHO Phyto™, were approved for commercialization in Canada in early 2020. RHO Phyto™ formulations include oil drops (Micro Drop 1.6 CBD - 0.06 THC, Micro Drop 0.6 CBD – 1.16 THC), sublingual sprays (Rapid Act Spray 4 CBD – 0.2 THC, Rapid Act Spray 2 CBD – 1 THC), capsules (Simple Dose Capsules 25 CBD – 1 THC, Simple Dose Capsules 5 CBD – 2 THC), and topicals (Daily Cream 10 CBD, Deep Tissue Gel 10 CBD). The majority of the Company's product lines were reassessed for stability and pharmacokinetic profiles at the University of Toronto to ensure that they meet the Company's quality standards. RHO Phyto will be launched on the Medical Cannabis by Shoppers Drug Mart platform in the third quarter of 2020; the technical transfer for the production and manufacturing of these products at MediPharm has been completed. The products will also be offered in the MC-RWE study led by Dr.

Hance Clarke of the UHN in Toronto, Canada. In addition, Avicanna is partnering with other academic institutions and hospitals to conduct other RWE studies on the RHO Phyto™ product line. Avicanna continues to explore novel product delivery forms with varying cannabinoid profiles for potential launch in the future.

CARG at the Leslie Dan Faculty of Pharmacy at the University of Toronto evaluated the pharmacokinetic profiles of Avicanna's products in preparation for Canadian commercialization and continued with development of novel delivery forms for cannabinoids including solid lipid nanoparticles. CARG had begun developing studies for novel delivery forms with varying cannabinoid ratios in preclinical models. In collaboration, Dr. Allen submitted applications for a Mitacs grant and NSERC COVID-19 grant. During the quarter, the Mitacs grant was awarded for developing a cannabinoid-based formulation for the treatment of lung inflammation associated with COVID-19.

At the University of Guelph, Dr. Jibran Khokhar completed the development of preclinical models for nicotine addiction. The timelines for this study are being adjusted in accordance with research regulations during COVID-19. Dr. Khokhar's research lab was awarded a two-year NSERC alliance grant to evaluate the neurobiological underpinnings of cannabis toxicosis in a preclinical model. Furthermore, this grant will also be used to test the potential efficacy of Avicanna's naturally derived cannabinoids and formulations for treatment of cannabis toxicosis.

The prevalence study for neuropathic pain in patients with Sickle Cell Disease ("SCD") at the University of the West Indies ("UWI") in Jamaica commenced in Q4 2019. During the first quarter, a total of 257 patients were screened for the study. Due to COVID-19, patients were no longer recruited and the UWI SCD team started their review of the data collected. Although the recruitment ended early, it is the largest prevalence study to be completed for neuropathic pain in SCD. The data provided sufficient evidence of neuropathic pain in the Jamaican SCD population with a sufficient sample size for the prevalence study allowing the Company and UWI to progress to the intervention study. A final report of the prevalence study was received and several publications are currently being prepared. The protocol for the intervention study is being finalized and will use Avicanna's RHO Phyto products (capsule and sublingual spray). Commencement of the intervention study will depend on the appropriate clinical approvals and current restrictions in Jamaica for COVID-19.

Pursuant to various research and development agreements, Avicanna is currently testing additional products to support their applications with research-backed data. Research and development activities also include plant biology projects related to breeding and genetic optimization conducted in Colombia. These have yielded significant expression of rare cannabinoids such as cannabigerol ("CBG"), and extraction and isolation efficiencies, including the isolation of rare and unidentified cannabinoids.

Below is a summary to date of the expenditures related to research and development activities inclusive of fees related to partnerships, consulting, supplies and capital expenditures.

| | For the six months ended June 30, 2020 | For the six months ended June 30, 2019 |
|---|---|---|
| Research and development expenditures | 104,707 | 311,305 |
| **Total Expenditures** | **104,707** | **311,305** |

A large portion of Avicanna's research and development expenditures include fees for partnerships, namely, University of Toronto Faculty of Pharmacy, Centro de Atencion e Investigacion Medica ("CAIMED"), the University of the West Indies ("UWI"), Altea Farmaceutica S.A., and the University of Guelph ("U of Guelph"). Additional research and development expenditures include laboratory supplies, materials and equipment, and consulting fees.

The following table breaks down Avicanna's research partnerships and outlines the current status, the total budget under the applicable agreement and costs remaining over the term of the agreement.

| Partner | Current Activities | Total Budget | Costs Expended as at June 30, 2020 | Remaining Expenditures |
|---|---|---|---|---|
| **U of T Pharmacy Sponsored Research and Collaboration Agreement Revised** | Ongoing analysis of several pharmaceutical formulations under development.<br>Preclinical evaluation of advanced formulations and optimization<br>Development of nanoparticles and microparticles based pharmaceutical applications. | 744,605 | 647,067 | 97,538 |
| **CAIMED Framework Agreement** | Cosmetic trials completed. | 217,167 | 52,000 | 165,167 |
| **SickKids** | Pre-Clinical Trial Application submission meeting completed. CTA was submitted at the end of Q2 2020 | 312,000 | - | 312,000 |
| **UWI Services Agreement** | Ethics approval obtained and prevalence study completed. | 110,000 | 55,000 | 55,000 |
| | Trial protocol is expected to be completed by year end. | 13,000 | - | 13,000 |
| | | | | |
| **University of Guelph (Agricultural Agreement)** | DNA analysis of all Avicanna's genetics have been completed and utilized for breeding. Polyploids project is pending import and export approvals of seeds. | 59,360 | | 59,360 |
| **University of Guelph (Psychiatry Agreement)** | Trial protocols established for research on cannabinoid use for addictions – payments paused due to COVID 19. | 142,784 | - | 142,784 |
| **Totals** | | **1,598,916** | **754,067** | **844,849** |

*Pharmaceuticals*

Avicanna's pharmaceutical products follow the traditional drug discovery and development process for submission to the applicable governmental agencies, such as Health Canada, and the FDA, of a drug application for approval and market authorization. Avicanna's pharmaceutical products use only plant-derived cannabinoid extracts, purified cannabinoids, including distillates and isolate ("Extracts").

Avicanna's initial pipeline of pharmaceutical products will address neurology, dermatology, oncology, psychiatry, and pain. The neurology products are intended to treat neurological disorders, such as epilepsy and multiple sclerosis. The dermatology products are meant to be applied on the surface of the skin to address various skin conditions, including acne, eczema and epidermolysis bullosa. The products developed to address pain, both through oral and topical administration, are intended to combat a wide range of pain conditions, including but not limited to, chronic pain, neuropathic pain, and pain resulting from inflammatory and joint disorders.

The following medical documents have been submitted, or are being prepared for submission in Canada, U.S., Jamaica and Colombia.

| Medical Documents | Entity | Description | Submission Date |
|---|---|---|---|
| **IND for Epidermolysis Bullosa** | FDA | IND for Phase III trials for Epidermolysis Bullosa | Q4 2020 |
| **CTA for Neuropathic Pain** | Jamaican Ministry of Health & Wellness | CTA for Phase II trial for Sickle Cell Disease Patients with Neuropathic Pain | Q4 2020 |
| **CTA for Opioid Sparing and pain management** | Health Canada | CTA for Phase II trial for decreasing opioid use and pain management in patients with chronic pain | |
| **Chronic Pain Dossier (Phytotherapeutics)** | INVIMA | Pharmacological evaluation request where INVIMA determines if the information alleged to support safety and efficacy is sufficient for the requested medical indication regarding our Phyto products. | Q4 2020 |

The following table outlines the products currently in Avicanna's pipeline, the specific indication, the applicable partner, current status and anticipated budget:

| Product | Indication | Description | Current Status | Anticipated Budget |
|---|---|---|---|---|
| AVCN583601 | Dermatology – Epidermolysis Bullosa | Topical product containing CBD for dermatological indications intended to be a prescription drug. | Completed animal pharmacokinetics and toxicology studies and had a Pre-CTA meeting with Health Canada for a phase II/III study. Due to COVID-19 we expect delays in the start of the clinical trial at Sick Kids. Anticipated start will be the second half of 2020. | 312,000 |
| AVCN319301 | Neuropathic Pain in SCD | | Prevalence study completed during the current quarter. The intervention study anticipated start date is delayed by COVID-19 to Q4 2020. | TBD |
| RHO Phyto Capsules | Opioid Sparing and Pain management in chronic pain | RHO Phyto SEDDS capsules with varying ratios of CBD:THC | CTA will be submitted July 2020. | 10,000 |
| Total | | | | 322,000 |

## Real World Evidence Trials

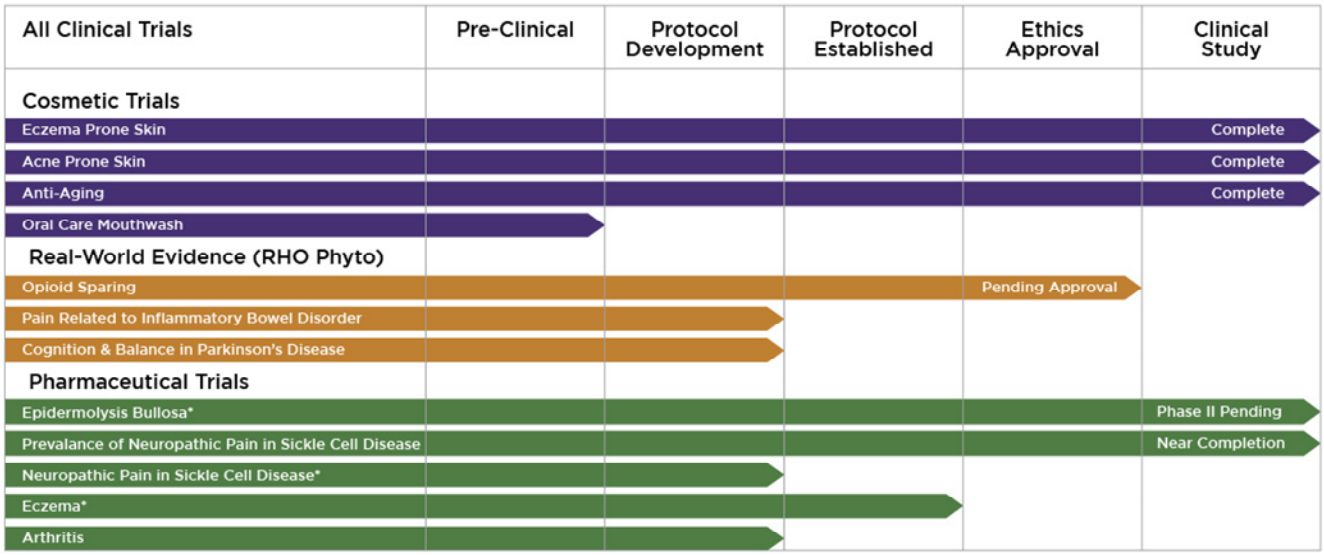
Avicanna is partnering with academic institutions and hospitals to conduct RWE trials using its RHO Phyto product line, which are exclusively available at Medical Cannabis by Shoppers. The RWE trials will evaluate the efficacy of RHO Phyto products on specific therapeutic indications and patient populations. Data derived from the RWE trials is a component of an overarching imperative of minimizing risk and maximizing efficacy from industry-leading research and development. The data will also be utilized in optimization of formulations, prioritization of pharmaceutical trials and educational materials for the medical community. The RHO Phyto products including capsules, sublingual sprays, topical creams and oral drops are designed for inflammatory dermatological conditions, several neurological conditions, chronic pain and palliative oncological care.

The first RWE study to be completed with the RHO Phyto products will be in collaboration with Dr. Hance Clarke at Toronto General Hospital (University Health Network). Two varying concentrations of RHO Phyto soft-gel capsules will be used in a pilot randomized controlled trial evaluating the feasibility of conducting a double-blind, randomized, placebo-controlled clinical trial for the use of oral cannabinoids for opioid-sparing and pain reduction in patients using opioids for chronic pain management. Additionally, the study will evaluate whether oral cannabinoids can reduce daily opioid dose and decrease pain interference compared to placebo in patients using opioids for chronic pain. An investigational brochure was developed for the RHO Phyto products that will be used in this trial. Further development of RWE trials will occur in Q3 2020 in anticipation of product launch including pain related to inflammatory bowel disorder and other clinical indication that have shown anecdotal evidence of therapeutic benefits.

The Avicanna RHO Phyto formulary of products will be a part of Medical Cannabis by Shoppers and the University of Health Network's Medical Cannabis Real-World Evidence (MC-RWE) clinical study led by Dr. Hance Clarke. The prospective, non-interventional, observational study will examine the efficacy of a select group of medical cannabis products including Avicanna's RHO Phyto line of products on patient reported outcomes of pain, sleep and anxiety. The study will track patients use and symptoms over a 6 month period. Patients will complete a

battery of standardized questionnaires at baseline, week 6, 12, and 24 including the PROMIS Pain Interference, Pittsburgh Sleep Quality Index (PSQI), Numerical Rating Scale (NRS), Generalized Anxiety Disorder-7 scale (GAD-7), Patient Health Questionnaire-9 Scale (PHQ-9) and EuroQoL-5D.

The following table provides a summary of the current stage of clinical development for each indication that the company is targeting across its platform:




* Phase I studies not required for this product; Pending regulatory approval.

## Phyto-therapeutics – RHO Phyto Medical Cannabis Line of Products

Avicanna's advanced phyto-therapeutic cannabinoid products contain cannabis plant extracts designed for medical or homeopathic use and will be marketed using the Company's RHO Phyto™ brand. The legalization of cannabis for medical purposes in several countries allows for the production of certain phyto-therapeutic products, such as oil tinctures, creams, capsules and patches in various ratios of THC and CBD. The advanced line of products is expected to set the new standard for medical cannabis products. The formulations are designed for higher bioavailability, faster uptake and have followed Avicanna's pharmaceutical R&D process including stability, optimization and pre-clinical analysis. The products are also inhalation free and targeted towards sophisticated users through significant education and training plans the company has in place for the brand launches. To date, each jurisdiction has implemented separate and distinct regulatory environments

governing a path to commercializing this product line. We have summarized our path to commercialization in each market that the Company intends to target for 2020.



*Canadian Distribution*

In Canada, the RHO Phyto line will be launched exclusively on the Medical Cannabis by Shoppers Drug Mart platform in the third quarter of 2020. RHO Phyto will launch oral delivery forms, including sublingual sprays, oral drops and soft gel capsules, as well as topical creams and gels. RHO Phyto products vary over a range of cannabinoid ratios to provide health care practitioners with flexibility in treatment plans for patients.

Avicanna has partnered with MediPharm to be a non-exclusive manufacturer and supplier of its RHO Phyto line of products to Medical Cannabis by Shoppers. The Company will commence sales initiatives in the third quarter of 2020 in the Canadian marketplace through Medical Cannabis by Shoppers and MC-RWE Study channels.

Manufacturing and testing has been completed for the initial four SKU's, and the products are going through shelfing and commercialization at this time. The Company has commenced sales of the "Micro Drop" oil

formulations through the Medical Cannabis by Shoppers online portal. RHO Phyto sublingual sprays and topical products are expected to be available through the Medical Cannabis by Shoppers online platform in the third quarter of 2020, with capsules to follow in the fourth quarter.

*Colombian Distribution*

In Colombia, the Company intends to distribute its RHO Phyto line through a compound pharmacy model known as Formulaciones Magistrales ("FM"). Selling under this model will require that medical professionals prescribe RHO Phyto products for their patients. The prescription will be filled by the Company, on site, at Altea Farmaceutica S.A.S. Initially, the Company anticipated revenue from this model in the second quarter of 2020; however, given COVID-19, the Company has had to extend its launch date to later in 2020.

*United Kingdom Distribution*

In the United Kingdom ("UK"), the Company will be distributing its RHO Phyto line through Astral Health Ltd., the operating subsidiary of the LYPHE Group Ltd ("Lyphe Group"). Prior to launch, the Company will obtain all required regulatory approvals. The Company received initial purchase order during the quarter and is awaiting the necessary import and export approvals to commence distribution in the third quarter 2020 in the UK market.

## Derma-Cosmetics – Pura H&W Line of Products

Derma-cosmetics are products with a cosmetic purpose, generally topical in nature and designed to achieve a specific aesthetic objective. Avicanna's derma-cosmetic products, Pura H&W, contain CBD isolate and are formulated to maintain and improve the health and beauty of the skin. The Company is focused on high-end cosmetic formulations supported by research data to differentiate its product line from those of its competitors. Avicanna intends to market its derma-cosmetic products using its Pura H&W brand.

Avicanna has developed a line of derma-cosmetics that include beauty treatments, moisture and protection products, and specialized care. They are intended to be marketed under various product names, depending on the particular jurisdiction that may permit their sale. The Company has completed three clinical trials with CAIMED on its derma-cosmetic products evaluating their effectiveness on specific cosmetic endpoints.

The first clinical trial completed by Avicanna evaluated Pura H&W topical cream containing 0.5% cannabidiol and 1% hemp seed oil. The study achieved its primary endpoint of increased skin hydration in people with dry skin. Avicanna's second study evaluated its Pura H&W facial cream containing 0.5% cannabidiol and 0.1% hemp oil on skin hydration and characteristics associated with acne-prone skin. In total, 49 self-assessed oily or acne-prone healthy adults had enhanced hydration. Furthermore, a significant decrease in oily skin was evident in a subset of individuals with higher sebum production. Avicanna's third study evaluated the effect of its Pura H&W topical serum containing 1% cannabidiol and apple stem cells on skin characteristics associated with aging. A total of 48 participants were evaluated over a two-month period. The results indicate an enhanced skin hydration effect following application of the cream and after 2 months of use. Additional measures of wrinkle area and volume are currently being analyzed and will be reported at future medical conferences and journal publications. All the clinical trials were completed with no adverse effects requiring discontinuation or medical intervention were reported.

Commercial efforts for the Pura H&W line of products has commenced in the US, Canada and the UK. The Company expects to realize sales in both markets in the second half of 2020.

*United States Distribution*

In the third quarter of 2020, the Company signed an agreement with RWB. Under the terms of the agreement, RWB will be the exclusive supplier of the Company's Pura H&W line of products in the US. In return for exclusivity, Avicanna will receive CAD$250,000 as an upfront fee, and RWB must purchase a minimum of USD$250,000 worth of products within six months following execution of the agreement in addition to certain other minimum purchase requirements to maintain exclusivity to the products in the US. The Company received an initial purchase order from RWB during the third quarter of 2020. This deal will provide Avicanna with access to the world's largest cannabis market, and a national partner with a strong sales and distribution channel.

*United Kingdom E-Commerce Launch*

The Company anticipates launching the Pura H&W line of products in the fourth quarter of 2020 through its own online portal and third party distributors. This will provide the Company with a scaled launch in the United Kingdom. The Company will continue to scale its commercial efforts for the remainder of 2020.

*Intellectual Property*

As the Company continues to expand its research and development activities, the expectation is to grow its intellectual property (IP) portfolio through patent applications. To date, the Company has filed six patent applications.

| Description | Date of Filing | Status |
|---|---|---|
| Methods of cannabis cultivation | August 15, 2019 | Filed, awaiting examination |
| Oral cannabinoid compositions and methods for treating neuropathic pain | September 5, 2019 | Filed, awaiting examination |
| Topical cannabinoid compositions for clear skin | October 21, 2019 | Filed, awaiting examination |
| Topical skin care composition and methods for treating eczema | December 10, 2019 | Filed, awaiting examination |
| Topical cannabinoid compositions and methods for treating skin diseases | March 6, 2020 | Filed, awaiting examination |
| Nano-formulations of cannabinoids and methods for treating corona-virus induced lung inflammation | July 29, 2020 | Filed, awaiting examination |

In parallel to the patent protection of novel products and processes, the company also takes necessary steps to protect its trademarks. To date, the company has submitted 58 trademark applications in Canada, Colombia, the EU, Mexico, Argentina, Australia, South Africa, Japan and the US covering its logos, word marks and design marks.

## CULTIVATION ACTIVITIES

*Cultivation Capacity*

The Company's cultivation operations are located in Santa Marta, Colombia. The Company holds controlling interest in two entities, Sativa Nativa and SMGH, that are fully licensed to cultivate, process, extract and sell cannabinoid products and API.

In the second quarter of 2020, the Company's subsidiary, SMGH, continued its indoor, greenhouse and outdoor cultivation at full capacity. It focused on the production of CBD, CBG and THC biomass and seeds. SMGH currently operates cultivation facilities that include 340,000 square feet of shadehouse and outdoor space and 20,000 square feet of customized greenhouse space. SMGH was granted its USDA Organic certifications in the fourth quarter (2019), which the Company considers a key competitive advantage moving forward. The impact of COVID-19 on operations at SMGH was minimal. Local teams at SMGH quickly implemented measures during the pandemic to allow for an industrial scale seed production and processing which was successfully put together during the quarter.

Sativa Nativa currently operates cultivation facilities that include approximately 100,000 square feet of shadehouse and outdoor space and 20,000 square feet of customized greenhouse space. The following table breaks down the current cultivation capacity, by site, for each of Sativa Nativa and SMGH.

| | For the six months ending June 30, 2020 | For the three months ending March 31, 2020 |
|---|---|---|
| **SMGH** | | |
| Total square feet | 360,000 | 360,000 |
| *Shadehouse* | *190,000* | *190,000* |
| *Outdoor* | *150,000* | *150,000* |
| *Greenhouse* | *20,000* | *20,000* |
| Annual yield - KGs | 26,400 | 26,400 |
| Cost per gram – dried flower | $0.12 | $0.12 |
| Distillate Crystallization Efficiency | 80% | 80% |
| Extraction capacity – Dried Flower KGs per day | 300 | 300 |
| **Sativa Nativa** | | |

| | | |
|---|---|---|
| Total square feet | 120,000 | 120,000 |
| *Shadehouse* | *50,000* | *50,000* |
| *Outdoor* | *50,000* | *50,000* |
| *Greenhouse* | *20,000* | *20,000* |
| Annual yield - KGs | 4,500 | 4,500 |
| Cost per gram – dried flower | $0.11 | $0.11 |

*Avesta Genetica Program - Seeds*

In April 2020, through the Company's genetics and seed division, Avesta Genetica ("Avesta") located in SMGH completed the first known industrial scale seed harvest in Colombia. Approximately 80 million premium and feminized cannabigerol ("CBG") dominant seeds were harvested. The seeds have been tested for germination and attained feminization rates of 99%, which are considered premium in the global seed market. The seeds will be utilized for additional harvests and domestic and international sales.

In addition to having an inventory of approximately 80 million CBG seeds, the Company has approximately 9,500 kilograms of CBG-dominant biomass. During the quarter, the cultivation teams significantly reduced the costs per gram of dried flower from $0.12 per gram in the first quarter to $0.05 per gram by the end of the second quarter. Additional efficiencies were realized as the Company was able to obtain CBG biomass as a co-product of its seed harvest.

The cost efficiencies realized during the quarter were the product of few key initiatives during the quarter, namely:

- Facility upgrades: A supplementary light system was installed in all cultivation areas to reduce inefficiencies created by rotating vegetation. We were also able to increase yields (per square foot) and reduce direct labour from implementing these key upgrades.

- Genetic Program: The Avesta breeding program resulted in a high yield, CBG strain resulting in approxmately 200 grams per plant. These plants were grown outdoors which helped to reduce overall costs this quarter.

- Direct consumables: Avicanna's personnel were able to leverage in house expertise to reduce direct expenses related to pest control by developing proprietary methods. Costs were reduced as reliance on third party contractors were less than expected.

- Overheads: Key overhead costs including utilities, general and administrative and personnel costs were reduced, while not jeopardizing operations.

In May 2020, the Company was approved by the Colombian government for an export of hemp seeds to the US, which was Colombia's first ever export of cannabis or hemp seeds. This export was authorized with direct support from the Colombian ministries of Justice and Agriculture which considered this a key milestone for the industry and a key factor on Colombia economic landscape post COVID-19.

The Company is expecting to convert the CBG biomass to isolates for sales in the third and fourth quarter of 2020. The operational teams managed to establish exclusive extraction, distillation and crystallization standard operating procedures for CBG.

For the second half of 2020, SMGH and Sativa Nativa will base their production plan on rare cannabinoids such as CBG and THC resin and feminized seeds which have been approved by the Colombian National Narcotics Fund. Avicanna will continue to position itself as a pioneer in the production of rare cannabinoids to diversify its portfolio of raw materials and final products.

*Avesta Genetica Program - Genetics*

To date, a total of twenty nine (29) commercial genetics have been registered with the required Colombian authorities. This allows the Company to sell both domestically and internationally utilizing these genetics in its pure form, API, or as an ingredient in one of the Company's products.

During the second quarter Avesta continued with its R&D efforts to better understand the performance of the Company´s registered genetics in the different cultivation models to secure adaptability to different environments which is part of the source of the efficiencies generated on the agricultural industrial production cost.

Also, the team under the program is working on an specific phenotype detection and breeding plan towards working with native Sativas with short vegetative period in order to generate economies of scale in anticipation of future outdoor cultivation without using supplementing lighting, as we believe the foothills of Sierra Nevada de Santa Marta, Colombia is an almost ideal location for this cultivation scheme given the low relative humidity level which is aligned with the organic and sustainable while cost efficient approach the company has. This program will also allow the company to start working with third party farmers in the future with a proven agricultural package which is aligned with the development of the genetic program and seed production vertical.

## Impact and Outlook of COVID-19

During the second quarter of 2020, the impact of the global pandemic, COVID-19, continued to affect global commerce. During the quarter, the Company continued to focus on the following:

- Ensuring the safety and wellbeing of the Company's employees. Staff across the Company have been required to work from home to protect their health and safety. In Ontario, the Company began initial preparations for a return to the office under phase two.

- The Company continues to operate. In particular, its cultivation facilities in Santa Marta, Colombia have remained open and operations have been minimally impacted.

- JLABS @ Toronto is open and operating with limited personnel. During this time the Company preserved its capital by reducing non-essential operating expenditures, significant reduction in capital expenditures and directing resources towards commercial efforts.

- The Company continued to focus its efforts on commercial activities to ensure that its planned launches in Canada, the United Kingdom and United States remain on schedule.

As the Company has personnel in four different countries and it continues to monitor the pandemic in each respective market and implement strategies that will ensure the health and safety of its staff. To date, the

Company has been able to operate effectively while ensuring the health and safety of its staff. Commercial efforts, to date, have been minimally impacted as the Company continue to see commercial traction for its products during the pandemic. While there have been some delays with respect to certain commercial initiatives, the Company has been able to advance these efforts and any delays will be temporary in nature.

## RESULTS OF OPERATIONS

The following table sets forth consolidated statements of operations, which is expressed in Canadian dollars, except share and per share amounts, for the indicated periods.

| SELECTED OPERATIONAL INFORMATION *($CDN, except per share amounts; Unadudited)* | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 |
| | $ | | $ | |
| **Revenues** | **709,468** | **16,571** | **970,371** | 40,594 |
| Inventory production costs expensed to cost of sales | (133,481) | - | (234,288) | - |
| Gross margin before undernoted | 575,987 | 16,571 | 736,083 | 40,594 |
| Fair value changes in biological assets included in inventory sold | (540,884) | - | (569,552) | - |
| Unrealized gains/(loss) on changes in FV of Bio assets | (88,849) | - | 1,827,271 | - |
| **Gross Margin** | **53,746** | **16,571** | **(1,993,802)** | 40,594 |
| General and administrative | 2,924,462 | 4,243,276 | 6,110,405 | 6,930,482 |
| Share-based compensation | 1,277,770 | 674,929 | 1,615,962 | 1,719,568 |
| Depreciation and amortization | 330,685 | 128,822 | 839,828 | 185,117 |
| **Total Expenses** | **(4,532,917)** | **(5,047,027)** | **(8,566,195)** | (8,835,167) |
| **Impairment of goodwill** | (686,845) | - | (686,845) | - |
| **Other income (loss)** | (2,372,674) | 522,257 | (2,496,480) | 400,898 |
| **Net loss before taxes** | **(7,646,182)** | **(4,508,199)** | **(9,755,718)** | (8,393,675) |
| Deferred tax recovery | - | - | - | - |
| **Net loss after taxes** | **(7,646,182)** | **(4,508,199)** | **(9,755,718)** | (8,393,675) |

| | | | | |
|---|---|---|---|---|
| **Exchange differences** | **1,322,983** | **(672,317)** | **(1,870,105)** | **(704,855)** |
| | **(8,969,165)** | **(5,180,516)** | **(11,625,823)** | **(9,098,530)** |
| Weighted average number of Common Shares outstanding – basic and diluted | 24,889,167 | 18,139,300 | 24,345,387 | 16,825,405 |
| **Loss per share – basic and diluted** | (0.36) | (0.25) | (0.48) | (0.49) |

| SELECTED OPERATIONAL INFORMATION *($CDN, except per share amounts; Unadudited)* | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 |
| | $ | | $ | |
| **Revenues** | **709,468** | **16,571** | **970,371** | 40,594 |
| Inventory production costs expensed to cost of sales | (133,481) | - | (234,288) | - |
| Gross margin before undernoted | 575,987 | 16,571 | 736,083 | 40,594 |
| Fair value changes in biological assets included in inventory sold | (540,884) | - | (569,552) | - |
| Unrealized gains/(loss) on changes in FV of Bio assets | (88,849) | - | 1,827,271 | - |
| **Gross Margin** | **53,746** | **16,571** | **(1,993,802)** | 40,594 |
| General and administrative | 2,924,462 | 4,243,276 | 6,110,405 | 6,930,482 |
| Share-based compensation | 1,277,770 | 674,929 | 1,615,962 | 1,719,568 |
| Depreciation and amortization | 330,685 | 128,822 | 839,828 | 185,117 |
| Impairment of goodwill | 686,845 | - | 686,845 | - |
| **Total Expenses** | **(5,219,762)** | **(5,047,027)** | **(9,253,040)** | (8,835,167) |
| **Other income (loss)** | (2,372,674) | 522,257 | (2,496,480) | 400,898 |
| **Net loss before taxes** | **(7,646,182)** | **(4,508,199)** | **(9,755,718)** | (8,393,675) |
| Deferred tax recovery | - | - | - | - |
| **Net loss after taxes** | **(7,646,182)** | **(4,508,199)** | **(9,755,718)** | (8,393,675) |
| **Exchange differences** | **1,322,983** | **(672,317)** | **(1,870,105)** | **(704,855)** |
| | **(8,969,165)** | **(5,180,516)** | **(11,625,823)** | **(9,098,530)** |

| | | | | |
|---|---|---|---|---|
| Weighted average number of Common Shares outstanding – basic and diluted | 24,889,167 | 18,139,300 | 24,345,387 | 16,825,405 |
| **Loss per share – basic and diluted** | (0.36) | (0.25) | (0.48) | (0.49) |

## REVENUE

Revenue for the six months ended June 30, 2020 was $970,371compared to $40,594 for the six months ended June 30, 2019.

| REVENUE BREAKDOWN | 3 months ending June 30, 2020 | 3 months ending March 31, 2020 | 3 months ending December 31, 2019 | 3 months ending September 30, 2019 | Total |
|---|---|---|---|---|---|
| Assessment and commissions | 5,268 | 5,464 | 3,858 | 4,943 | 19,533 |
| Pura HW | 5,753 | - | 58,822 | - | 64,575 |
| Royalties and license fees | 86,838 | 153,699 | - | - | 240,537 |
| Aureus - API | 611,608 | 101,740 | 60,033 | - | 773,381 |
| Totals | 709,468 | 260,903 | 122,713 | 4,943 | 1,098,026 |
| % Increase (decrease) | 172% | 112% | 2,383% | - | |

The Company saw a substantial increase in its revenue for the six months ended June 30, 2020, compared to the six month period ended June 30, 2019. For the same period in 2019, the Company had one revenue stream, its service revenue. In 2020, for the same period, the Company had several revenue streams. In particular, the Company saw an increase in its cultivation business for the six month period ended June 30, 2020, when compared to the same period in 2019. This revenue stream was the primary driver of its sales in 2020.

## EXPENSES

The following table represents a detailed breakdown of the general and administrative expenses:

| *($CDN; Unaudited)* | For the Six Months Ended June 30 | |
|---|---|---|
| | 2020 | 2019 |
| **General and administrative** | 1,752,932 | 2,135,286 |
| **Selling, marketing and promotion** | 122,622 | 225,674 |
| **Consulting fees** | 659,007 | 1,058,268 |

| | | |
|---|---|---|
| Professional fees | 826,670 | 880,227 |
| Salaries and wages | 2,587,467 | 2,294,139 |
| Research and development | 104,707 | 311,305 |
| Board fees | 57,000 | 25,583 |
| Total | 6,110,405 | 6,930,482 |

### General and Administrative Expenses

For the quarter and period ended June 30, 2020 the Company incurred general and administrative expenses of $1,105,165. When compared to the same quarter and period from the prior year the Company incurred $1,252,276 of general and administrative expenses. The Company continued to reduce its general and administrative expenses over the second quarter of 2020 in order to preserve cash and focus on commercial activities.

### Selling, Marketing and Promotion

For the quarter ended June 30, 2020 the Company incurred selling, marketing and promotion expenses totaling $92,496 compared to $124,161 for the same quarter and period from prior year. The Company continued to reduce expenditures in the current quarter as general cost reduction strategies, and due to COVID-19 the Company reduced its expenses accordingly. In addition, the Company reduced marketing spend during the quarter in light of impending launches in the third quarter of 2020.

### Consulting Fees

For the quarter ended June 30, 2020 the Company incurred consulting expenses totaling $393,120 compared to $812,174 in the prior year. When compared to the same period from prior year, the decrease in consulting fees, for the quarter can be directly attributable a reduction in consultant services as part of the Company's efforts to preserve cash. Furthermore, the company engaged in additional consulting services during the same period last year due to the listing of the Company's common shares on the Toronto Stock Exchange (the "TSX").

### Professional Fees

For the three months ended June 30, 2020 the Company incurred professional fees of $164,318 compared to $479,105 in the prior period. This decrease is a result of a reduced need for external professional services as the Company focused their efforts on commercialization. Furthermore, the company engaged in additional consulting services during the same period last year due to the listing of the Company's common shares on the Toronto Stock Exchange (the "TSX").

### Salaries and Wages

For the three months ended June 30, 2020 the Company incurred salaries and wages of $1,079,964, compared to $1,363,437 for the same period last year. This decrease is a result of the Company's reduced head count in the current quarter. The Company made an active choice to reduce its costs, including head count and focus its resources on commercial and revenue-generating activies.

### Research and Development

Research and development activities were slowed during the first quarter of 2020 due to the COVID-19 pandemic. Since then, certain research and development activities have resumed as of the second quarter of 2020. However, laboratory activities have not fully returned to their full capacity and thus research and development expenses are lower as compared to the prior year.

### Other Items

For the three months ended June 30, 2020 the Company incurred other items totaled $(2,372,674), compared to $(64,754) in the prior year. The other items are made up of (i) foreign exchange gains and losses; (ii) gains on revaluation of derivative liabilities and assets; and, (iii) interest expense and interest income.

### Adjusted EBITDA

Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) is not a recognized performance measure under IFRS. The term EBITDA consists of net income (loss) and excludes interest (financing costs), taxes, depreciation and amortization. Adjusted EBITDA also excludes share-based compensation, IPO related costs, impairment of assets and adjustments for fair valuing of biological assets. Adjusted EBITDA is included as a supplemental disclosure because Management believes that such measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are nonrecurring. The most directly comparable measure to Adjusted EBITDA calculated in accordance with IFRS is net income (loss). The following is a reconciliation of the Company's net income (loss) to Adjusted EBITDA.

| ADJUSTED EBITDA | For the Six Months Ended June 30 | |
|---|---|---|
| *($CDN, except share amounts; Unaudited)* | 2020 | 2019 |
| | $ | $ |
| **Net Loss** | **(9,755,718)** | **(9,098,530)** |
| Amortization | 839,828 | 185,117 |
| Net interest income | 93,928 | 8,768 |
| **EBITDA** | **(8,821,962)** | **(8,904,645)** |
| Share based compensation | 1,615,962 | 1,719,568 |
| Fair value of biological assets | (1,827,271) | (457,503) |
| Revaluation of derivative liability | (22,609) | (13,303) |
| Revaluation of derivative asset | 2,279,426 | - |
| Other income (expenses) | 71,434 | - |
| **Adjusted EBITDA** | **(6,705,020)** | **(7,655,883)** |

## REVIEW OF FINANCIAL POSITION

The following table provides a summary of the financial position of the Company as at June 30, 2020 and December 31, 2019.

| SELECTED FINANCIAL INFORMATION | As at June 30, 2020 | As at December 31, 2019 |
|---|---|---|
| **Assets** | $ | $ |
| Cash | 81,697 | 441,757 |
| Amounts receivable | 1,428,490 | 1,202,924 |
| Prepaid assets | 930,962 | 704,632 |
| Biological assets | 31,285 | 117,367 |
| Inventory | 3,926,691 | 1,484,371 |
| Right to use asset | 441,581 | 539,710 |
| Property and equipment | 20,990,033 | 22,622,322 |
| Intangible assets | 10,686,561 | 11,063,900 |
| Derivative asset | 1,500,574 | 3,780,000 |
| Investments | 72 | 72 |
| Goodwill | 2,520,382 | 3,207,227 |
| **Total Assets** | 42,538,328 | **45,164,282** |
| **Liabilities and Equity** | | |
| Amounts payable | 6,335,553 | 5,177,634 |
| Due to related party | 2,249,862 | 3,319,116 |
| Convertible debentures | 742,810 | 715,626 |
| Derivative liability | 825 | 23,434 |
| Lease liability | 464,691 | 555,339 |
| Term loan | - | - |
| Deferred revenue | 3,228,592 | 3,323,518 |
| Deferred tax liability | 2,173,834 | 2,173,834 |
| **Total Liabilities** | 15,196,167 | **15,288,501** |
| **Shareholder's equity** | 27,342,161 | **29,875,781** |
| **Total Liabilities and Shareholder's Equity** | 42,538,328 | **45,164,282** |

### Assets

Total assets decreased slightly to approximately $42.5 million as at June 30, 2020 from approximately $45.1 million as at December 31, 2019.

Cash decreased by approximately $0.3 million from December 31, 2019. The main drivers of this decrease were the use of the funds raised in the quarter for commercial activities, working capital, and the purchase of capital assets of $1.1 million.

Prepaid assets increased by approximately $0.2 million. The Company made several large advances to contractors for the construction of its cultivation facilities at Sativa Nativa and SMGH. In addition, the Company has made several advances for research and development activities.

The Company recognized both inventory and biological assets as at June 30, 2020. The increase from December 31, 2019 approximated $2.4 million. The main driver for this increase was the significant yield of seeds the Company realized., which were harvested during the first part of 2020.

The right to use asset was recognized in the third quarter of 2019 in accordance with IFRS 16 as the Company entered into its first multi-year lease in April 2019.

Property, plant and equipment remained consistent from December 31, 2019 to June 30, 2020 with the exception of a $1.1 million purchase (see Note 6). The Company completed the majority its capital expenditures in fiscal 2019.

### Liabilities

Liabilities remained relatively consistent from December 31, 2019 to June 30, 2020. No significant, additional liabilities were incurred and working capital remained consistent from each period.

### *Shareholders' Equity*

Total Shareholders' Equity remained relatively consistent from December 31, 2019 to June 30, 2020. While the Company raised an additional $4.6M during the quarter, this was partially offset by the losses incurred during the period.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows for quarter ended March 31, 2020 and quarter ended December 31, 2019

*Cash from Operating Activities*

During the quarter the Company had a cash deficit from operating activities that totaled approximately $(5.5) million. Much of the operating cash was utilized for working capital purposes. The Company's working capital had minimal changes from the same period last year.

*Cash used in Investing Activities*

During the six month period the Company purchased $1.1M in capital assets. These assets were purchased primarily for SMGH and Sativa Nativa.

*Cash from Financing Activities*

During the quarter the Company generated $6.3 million from financing activities. The Company raised approximately $4.6 million in an equity issuance during the quarter which accounted for the majority of the cash.

## SUMMARY OF QUARTERLY RESULTS

The following provides a summary of the quarterly results:

| | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenues | 709,468 | 260,903 | 122,715 | 4,943 | 16,571 | 24,023 | 24,142 | 35,166 |
| Net comprehensive loss | (8,969,165 | (2,656,658) | (7,345,054) | (7,194,831) | (5,180,516) | (3,918,014) | (3,475,698) | (2,021,518) |
| Loss per share | (0.36) | (0.12) | (0.33) | (0.33) | (0.25) | (0.25) | (0.27) | (0.14) |

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than those described under commitments and contingencies above.

## RELATED PARTY BALANCES AND TRANSACTIONS

Compensation expense for Avicanna's key management personnel for the six months ending June 30, 2020 and December 31, 2019 were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Salaries and benefits | $ 343,325 | $ 1,292,089 |
| Share-based compensation | 215,056 | 302,332 |
| Total | $ 558,381 | $ 1,594,421 |

Additionally, as at June 30, 2020, the Company received advances from certain related parties who represent the minority shareholders of SMGH in the amount of $998,560. The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free and due on demand.

## CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares in the capital of the Company which may be issued in series. As of June 30, 2020, 26,387,444 common shares were issued and outstanding as fully paid and non-assessable and no preferred shares had been issued. As of June 30, 2020, the Company also had the following securities, convertible into common shares, outstanding: (i) 1,934,501 stock options, (ii) 2,793,142 common share purchase warrants, (iii) ●restricted share units, (iv) $783,000 principal amount convertible debentures (the principal of which is convertible into 97,875 common shares) and (v) 147,380 compensation warrants (each convertible into one common share and one-half of one common share purchase warrant).

## USE OF FUNDS RECONCILIATION

In connection with the listing of the common shares on the TSX, the Company filed a long-form prospectus on July 8, 2019 which detailed the Company's intended use of the $15,647,702 available to the Company at that time. The following table sets forth a comparison of the disclosure regarding the Company's estimated use of funds set out in such prospectus, which may be viewed on the Company's SEDAR profile at www.sedar.com and any variances in such estimates:

| Principal Purpose | Original Estimate ($) | Revised Estimate ($) | Variance ($) |
|---|---|---|---|
| Completion of construction of cultivation infrastructure in Colombia | 4,478,063 | 4,478,063 | - |
| Initial product orders for derma-cosmetic distribution | 91,649 | 779,000 | 687,351 |
| Initial product orders for phyto-therapeutic and pharmaceutical testing | 365,500 | 577,000 | 211,500 |
| General and administrative expenses | 7,568,114 | 9,568,114 | 2,000,000 |
| Obligations under R&D agreements | 1,455,135 | 3,241,357 | 1,786,222 |
| Marketing activities | 1,038,180 | 2,038,180 | 1,000,000 |

The Company manufactured more derma cosmetic products than originally anticipated. As the Company did its official launch in October 2019, we produced additional products to ensure sufficient inventory was on hand for re-ordering. Additional funds were expended on producing test batches for quality assurance.

In January 2020 the Company signed an agreement with Medical Cannabis by Shoppers to be the exclusive distributor of its RHO Phyto and Pura HW line of products in Canada on its Medical Cannabis by Shoppers portal. This requires an increase to the original estimate, as more initial production and testing will be required for the agreement.

The increase in anticipated general and administrative expenses is the result of higher than expected personnel hires. Leading up to our commercial launches and sales initiatives additional sales, marketing, regulatory and business development personnel were hired. In addition, the Company had higher than expected spending on travel, IT, and professional fees which were directly related to the Company’s commercial ramp ups.

Obligations under research and development agreements increased during the quarter as the Company increased the scope and terms of the research agreement with CARG at the University of Toronto Faculty of Pharmacy. In addition, the budget for its clinical trials with SickKids increased as well, and it signed new research agreements with the University of Guelph. In addition, the Company allocated funds to conducting clinical trials for its derma cosmetic line.

Anticipated marketing expenses increased significantly from the last quarter given the Company's impending launch of its RHO Phyto line in Canada. In addition, the Company is expecting to enter the US and UK markets in 2020.

The Company does not expect the above noted variances to have a material impact on its ability to meet its previously disclosed business objectives and milestones.

## CRITICAL ACCOUNTING ESTIMATES

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 judgements, estimates and assumptions applied in the Interim Financial Statements, including the key sources of estimation uncertainty, were the same as those applied in the Company's last annual financial statements for the year ended 31 December 2019.

### Financial Instruments and Risk Management

*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.

*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 |
|---|---|---|---|---|---|
| Amounts payable | $ 6,335,553 | $ 6,335,553 | $ 6,335,553 | $ - | $ - |
| Lease liability | 464,691 | 464,691 | 224,950 | 224,950 | 14,791 |
| Convertible Debentures | 742,810 | 742,810 | 742,810 | - | - |
| | 7,543,054 | 7,543,054 | 7,303,313 | 224,950 | 14,791 |

*Market risk*

Market risk is the risk that the fair value of 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.

I. 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.

II. 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 risk as it does not have any borrowings subject to a variable interest rate.

III. 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 (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. The Company is not exposed to other price risks as at December 31, 2019 and December 31, 2018.

Fair values

The carrying values of cash and cash equivalents, marketable securities, trade and other receivables, trade and other payables and funds held for investment 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. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the 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. 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 three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs which are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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.

Cash and cash equivalents and marketable securities are classified as Level 1 financial instruments. Trade and other receivables, trade and other payables and fund held for investment are classified as Level 2 financial instruments. During the year, there were no transfers of amounts between Level 1 and Level 2.

## RISK FACTORS

Due to the nature of the Company's business, the legal and economic climate in which it operates and its present stage of development, the Company is subject to significant risks. Additional risks and uncertainties not presently known to management or that management currently considers immaterial may also impair the business and operations.

Factors that could cause actual results to differ materially from those set forth in forward-looking information include, but are not limited to: financial risks; inflationary risks; foreign exchange risks; international taxation risks; the Company's ability to obtain or maintain insurance at reasonable rates; product development, facility and technological risks; agricultural risks; changes to applicable laws or regulations; developing market risks; ability to obtain or maintain licenses or certifications; product recall and product liability risks; import, export and transportation risks; expected number of medical cannabis users and the willingness of physicians to prescribe medical cannabis to patients in the markets in which the Company operates; ability to access financing on commercially attractive terms.

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise

from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

For a discussion of the risks faced by the Company, please refer to the Company's long form prospectus dated July 8, 2019, available under the Company's profile on SEDAR, at www.sedar.com.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS

The information provided in this report, including the information derived from the Financial Statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 - Certificate of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), Form 52-109F2 – IPO/RTO does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The CEO and CFO of the Company are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of the Company to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52- 109 in the first financial period following the Company becoming a non-venture issuer in the circumstances described in s. 5.5 of NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

During the twelve-month period ended December 31, 2019, no changes were made in the Company's design of internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## FURTHER INFORMATION

Additional information regarding the Company, including the Financial Statements, is available at www.avicanna.com or through the Company's profile on SEDAR at www.sedar.com.