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 is supplemental to and should be read in conjunction with the Company's consolidated financial statements for the six months ended June 30, 2019 and June 30, 2018 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, 2019.

OUR BUSINESS

History and Development

The starting concept for the Company arose from a problem inherent in the transition in Canada from a government-run medical cannabis regulatory framework to that of a privatized system in which patients would, initially and for some time after, only be permitted access to cannabis for medical purposes in an inhalable format – dried cannabis flower. In May 2015, the founders of Avicanna recognized that healthcare professionals, the gatekeepers of the new commercial medical cannabis system, were hesitant to give access to a product that has traditionally been known to be consumed in a manner that may have adverse effects on the lungs. Furthermore, it was recognized that for a product to be considered a therapy, and to be recommended by healthcare professionals, it would be important to provide data collected and analyzed from well-run clinical studies to all relevant stakeholders – patients, healthcare professionals, payors, and regulators, operating in a strict regulatory framework for product testing, quality, production, marketing and sales.

Those two understandings form the basis of Avicanna's foundational concept – the development of novel cannabinoid therapeutic products backed by clinical research data and regulatory rigor. This positioning in the medical cannabis industry in Canada allowed the Company to attract key skilled personnel who have assisted it in developing its mandate, including scientists, clinicians, strategic business advisors, and biopharmaceutical industry senior managers. This positioning also helped Avicanna attract interest from respected academic and clinical research institutions looking to partner with it on clinical and research development initiatives.

Research and Development Activities

Our research and development activities include the conception, development and clinical trial of pharmaceutical products geared towards certain indications. The Company is currently working on indications for pain, neurology and dermatology. Through Avicanna's research and development efforts it has also developed formulations for various phyto-therapeutics and derma-cosmetic products and completed the formulations and characterization of its Pura Earth™ and Pura Elements™ products. Pursuant to various research and development agreements, Avicanna is currently testing additional products so that its products can be marketed with the research data to support their applications.

Below is a summary to date of the expenditures related to research and development activities

	For the 6 months ending June 30, 2019	For the 6 months ending June 30, 2018
Fees related to partnerships	259,101	68,875
Research and development expenditures	52,204	165,841
Total Expenditures	**311,305**	**232,716**

Fees relating to Avicanna's partnerships include commitments to the Hospital for Sick Children ("SickKids") University of Toronto Department of Pharmacy ("U of T Pharmacy"), Centro de Atencion e Investigacion Medica CAIMED S.A.S. ("CAIMED"), Universidad de Antioquia ("U de A"), the University of West Indies ("UWI"), and the University of Toronto Department of Dentistry ("U of T Dentistry"). Additional research and development expenditures include laboratory supplies, materials and equipment, and consulting fees. The increase from the same period in 2018 is the result of increased partnerships, namely with CAIMED, the University of West Indies and the University of Toronto Department of Dentistry.

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

Partner	Current Activities	Total Budget	Costs Expended as at June 30, 2019	Remaining Expenditures
U of T Sponsored Research and Collaboration Agreement	Ongoing analysis of several pharmaceutical formulations under development.	133,414	133,414	Nil
CAIMED Framework Agreement	Application for Phase II trials being drafted.	580,000	42,000	538,000
SickKids	Clinical trial application is being prepared for submission to Health Canada by the end of August 2019.	240,000	-	240,000
UWI Services Agreement	Ethics approval obtained.	110,000	55,000	55,000
	Trial protocol is being drafted.	Not yet determined	-	-
U of T Dentistry Service Agreement	Initial study complete and results being analyzed to determine what further studies are required.	114,748	28,687	86,061
U de A Framework Agreement	Project terms and research protocols being drafted for multi-dose safety and tolerability studies.	300,000	-	300,000
Totals		**1,478,162**	**259,101**	**1,219,061**

Pharmaceuticals

Avicanna's pharmaceutical products follow the traditional drug discovery and development process for submission to the applicable governmental agencies, such as Health Canada or 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 isolates ("Extracts"). The Company’s intention is to use the isolated Extracts produced by its subsidiaries in Colombia in the pharmaceutical products it offers.

Avicanna's initial pipeline of pharmaceutical products will address neurology, dermatology, and pain. The neurology products are intended to treat neurological disorders, such as neuropathic pain from sickle cell disease, the Company's dermatology products are meant to be applied on the surface of the skin to address various skin diseases, including eczema and epidermolysis bullosa, and its products developed to address pain, both through ingestible methods and topical application, are intended to combat a wide range of forms of pain, including but not limited to, chronic pain, neuropathic pain, and pain resulting from inflammatory and joint disorders.

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	Costs Expended as at June 30, 2019
AVCN319301	Neurology	Multi-dose sublingual cannabinoid oral formulations for neuropathic pain and intended to be a prescription drug.	Phase I is expected to commence at the U de A in the fourth quarter of 2019 with the data from this study informing further development and intended use for this product.	150,000	-
AVCN585501	Dermatology	Topical product used for acne and intended to be an OTC drug.	Commencing phase I studies with CAIMED in second half of 2019 with phase II to commence immediately after completion of phase I.	250,000 (combined)	-
AVCN583301	Dermatology	Topical product used for eczema and intended to be an OTC drug.	Commencing phase I studies with CAIMED in second half of 2019 with phase II to commence immediately after completion of phase I.		-
AVCN583601	Dermatology	Topical product containing CBD for dermatological indications intended to be a prescription drug.	Completed animal pharmacokinetics and toxicology studies and expect to enter into a clinical trial at SickKids in the fourth quarter of 2019.	240,000	-
AVCN467501	Pain	Multi-dose immediate release cannabinoid oral formulations for chronic pain and intended to be a prescription drug.	Expected to conduct animal efficacy studies in late 2019 with U de A which will be followed up by phase I trials. Results of phase I will determine if Phase II is possibly conducted with UWI.	150,000	-
Total				**790,000**	-

Phyto-therapeutics

Avicanna's phyto-therapeutic products consist of cannabis plant extracts designed for medical or homeopathic use, but are not pharmaceuticals or drugs. The legalization of cannabis for medical purposes in several countries and in certain states in the U.S. allows for the production of certain phyto-therapeutic products such as oil tinctures, creams, capsules and patches in various ratios of Tetrahydrocannabinol ("THC") and Cannabidiol ("CBD"). In these jurisdictions, patients must get approval from healthcare professionals to use cannabis for medical purposes. These are not

prescriptions in the traditional sense where the products have been approved and are regulated as medicinal drugs, but rather healthcare professionals grant authorization to patients to use cannabis for medical purposes. Some jurisdictions have an approved list of conditions for which healthcare professionals must assess the patient before granting their authorization for the patient's access to cannabis. The following table provides a summary of Avicanna's current phyto-therapeutics line of products.

Phyto-therapeutics							
Product	**Sub-lingual spray**	**Capsules**	**Oil tinctures**	**Topical cream**	**Topical gel**	**Tablets**	**Patches**
Description	CBD only High CBD, Low THC High CBD, High THC	CBD only High CBD, Low THC High CBD, High THC	CBD only High CBD, Low THC High CBD, High THC	CBD only High CBD, Low THC	CBD only High CBD, Low THC	CBD only High CBD, Low THC	CBD only High CBD, Low THC High CBD, High THC

Formulations for these products are all complete. In Colombia, the Company is planning to manufacture its first test batch of phyto-therapeutics for stability in 2019. Once testing is complete, the Company will register these products with the Instituto Nacional de Vigilancia de Medicamentos y Alimentos ("INVIMA"), a regulatory authority created under the Colombian Ministry of Health, prior to commercial production and sales.

Derma-Cosmetics

Derma-cosmetics are products with a more cosmetic purpose, generally topical in nature and designed to achieve a specific aesthetic objective. Avicanna's derma-cosmetic products contain CBD isolates 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 as a way to differentiate its product line from those of its competitors. Avicanna intends to market its derma-cosmetic products using its Pura Earth™ 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 recently commenced clinical trials with CAIMED on three of its derma-cosmetic products in order to demonstrate their effectiveness with specific cosmetic endpoints.

The following table provides a summary of Avicanna's derma-cosmetic product line:

Derma-cosmetics									
	Clarifying Cream	**Anti-Aging Cream**	**Eye Contour Cream**	**Intensive Emollient Cream**	**Creams for Skin with Blemishes**	**Body Lotion**	**Facial Lotion (AM)**	**Facial Lotion (PM)**	**Anti-Aging Serum**
Status	Formulations and initial test batch complete at Altea Farmaceutica S.A.								
Expected Market and Timing	Launch in the Colombian market by the end of 2019								

Cultivation Activities

Cultivation Capacity

The Company's cultivation facilities are located in Santa Marta, Colombia. The Company holds a majority interest in two entities, Sativa Nativa S.A.S ("Sativa Nativa") and Santa Marta Golden Hemp S.A.S. ("SMGH") that have licenses to cultivate, manufacture, extract and sell medicinal cannabis in Colombia. Sativa Nativa's cultivation facilities include 50,000 square feet of shade house and 20,000 square feet of customized greenhouse space. SMGH has applied for Good Agricultural and Collection Practices ("GACP") and organic certifications and operates cultivation facilities that include 200,000 square feet of shade house space and 20,000 square feet of customized greenhouse space. SMGH is currently expanding its shade house operation by approximately 70,000 square feet, and Sativa Nativa is expanding its shade house operation by approximately 50,000 square feet.

The following table breaks down the current cultivation capacity, by site, for each of Sativa Nativa and SMGH.

	Square Feet as at June 30, 2019	**Estimated Annual Yield (Dried Flower – KGs)**	**Square Feet – Post Expansion**	**Estimated Annual Yield – Post Expansion (Dried Flower – KGs)**
Sativa Nativa	70,000	3,000	120,000	6,000
SMGH	220,000	12,000	290,000	16,800
Total	**290,000**	**15,000**	**410,000**	**22,800**

The Company expects the expansion to be completed by the end of 2019. The following table provides a summary of the costs incurred on the cultivation facilities to June 30, 2019:

TOTAL EXPENDITURES AS AT JUNE 30, 2019 ($CDN; Unaudited)	Construction Costs	Equipment	Total
Santa Marta Golden Hemp S.A.S	5,492,634	999,382	6,492,016
Sativa Nativa S.A.S	1,603,821	64,261	1,668,082
Total Expenditures	**7,096,455**	**1,063,643**	**8,160,098**

Laboratory and Extraction Facility

SMGH plans to expand its laboratory facilities which will be used for post-harvest processing under GACP and will include a 6,000 square foot extraction and analytical laboratory facility using Good Manufacturing Practices ("GMP") and Good Laboratory Practices ("GLP"). The Company expects that the expansion will be complete and operational by the end of 2019, and is expecting that it will receive its GMP certifications early in 2020. The completion of the facility expansion and GMP certification is dependent on the Company's ability to source capital assets and resources in a timely manner. The following table provides a summary of SMGH's current extraction capabilities and laboratory footprint, and its expected capabilities and footprint upon the completion of the expansion.

Facility	Laboratory and Extraction Facility – Current (Square Feet)	Current Extraction Capacity per Day of Dried Flower (KGs)	Laboratory and Extraction Facility – Post Expansion (Square Feet)	Expected Extraction Capacity per Day of Dried Flower – Post Expansion (KGs)
SMGH	**2,200**	**300**	**6,000**	**1,000**

FUTURE OUTLOOK

The Company's outlook for the remainder of 2019 is positive. The Company is currently cultivating non-psychoactive cannabis for the production and extraction of CBD at the SMGH facility. The Company is awaiting final approval from the Colombian regulatory authorities to commence exportation and sale of its CBD isolates. There has been interest from third parties to purchase CBD isolates from the Company's subsidiaries. SMGH currently has one (1) non-psychoactive cannabis genetic (CBD) and three (3) psychoactive cannabis genetics (THC) registered with the Colombian Ministry of Justice and Law and has applied to register an additional fifteen (15) cannabis genetics. Of these fifteen (15) genetics, eleven (11) are THC dominant strains while the remaining four (4) are CBD dominant. In addition, Sativa Nativa has applied to the Ministry of Justice and Law to register an additional ten (10) cannabis genetics. Of these ten (10) genetics, eight (8) are THC dominant strains while the remaining two (2) are CBD dominant.

The current capacity will yield annual dried flower of approximately 15,000 kilograms, at the current footprint of 290,000 square feet. Post expansion, which we will have completed by early 2020, Avicanna will have a footprint of approximately 410,000 square feet with an estimated annual yield of 22,800 kilograms. The Company anticipates it will have up to 120 kilograms of CBD isolate available for distribution at the end of 2019.

In addition, with its planned laboratory and extraction expansion, the Company will have the ability to extract up to 1,000 kilograms of dried flower per day, assuming one eight-hour shift. The Company has the ability to double extraction output, daily, by adding another shift.

The Company has also entered into an agreement with Sigma Analytical Services Inc. ("Sigma") to establish a joint venture for the testing of cannabis and cannabis-based products in Colombia. The joint venture will initially be 61% owned by the Company and 39% owned by Sigma, through a subsidiary, and will operate a laboratory which will provide a comprehensive suite of cannabis specific testing, which will include pesticides, heavy metals, residual solvents, aflatoxins, microbial, genotyping, and cannabinoid and terpene profiling.

In addition to CBD isolate demand, the Company is planning to manufacture approximately 82,000 units of our derma-cosmetic products at Altea Farmaceutica S.A.S by the end of 2019. The CBD isolate required for these products, will be supplied by the isolate cultivated and extracted at SMGH. These 82,000 units will be available for sale in Colombia and distributed through our local partner, Percos S.A. The Company is currently engaging in significant business development efforts around the world and is working towards securing distribution agreements with partners.

From a research and development perspective the Company is on schedule to complete its clinical trial with CAIMED for its derma-cosmetic line of products. These trials will provide valuable data specifically around efficacy for the Company's products which will be a key factor in accessing international markets. Additionally, SickKids has submitted an application for its Phase II and Phase III clinical trials which is awaiting approval from Health Canada. Furthermore, the Company has commenced prevalence studies with the UWI for sickle cell disease. Once these initial studies are complete, the Company will plan to commence more comprehensive phase two clinical trials focused on efficacy. The Company will continue to focus on its current research partnerships, namely with the U of T Department of Pharmacy where the Company will focus on advanced formulations, namely cannabinoid nanoparticle delivery systems, pre-clinical efficacy programs, and cancer research for the remainder of 2019.

While the Company remains optimistic about its future business prospects, we are subject to approvals by respective authorities in Colombia. Until regulatory approvals to sell and distribute CBD isolates are obtained, orders cannot be fulfilled.

RESULTS OF OPERATIONS

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

SELECTED OPERATIONAL INFORMATION	Three Months Ended		Six Months Ended	
($CDN, except share amounts; Unaudited)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	$	$	$	$
Revenues	**16.571**	**25.156**	**40.594**	**58.663**
General and administrative	4,243,276	1,331,940	6,930,482	2,582,751
Share-based compensation	674,929	114,707	1,719,568	170,844
Depreciation and amortization	128,822	28,380	185,117	51,643
Total Expenses	**(5,047,027)**	**(1,475,027)**	**(8,835,167)**	**(2,805,238)**
Other income (loss)	522,257	(91,721)	400,898	1,044,866
Net Loss	**(4,508,199)**	**(1,541,592)**	**(8,393,675)**	**(1,701,709)**
Weighted average number of Common Shares outstanding – basic and diluted	18,139,300	13,221,068	16,825,405	11,834,633
Loss per share – basic and diluted	**(0.25)**	**(0.12)**	**(0.49)**	**(0.14)**

REVENUE

Revenue for the three months ending June 30, 2019 was $16,571 compared to $25,156 for the three months ending June 30, 2018. For the six months ending June 30, 2019 revenue was $40,594 compared to $58,663 for the six months ending June 30, 2018. Revenue is generated through commissions and assessment fees through the Company's investment in 2516167 Ontario Inc. ("My Cannabis"). Since the Canadian market legalized recreational use of cannabis in October 2018, My Cannabis has experienced a decline in revenue. My Cannabis focused on medical patients in the Canadian market. Once cannabis became legal, the Company saw much of its medical patient base turn to the recreational market for supply. However, the Company continues to utilize the data generated through these services for its research and development initiatives.

Expenses

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
General and administrative	1,252,276	305,819	2,135,286	767,073
Selling, marketing and promotion	124,161	47,468	225,674	85,815
Consulting fees	812,174	229,423	1,058,268	695,213
Professional fees	479,105	278,352	880,227	324,269
Salaries and wages	1,363,437	258,537	2,294,139	422,018
Research and development	193,239	183,063	311,305	232,716
Board fees	18,884	29,278	25,583	55,647
Total	**$ 4,243,276**	**$ 1,331,940**	**$ 6,930,482**	**$ 2,582,751**

The Company experienced a significant increase in its expenses for the three and six months ended June 30, 2019 as part of its expansion efforts and go public transaction. This increase was the result of:

- The increase in general and administrative expenses is attributable to the increase in office, information technology ("IT") and travel expenditures. When compared to the same quarter and period from prior year, the Company expanded its workforce to assist with commercialization efforts and its go public transaction. Such expansion resulted in an increase in office space and travel expenditures. The Company also had increased costs relating to its IT infrastructure to accommodate the increased growth.

- An increase in professional and consulting fees is largely attributable to the listing of the Company's common shares on the Toronto Stock Exchange (the "TSX").

- The Company’s workforce expanded substantially when compared to the same quarter and period in 2018, particularly in Colombia where the cultivation operations at Sativa Nativa and SMGH experienced significant growth. In addition, the Company expanded its workforce in Canada to include additional science professionals and management team members.

- Advertising and promotional expenses increased when compared to the same quarter and period in 2018. As the Company prepares to launch its initial product offerings in Colombia in 2019 additional funds have been expended on branding, strategy and specific campaigns for the local market. In addition, the Company has invested funds in developing strategic initiatives for building its global brand.

Other Items

The following relates to the changes in other income and expenses on the statement of operations for the three months and six months ended June 30, 2019:

- For the three months ended June 30, 2019 the other income relates to the Company’s realization of the fair value of biological assets, which was not previously recognized.

- Given the large amount of cash on hand, the Company made several short term investments in Guaranteed Investment Certificates which yielded interest income of approximately $40,000 for the three months ended June 30, 2019 and approximately $48,000 for the six months ended June 30, 2019.

- The decrease in other income for the six months ended June 30, 2019, relates to a gain recognized on the acquisition of Sativa Nativa in February 2018.

REVIEW OF FINANCIAL POSITION

The following table provides a summary of the financial position of the Company as at June 30, 2019 and December 31, 2018.

SELECTED FINANCIAL INFORMATION	As at June 30, 2019	As at December 31, 2018
Assets	**$**	**$**
Cash	2,054,918	69,295
Short term investments	10,923,613	-
Amounts receivable	397,076	258,608
Prepaid assets	3,276,907	863,624
Biological assets	259,495	-
Inventory	875,026	-
Right to use asset	637,839	-
Property and equipment	18,418,835	16,256,136
Intangible assets	10,675,476	10,733,266
Investments	72	72
Total Assets	**47,519,257**	**28,181,001**
Liabilities and Equity		
Amounts payable	2,548,373	1,455,565
Due to related party	1,353,931	331,320
Convertible debentures	690,211	-
Derivative liability	91,835	-
Lease liability	642,398	-
Term loan	-	14,441
Total Liabilities	**5,326,748**	**1,801,326**
Shareholder's equity	**42,192,509**	**26,379,675**
Total Liabilities and Shareholder's Equity	**47,519,257**	**28,181,001**

Total Assets

Total assets increased substantially to approximately $47.5 million as at June 30, 2019 from approximately $28.1 million as at December 31, 2018. The major increases were as follows:

- Cash and short term investments increased substantially by $12.9 million from December 31, 2018. The two main drivers of this increase were the closing of the Company's second tranche of special warrant financing and the sale of 10% of the issued and outstanding shares of Sativa Nativa, through a direct subscription which yielded the Company $2.8 million.

- Prepaid assets increased significantly by approximately $2.4 million. The Company made several large advances to contractors for the construction of its cultivation facilities at Sativa Nativa and SMGH. Deposits were also made for equipment that will be used to expand the Company's extraction capabilities, and whose delivery is anticipated in the third and fourth quarters of 2019. In addition, the Company made several payments to its research partners and consultants that require payment up front for contracts that extend up to six months.

- The Company recognized both inventory and biological assets as at June 30, 2019. During the second quarter, two genetics were approved allowing the Company to harvest, extract and sell these two specific genetics. As a result, any harvests at June 30, 2019 were recognized as biological assets at their fair market value less any costs to sell. In addition, any resins, distillates, and crystals on hand at June 30, 2019 that were extracted from one of the two approved genetics were recognized into inventory. During the second quarter of 2019 the Company also purchased and received initial packaging for its derma-cosmetic line which is set to launch in Colombia in the fourth quarter of 2019. These items were also recognized into inventory.

- The right to use asset was recognized in the second quarter of 2019 as the Company adopted IFRS 16, and entered into its first multi-year lease in April 2019.

- Property, plant and equipment increased by approximately $2.3 million. The large increase from December 31, 2018 relates, primarily, to the continued expansion and construction of the cultivation facilities at Sativa Nativa and SMGH.

Total Liabilities

The increase in liabilities was due to the following key items:

- Accounts payable increased by approximately $1.1 million from December 31, 2018 to June 30, 2019. The increase was the result of several accruals and payables related to the public transaction, namely professional fees. In addition, as the Company scaled up construction of the cultivation facilities of Sativa Nativa and SMGH there were additional payables related to contractors and consultants.

- The due to related party represent the minority shareholders of Sativa Nativa and SMGH.

- During the first quarter of 2019 the Company issued convertible debentures which totaled $783,000, which represents the increase in the derivative liability and convertible debentures from December 31 ,2018 to June 30, 2019.

- The increase in lease liability as at June 30, 2019 relates to the adoption of IFRS 16 in 2019.

Shareholder's Equity

Total Shareholder's Equity increased by approximately $15.8 million at June 30, 2019 when compared to December 31, 2018. For the six months ending June 30, 2019, the Company closed the second tranche of its special warrant financing which yielded net proceeds of approximately $17.1 million. In addition, the Company issued new shares out of treasury as part of its partial sale of Sativa Nativa which yielded $2.8 million in additional equity.

SUMMARY OF QUARTERLY RESULTS

The following provides a summary of the quarterly results for the 3 months ending March 31, 2018 and 2017, June 30, 2018 and 2017, September 30, 2018 and 2017 and December 31, 2018 and 2017

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	$	$	$	$	$	$	$	$
Revenues	16,571	24,023	24,142	35,166	25,156	33,507	9,719	7,098
Net comprehensive loss	(5,180,516)	(3,918,014)	(3,475,698)	(2,021,518)	(1,756,683)	(224,269)	(3,475,698)	(561,105)

LIQUIDITY AND CAPITAL RESOURCES

Cash flows for the six months ended June 30, 2019 and June 30, 2018

Cash from Operating Activities

Cash from operating activities resulted in a deficit of $9,425,503 as at June 30, 2019 compared to a deficit of $2.4 million as at June 30, 2018. The large increase in the deficit was the result of increased losses from operations. Larger losses can be attributable to expanding operations and increased costs to go public. In addition, there was a large draw on funds for working capital related to deposits and the recognition of inventory and biological assets.

Cash used in Investing Activities

The Company had a deficit from investing activities of approximately $10.4 million compared to $3.0 million as at June 30, 2018. The Company invested approximately $10.9 million in short term investments for the six months ended June 30, 2019, which was the main driver for the deficit arising from investing activities. In addition, the Company invested approximately $2.3 million into the purchase of capital assets, compared to approximately $466,000 for the six months ended June 30, 2018. The large increase in investment in capital assets is the result of the expansion of the cultivation facilities of Sativa Nativa and SMGH. Avicanna recognized $2.8 million in investing activities resulting from the sale, and direct subscription of Sativa Nativa shares.

Cash from Financing Activities

Cash from financing activities increased by approximately $21.8 million for the six months ended June 30, 2019, compared to $4.8 million for the six months ended June 30, 2018. The large increase of approximately $17.0 million was the result of increased financing activities for the six months ended June 30, 2019 whereby the Company raised approximately $17.0 million (net) in a second tranche financing of its special warrants and an additional $783,000 in a convertible debenture offering.

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 June 30, 2019, the Company had working capital surplus of approximately $15.0 million, with current assets of approximately $18.1 million and current liabilities of approximately $3.1 million, which excludes related party advances. The Company is not planning to commence commercial activities until the fourth quarter of fiscal 2019; therefore, in the interim period, the Company will not require significant working capital for inventory. However, the Company has commenced building its inventory for both its finished goods and extract sales.

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

Capital expenditures related to the construction of the cultivation facilities	$	4,478,063
Working capital requirements for tech transfers		457,149
General and administrative expenses		10,061,429
Total working capital and capital required	$	14,996,641

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 ended June 30, 2019 and year ended December 31, 2018 is as follows:

	For the six months ended June 30, 2019		December 31, 2018	
Salaries and benefits	$	699,541	$	671,433
Share-based compensation		-		34,000
Total	$	699,541	$	705,433

Additionally, at the end of June 30, 2019 a minority shareholder of SMGH, Inmobiliaria Bondue S.A.S. ("Bondue") and two minority shareholders of Sativa Nativa, Sergio Puerta and Jose Beltran advanced funds in the amount of $1,353,931. Bondue is owned by Mr. Char who is also a director of the Company. The purpose of the advance was to fund the Company's working capital and capital requirements.

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.

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	$ 2,548,373	$ 2,548,373	$ 2,548,373	$ -	$ -
Totals	**$ 2,548,373**	**$ 2,548,373**	**$ 2,548,373**	**$ -**	**$ -**

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.

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.

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.

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 June 30, 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.

SUBSEQUENT EVENTS

On July 8, 2019, the Company's final long-form prospectus was receipted by the Ontario Securities Commission which resulted in the Company becoming a reporting issuer under securities legislation.

On July 15, 2019, pursuant to the Company's second tranche financing (note 10 (xv)) of the Financial Statements, 2,228,328 special warrants were exercised into common shares and 1,114,162 warrants. Each such warrant entitles the holder thereof to purchase one common share in the capital of the corporation at a price of $10 for a period of two years after the closing date. Subsequent to the conversion of such special warrants, the Company successfully listed on the TSX on July 18, 2019.

On August 8, 2019 the Company entered into an agreement with Sigma Analytical Services Inc. ("Sigma Analytical") to establish a joint venture for the testing of cannabis and cannabis-based products in Colombia. The joint venture is to be established through the creation of an Ontario based corporation, Sigma Analytical Magdalena Canada Inc. ("HoldCo"). The Company will own 61% of the HoldCo and the remaining 39% will be owned by a subsidiary of Sigma Analytical.