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 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 the Company 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 is presented as of the date of the long form final prospectus dated July 8, 2019 ("Prospectus") and is current to that date unless otherwise stated. The MD&A should be read in conjunction with the Company's consolidated audited financial statements for the years ended December 31, 2018 and December 31, 2017 and the accompanying notes thereto and the auditor's report thereon (collectively, "Financial Statements"). 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 ("IASB").

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 July 8, 2019.

BUSINESS OVERVIEW AND CORPORATE STRUCTURE

Avicanna was incorporated under the *Business Corporations Act* (Ontario) on November 25, 2016.

We are an emerging biopharmaceutical company engaged in the research, development and commercialization of novel cannabinoid-based health, wellness, and medical products. We focus on plant-derived cannabinoid pharmaceuticals, therapeutics, derma-cosmetics, and active ingredients.

We aim to establish Avicanna as a global leader through our product discovery and development processes, our intellectual property portfolio, our supply chain controls, our strategic relationships, and our regulatory and scientific expertise.

Headquartered in the Johnson & Johnson Innovation centre, JLABS @ Toronto, Canada our scientific development team leverages the facilities to develop products that are validated with the active cannabinoid ingredients by researchers at the Leslie Dan Faculty of Pharmacy at The University of Toronto ("U of T Faculty of Pharmacy"). We further improve upon our products using the data received from our clinical research partners at University Health Network and U of T Faculty of Pharmacy before placing them into clinical trials.

Our network of academic and research institutions continues to grow, which further strengthens our reputation as a company that develops products based on sound scientific principles.

In November 2018, we signed contracts with The Hospital for Sick Children in Toronto, Canada ("SickKids") and The University of West Indies ("UWI") to perform clinical studies on humans for Avicanna's pharmaceutical products. These studies are anticipated to provide valuable data for at least two of Avicanna's pharmaceutical products and may provide a basis for applications for drug approvals.

During 2018, we acquired control of two subsidiaries located in Santa Marta, Colombia that are expected to use their federal authorizations to cultivate and process medical cannabis to produce active ingredients – whole plant extracts, as well as purified or isolated forms of cannabidiol ("CBD") and tetrahydrocannabinol ("THC"). We intend to use the active ingredients in our products, to greatly reduce the cost of production, as well as to increase revenues.

We are growing our network of strategic relationships with best-in-class institutions located around the world. These strategic partners assist Avicanna in achieving its business objectives ranging from high quality cultivation and manufacturing to world class scientific research and development to market leading distribution and sales.

The cannabis industry and market are relatively new in the jurisdictions in which the Corporation operates, and this industry and market may not continue to exist or grow as anticipated or Avicanna may ultimately be unable to succeed in this new industry and market. Within Colombia, the Corporation intends to sell and market its proprietary medical and cosmetic cannabinoid-based products. To this extent the Corporation needs to build brand awareness in this industry and in the markets it operates in through significant investments in its strategy, its licensed producers production capacity, quality assurance, and compliance with regulations.

SELECTED FINANCIAL INFORMATION

Years ended December 31, 2018 and December 31, 2017

The following table sets forth a summary financial information for the Company for the years ended December 31, 2018 and 2017. The selected financial information set out below may not be indicative of the Company's future performance.

	Twelve months ended December 31, 2018	**Twelve months ended December 31, 2017**
	$	**$**
Revenues	117,971	26,661
General and administrative	1,504,499	481,804
Consulting fees	1,198,855	1,281,819
Professional fees	1,915,725	544,986
Salaries and wages	1,543,325	52,064
Research and development	456,622	23,678
Selling, marketing and promotion	248,731	43,922
Share-based compensation	1,401,320	120,634
Write off of biological assets	122,284	-
Amortization	172,705	63,243
Total expenses	(8,564,066)	(2,612,150)
Foreign exchange gain (loss)	(136,501)	(3,216)
Gain on acquisition	1,129,976	-
Loss attributed to equity accounted investee	(27,607)	(12,317)
Other income	180,475	
Interest income	10,355	1,453
Net loss	(7,289,397)	(2,599,569)
Exchange differences on translating foreign operations	(188,771)	-
Net comprehensive loss	(7,478,168)	(2,599,569)
Net loss per share, basic and diluted	(0.55)	(0.29)
Weighted average number of Common Shares outstanding – basic and diluted	13,587,925	9,017,231

Revenue

Revenue for the year ended December 31, 2018 was $117,971, compared to $26,661 in the prior year. The increase in revenue is due to a full year of operations being included in the calculation of revenues from My Cannabis as the Company acquired My Cannabis on June 1, 2017 and an overall growth in customers which drove commission and assessment revenues.

Expenses

Expenses increased for the year ended December 31, 2018, compared to the same period in 2017. The increase was driven by the following items:

- Several management team members were transitioned to full time in the first quarter of 2018, leading to increased salary and wage cost through 2018 compared to the prior year. Furthermore, the Company added additional team members in the third quarter of 2018 for key scientific and business initiatives;

- Professional fees increased due to the transactions in Colombia, general corporate matters and increased activity related to the Company's going public efforts;

- With the incorporation of Avicanna LATAM S.A.S. ("LATAM") in Colombia, a new, wholly owned subsidiary of the Company, several key consultants were added to assist with the construction of the Santa Marta Golden Hemp S.A.S ("SMGH") and Sativa Nativa S.A.S ("Sativa Nativa") facilities. These consultants included, but were not limited to, agricultural engineers, architectural and construction support and general business support staff accounting for the increase in consulting costs;

- Research and development costs increased for the current period. The Company entered into key partnerships in 2018 which increased costs compared to costs incurred in 2017. In addition, the Company's internal research and development activities increased substantially in 2018, which included the purchase of supplies and tools;

- With the acquisition of Sativa Nativa and SMGH, operational expenses in Colombia were included in the year ended December 31, 2018, whereas for the same period in 2017 results from Sativa Nativa, SMGH, and LATAM were excluded; and

- Travel expenses increased given our operations in Colombia and business development efforts in certain key geographical areas in South America.

Other Items

The gain on acquisition represents the gain realized on the adjustment to the fair market values of the assets acquired from Sativa Nativa. The fair market values of Sativa Nativa's land and the cultivation and extraction license were appraised at values that were higher than the book values. Non-controlling interest represents the proportionate share of Sativa Nativa's minority interest shareholders. As the Company did not have an interest in Sativa Nativa for the year ended 2017 nothing was recorded during fiscal 2017. The Company conducts business in US dollars, Canadian Dollars and Colombian Pesos. Gains and losses arise from time to time as a result of foreign currency exchange transactions conducted in the ordinary course of the Company's business.

REVIEW OF FINANCIAL POSITION AS AT DECEMBER 31, 2018 AND DECEMBER 31, 2017

The following provides a summary of the financial position of the Company as at December 31, 2018 and December 31, 2017.

	As at December 31, 2018 $	As at December 31, 2017 $
Assets		
Cash	69,295	1,176,546
Market Securities	-	10,000
Trade and other receivables	258,608	75,337
Prepaid assets	863,624	45,381
Intangible assets	10,733,266	129,550
Interest in equity accounted investee	-	144,875
Due from related parties	-	74,888
Investments	72	-
Property and equipment	16,256,136	460,893
Total assets	**28,181,001**	**2,117,470**
Liabilities and equity		
Amounts payable	1,455,565	547,903
Shareholder advance	331,320	-
Advance subscription	-	728,500
Term loan	14,441	-
Total liabilities	1,801,326	1,276,403
Shareholder's equity	26,379,675	841,067
Total liabilities and shareholder's equity	**28,181,001**	**2,117,470**

Total Assets

Total assets as at December 31, 2018 were $28.18 million, compared to $2.12 million as at December 31, 2017. The increase in total assets between December 31, 2017 and December 31, 2018 was due to the following:

- Property and equipment increased by $15,795,243 from December 31, 2017 due to the development of Sativa Nativa's and SMGH's cultivation facilities, which resulted in adding certain equipment for research and development activities, and the acquisition of land from the acquisition of SMGH;

- In particular, the following summarizes the funds expended on the construction of the cultivation facilities as at December 31, 2018:

	As at December 31, 2018	As at December 31, 2017
Total expended	5,121,490	Nil

  - The Company plans to expand the Sativa Nativa facility to a total of 100,000 square feet of outdoor shadehouse space and 20,000 square feet of indoor greenhouse space at Sativa Nativa; and

  - The Company plans to expand the SMGH facility to a total of 270,000 square feet of outdoor shadehouse space and 20,000 square feet of indoor greenhouse space at Sativa Nativa.

- Intangible assets increased during fiscal 2018 by $10,603,716 from December 31, 2017. The main reason for the increase was due to the fair valuing of the licenses obtained by the Company upon acquisition of majority ownership in Sativa Nativa and SMGH; and

- Prepaid assets increased during fiscal 2018 by $818,243 from December 31, 2017 due to the prepayment of services to contractors for the development of the Sativa Nativa's and SMGH's cultivation site.

Total Liabilities

Total liabilities as at December 31, 2018 were $1,801,326 compared to $1,276,403 as at December 31, 2017. The difference is due to the following:

- Accounts payable increased significantly at December 31, 2018 due to accruals made for professional fees related to legal and accounting fees;

- The term loan for Sativa Nativa relates to a vehicle that was purchased (and financed) in the second quarter of 2018; and

- During the year a minority shareholder of the Company advanced the Company $331,320 to help finance construction activities.

Shareholder's Equity

While the deficit from operations increased for the year ended December 31, 2018 compared to the year ended December 31, 2017, the Company raised approximately $10.6 million in share subscriptions for the year ended December 31, 2018. In addition, approximately $662,775 in gross proceeds was raised through the exercise of options and warrants during the year ended December 31, 2018. These share subscriptions and warrant and option proceeds accounted for the major increase in equity during fiscal 2018 over the prior fiscal year.

SUMMARY OF QUARTERLY RESULTS

The following provides a summary of the quarterly results for the 3 months ending March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018.

	For the 3 months ending December 31, 2018 $	For the 3 months ending September 30, 2018 $	For the 3 months ending June 30, 2018 $	For the 3 months ending March 31, 2018 $
Revenues	24,142	35,166	25,156	33,507
General and administrative expenses	2,591,012	1,574,201	1,241,367	1,212,446
Selling, marketing and promotion	85,701	76,649	48,216	38,165
Share-based compensation	729,819	370,808	203,051	97,642
Write off of biological assets	122,284	-	-	-
Depreciation and amortization	55,942	45,650	38,115	32,998
Total expenses	(3,584,758)	(2,067,308)	(1,530,749)	(1,381,251)
Foreign exchange gain (loss)	39,786	(108,982)	(95,574)	28,269
Gain on acquisition of previously equity accounted investee	-	-	-	1,129,976
Loss from equity accounted investee	-	-	-	(27,607)
Other income	180,475	-	-	-
Interest income	38	516	3,852	5,949
Exchange differences on translating foreign operations	(135,381)	119,090	(159,368)	(13,112)
Net comprehensive loss	(3,475,698)	(2,021,518)	(1,756,683)	(224,269)
Loss per share – basic and dilutive	(0.25)	(0.15)	(0.13)	(0.02)
Weighted average number of common shares – basic	13,587,925	13,666,351	13,288,211	11,268,271

The increase in expenses over the last 4 quarters was as the result of growing operations, in particular from the 3 month period ending September 30, 2018 to the 3 month period ending December 31, 2018. During this period the Company added additional resources and incurred increased professional/consulting fees related to its go public transaction.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows for the year ended December 31, 2018 and December 31, 2017

Cash from Operating Activities

For the period ended December 31, 2018 the Company generated a cash flow deficit from operations of $(4,990,786). Higher expenditures during this period resulted in the deficit.

Cash used in Investing Activities

For the period ended December 31, 2018, cash flows used in investing activities was $(7,040,419). The cash flow deficit is due to expenditures related to capital asset purchases and cash advanced to SMGH and Sativa Nativa prior to acquistion. The majority of the capital purchases relate to the construction of the cultivation facility.

There are currently two major projects that the Company is in the process of completing. The Company is constructing two cultivation facilities at the sites of SMGH and Sativa Nativa in Santa Marta, Colombia. Once the initial phase of construction is complete the Company will have approximately 120,000 square feet of indoor and outdoor greenhouse space at Sativa Nativa and approximately 270,000 square feet of indoor and outdoor greenhouse space at SMGH. The following breaks down the total expended to date and estimated funds remaining to complete the initial phase. The Company is anticipating the initial phase to be completed in the third quarter of 2019 and extraction to commence at that point.

		Expended to Date (as at December 31, 2018)		Remaining to Complete Initial Phase
Purchases made in connection with cultivation facilities	$	5,012,228	$	2,749,675

Based on the above, the Company is estimated to spend a total of $7,761,903 on the cultivation facilities. Once the initial phase is complete we commence extraction activities, which is anticipated in the third quarter of 2019.

In addition to the cultivation facilities, the Company is engaged in substantial research and development activities. The following summarizes amounts expended on commitments to key research partners to date and estimated amounts remaining over the next 12 months.

		Expended to Date (as at December 31, 2018)		Remaining spend – next 12 months as of December 31, 2018
Amounts expended for R&D partnerships	$	358,204	$	523,414

Based on the above the Company is expected to spend approximately $881,618 in total on its research and development commitments through its research partnerships over the next 12 months.

Cash from Financing Activities

Cash generated from financing activities totalled $10,923,954 for the year ended December 31, 2018. The increase in cash generated from financing activities was the result of the Company closing two rounds of equity offering and recognizing gross proceeds of approximately $9.8 million.

Liquidity and Capital Resources

The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations and capital expenditures. As at December 31, 2018, the Company had working capital deficit of approximately $(595,358), with current assets of approximately $1.2 million and current liabilities of approximately $1.79 million. The Company is not planning to commence commercial activities until fiscal 2019; therefore, in the interim period, the Company will not require significant working capital for inventory. As the Company continues to grow at a rapid pace, it requires funding for ongoing working capital, and to fund the capital projects underway in its subsidiaries. This funding need will continue to increase in the interim period. As such, the Company plans to raise additional funds by selling equity, and potentially liquidating some of its assets.

The anticipated cash required over the next 12 months includes the following:

Capital expenditures related to the construction of the cultivation facilities	$	2,749,675
Working capital requirements for tech transfers		299,500
General and administrative expenses		5,865,598
Total working capital and capital required		8,914,773

As noted above the Company will need to fund its activities over the next 12 months by raising additional capital for future plans. On April 15, 2019 the Company successfully completed the second tranche of a special warrant offering whereby the Company issued 2,228,328 Special Warrants at $8.00 each for aggregate gross proceeds of $17,826,624. The Company anticipates that this funding will allow it to operate for a 18 month period, prior to having to raise any additional funds.

COMMITMENTS AND CONTINGENCIES

Commitments

The Company has rental leases and other agreements for select research activities for which as at December 31, 2018 the Company is committed to pay the following amounts:

2019	$	546,775
2020		343,689
2021		238,689
2022		179,017
	$	1,308,170

In order to fund the above commitments and contingencies the Company plans to raise additional capital through equity issuances and potentially selling a stake in its assets. The Company currently has research agreements in place that will require funding per the terms of the agreements. This will require payments to commence in early 2019.

Contingencies

In the ordinary course of business and from time to time, Avicanna is involved in various claims related to operations, rights, commercial, employment or other matters. Although such matters cannot be predicted with certainty, management does not consider Avicanna's exposure to these claims to be material to these financial statements. As at December 31, 2018 and December 31, 2017 to the Company's knowledge, there were no claims against Avicanna.

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 year ended December 31, 2018 and year ended December 31, 2017 is as follows:

	As at December 31, 2018 ($)	**As at December 31, 2017 ($)**
Salaries and benefits	671,433	362,281
Share-based compensation	34,000	85,000

Certain management personnel were compensated in shares for services rendered to the Company. As such, certain personnel accepted shares as compensation for their services in fiscal 2017 and fiscal 2018. Shares were issued at the fair market value at the time the services were rendered and invoiced to the Company. These arrangements were made with Mr. Aras Azadian, Mr. Setu Purohit and Mr. Arash Moghani. The final payment was made in February 2018 and no further payments or commitments are outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

[i] Useful lives and impairment of property and equipment

Depreciation of property, plant and equipment is dependent upon management's estimate of the assets' useful lives. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

[ii] Share-based compensation

In calculating the share-based compensation expense, key estimates such as the value of the common shares, the rate of forfeiture of options granted, the expected life of the option, the volatility of the value of the Company's common shares and the risk free interest rate are used.

NEW ACCOUNTING PRONOUNCEMENTS

New standards, amendments and interpretations adopted by the Company

The following new accounting standards applied or adopted during the year ended December 31, 2018 had no material impact on the financial statements:

[i] IFRS 9 - Financial Instruments ["IFRS 9"]
In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. The Company is in the process of evaluating the impact of IFRS 9 on the Company's financial statements.

The Company has adopted IFRS 9 with a date of initial application of January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairments model.

The standard contains three classifications categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Valuation techniques based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at January 1, 2018 had no impact on the measurement of financial instruments, which are summarized in the following table:

	Previous classification	**Classification under IFRS 9**
Cash	Loans and receivables	Amortized cost
Marketable securities	FVTPL	FVTPL
Amounts receivable	Loans and receivables	Amortized cost
Prepaid assets	Other assets	Amortized cost
Investments	Other assets	Amortized cost
Amounts payable	Other liabilities	Amortized cost
Loan payable	Other liabilities	Amortized cost
Term loan	Other liabilities	Amortized cost

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated and applied from January 1, 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2018. The Company has adopted IFRS 9 retrospectively, and the adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2018.

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated as described below. There was no impact on the consolidated financial statements as at and for the year ended December 31, 2018.

[ii] IFRS 15 - Revenue from Contracts with Customers ["IFRS 15"]

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of control of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue.

The Company has adopted IFRS 15 with an initial adoption date of January 1, 2018. The Company utilized the modified retrospective method to adopt the new standard. There was no material impact on the Company's consolidated net loss or consolidated financial position resulting from the adoption of IFRS 15.

Revenue is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the good sold or services provided, revenue can be reliably measured at the fair value of consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable, net of discounts and sales taxes.

The Company currently generates revenue from the consulting and patient referral services provided through the Company's wholly owned subsidiary My Cannabis. The Company recognizes revenue at the time when the consulting service is provided to the patient and consideration has been received in full. For its referral services, the Company recognizes revenue at the time when the customer acknowledges the referral and the consideration has been transferred in full.

New standards, amendments and interpretations not yet adopted by the Company

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

[i] IFRS 16 - Leases ["IFRS 16"]

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements.

[ii] IFRIC 23 – Uncertainty over Income Tax Treatment ["IFRIC 23"]

In September 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual period beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The Company is in the process of evaluating the impact of IFRIC 23 on the Company's financial statements.

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
Trade and other payables	$ 1,455,565	$ 1,455,565	$ 1,455,565	$ -	$ -
	$ 1,455,565	$ 1,455,565	$ 1,455,565	$ -	$ -

Market risk

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

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has minimal financial instruments denominated in a foreign currency and substantially all of the Company's transactions are in Canadian dollars, which is also the Company's functional currency. [1]

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.

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, 2017.

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.

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[1] See "Other Items" in Selected Financial Information, which states: "The Company conducts business in US dollars, Canadian dollars and Colombian Pesos. At September 30, 2018, the Company held a significant amount of US dollars and Colombian Pesos."

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.

SUBSEQUENT EVENTS

On March 1, 2019, the Company completed a non-brokered private placement offering of Debentures. The Debentures were issued as part of a unit which included 62.5 Debenture Warrants for every $1,000 principal amount of Debenture acquired. Pursuant to the offering of Debentures, we raised gross proceeds of $783,000 and issued: (i) Debentures having an aggregate principal amount of $783,000 (issued in denominations of $1,000); and (ii) 48,937 Debenture Warrants. The Debentures are governed by and issued pursuant to the terms of the Debenture Certificates. The Debentures incur interest at 8.0% per annum and become due on the Maturity Date.

Mr. Davila Char (a related party through his relationship as a director and shareholder of the Company) indirectly acquired an aggregate principal amount of $406,000 Debentures and 25,375 Debenture Warrants.

In connection with the issuance of the Debentures, the Company issued 48,937 Debenture Warrants. Each Debenture Warrant entitles the holder thereof to acquire one Common Share at a price of $10.00 per share for a period of 12 months following March 1, 2019, subject to our right to accelerate the expiry date of the Debenture Warrants upon 30 days notice in the event that our Common Shares become listed on a recognized stock exchange and the volume weighted average trading price of the Common Shares equals or exceeds $12.50 for a period of 10 consecutive trading days on such exchange.

On April 5, 2019, Mountain Valley MD Inc. ("MVMD") subscribed to, and purchased 25% of the issued and outstanding shares of Sativa Nativa. As part of the transaction, MVMD directly subscribed for 17,892,248 shares of Sativa Nativa for an aggregate purchase price of $2.8 million. The remaining 15% interest was purchased from existing shareholders of Sativa Nativa, the Company not being one. Following the close of the transaction, the Company's interest in Sativa Nativa was diluted to 63% of the then total issued and outstanding shares.

On April 15, 2019 (the “Second Tranche Closing Date”), the Company completed the second tranche of a special warrant offering whereby the Company issued 2,228,328 Special Warrants at $8.00 each for aggregate gross proceeds of $17,826,624. As part of this transaction the Company incurred an issuance cost of $670,800. Each Special Warrant holder is entitled to receive upon conversion one unit (each, a “unit”) of the Company with each unit consisting of one common share (“Common Share”) in the capital of the Company and one half of one Common Share purchase warrant (each whole warrant, a “Warrant” and together with the common shares, “Underlying Securities”) with each Warrant entitling the holder thereof to purchase one common share in the capital of the Company at a price of $10.00 for a period of two years after the closing date; subject to the Company’s right to accelerate the expiry date of the Warrants upon thirty (30) days' notice in the event that the Common Shares become listed on a recognized stock exchange in Canada and the volume weighted average trading price of the Common Shares is equal to or exceeds $12.50 for a period of ten (10) consecutive trading days on such exchange. The Special Warrants issued will be automatically exercised into Underlying Securities, without any action, including additional payment, on the part of the Special Warrant holder, upon the earlier to occur of: (i) the date that is three business days following the date on which the Company obtains a receipt, from the applicable securities regulatory authorities, for the Prospectus, and (ii) the date that is 120 days following the Second Tranche Closing Date. Additionally, pursuant to the Agency agreement, the Company issued to Sprott Capital Partners LP and Paradigm Capital Inc. 129,290 Compensation Units. Each Compensation Unit entitles the holder to acquire one Common Share and one half of one common share purchase warrant on the same terms as the units issuable on the automatic exercise of the Special Warrants.