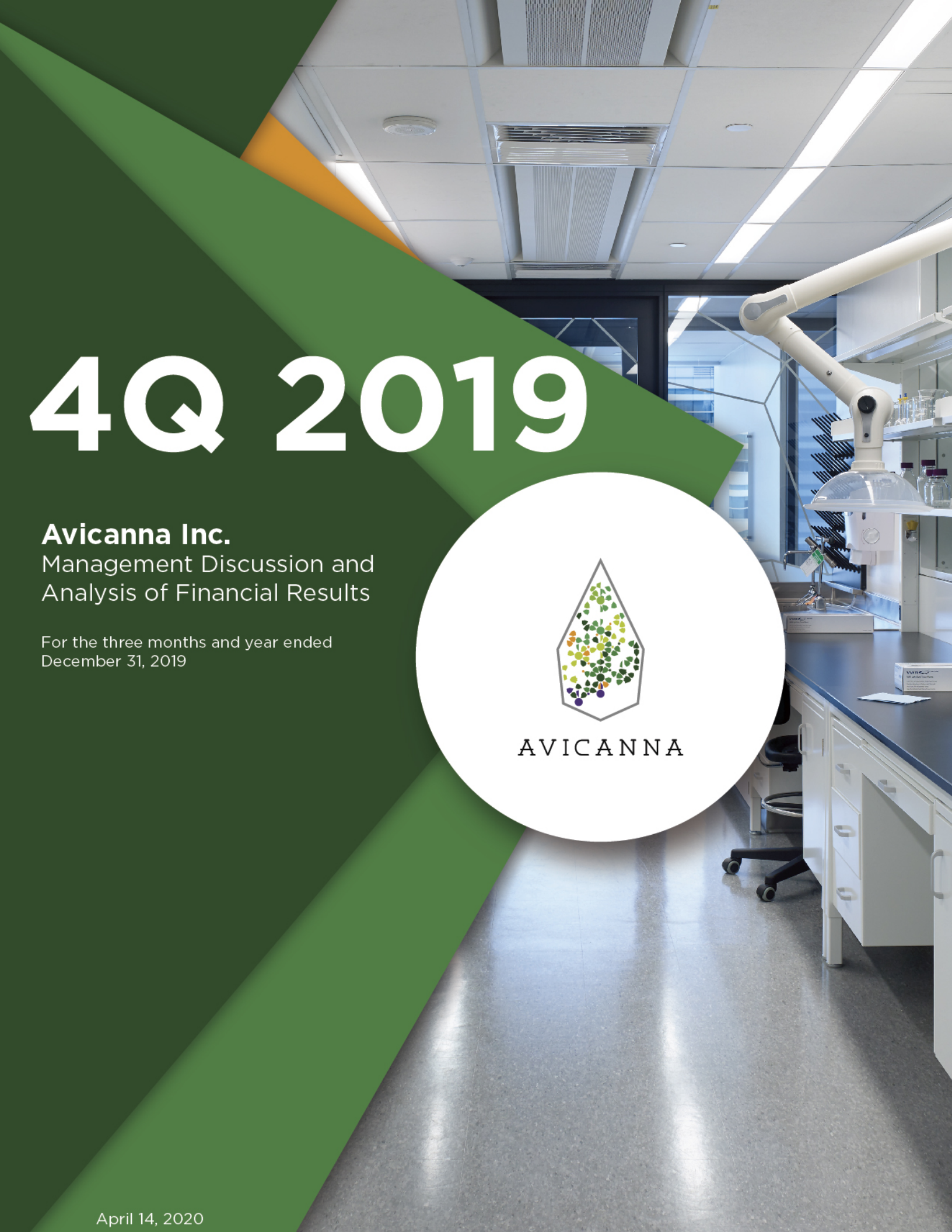
4Q 2019

Avicanna Inc.
Management Discussion and Analysis of Financial Results

For the three months and year ended December 31, 2019



AVICANNA

April 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 April 14, 2020 and is supplemental to and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2019 and December 31, 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 April 14, 2020.

The Company does not, directly or indirectly, have any business operations in jurisdictions where cannabis is not federally legal, such as the United States.

OUR BUSINESS

Since inception, Avicanna has developed, optimized and commercialized advanced cannabinoid products for strictly medical, consumer health and pharmaceutical use. Since inception, the Company has formed research partnerships with top academic and clinical research institutions including its laboratories at the Johnson and Johnson Innovation centre, JLABS @ Toronto, and through partnership with the University of Toronto, both of which operate under Cannabis Research Licences issued by Health Canada. Avicanna's dedication to research in conjunction with our partnerships has allowed the Company to commence clinical trials, develop and launch a complete line of derma-cosmetic products, and commence initial testing of its phyto-therapeutic products with a planned commercial launch in 2020. In addition, the Company has a majority position in two cultivation assets in Colombia as a part of its vertical integration strategy to ensure quality, consistency and low-cost input materials. As of December 31, 2019, the Company had 480,000 square feet of cultivation capacity with production capacity of over 30,000 kg of biomass per year.

The Company's common shares are publicly traded on the Toronto Stock Exchange a R&D issuer (the "TSX") under the ticker symbol "AVCN" and 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 Q4 – 2019

- Executed strategy of becoming vertically integrated and commercial across several business units. This included the completion of approximately 480,000 square feet of cultivation space, achieving full extraction and analytical capabilities, manufacturing finished goods for commercial distribution, and continued advancements in research and development initiatives.

- Commenced revenue generation of two business units: the Company's launch of its derma cosmetic line, Pura Earth™, nationwide in Colombia, and sales of active pharmaceutical ingredients ("API") to Colombia, South Africa, the UK, and, subsequent to December 31, 2019, Argentina under the brand Aureus™.

- Progress with Health Canada with respect to the pharmaceutical Phase II clinical trial on a severe dermatological condition, Epidermolysis Bullosa. The trial is conducted in partnership with the Hospital for Sick Children ("SickKids") in Toronto. The Company had a successful Pre-CTA meeting with Health Canada and was approved to submit its clinical trial application ("CTA") for evaluation of a pharmaceutical cannabidiol ("CBD") cream in a Phase II and III trial.

- The Company further solidified its global leadership position as an organic and sustainable source of cannabinoids with the receipt of the first Colombian USDA National Organic Program certification of its

cultivation process of its hemp (CBD dominant) genetic strain, and ranked highest amongst global cannabis companies on the SAM Corporate Sustainability Assessment by S&P Global, results of which were received subsequent to December 31, 2019.

- Registration of an additional 15 genetic cultivars of cannabis with the Colombian regulatory bodies, including 11 THC dominant and 4 CBD dominant genetics. The Company now has 29 registered genetics, attaining significant quotas for THC cultivation and characterization of CBD and tetrahydrocannabinol ("THC") extracts.

- The launch of Avicanna's Rho Phyto™ brand in the State of California through a licensing agreement with LC2019 Inc. ("LC 2019"). In exchange for an option to purchase all of the issued and outstanding shares in LC 2019 (once cannabis is federally legalized in the US), the Company licensed certain intellectual property to LC2019.

- As at December 31, 2019, the Company had approximately 1.075 kilograms of dried flower on hand, and 117 kilograms of API on hand and available for sale. The build up of inventory is expected to support anticipated global sales in future periods.

Subsequent to Year End

- Early in 2020 the Company entered into an agreement, whereby its line, Rho Phyto, will be offered on the Medical Cannabis by Shoppers Drug Mart online platform. This marked a tremendous milestone for the Company, validating its research-driven approach to its product line. The product line is now approved by Health Canada for launch and the company expects to have the products available to the medical community in the second quarter of 2020. The advanced non-inhalation product line will be positioned as the new standard of advanced, non-inhalation medical solutions.

- Early in 2020, the Company commenced efforts to optimize efficiency and initiate cost reductions in all operations to adjust to market conditions. As part of the process, the company reduced head count, paused specific non-essential capital expenditures and prioritized business units most aligned with its strategic objectives. The Company expects this will generate cost reductions of at least 30% in the first quarter of 2020. While these initiatives were put in place to conserve cash and drive profitability, the Company ensured that it restructured operations to also respond to the disruptions caused by the COVID-19 global pandemic.

- With the completion of its major capital expenditures in 2019, the Company does not expect to incur significant capital expenditures in 2020. The majority of its capital will be allocated to commercial, revenue-driving activities and key research projects that will advance product development.

- In January 2020, the Company raised approximately $2.056 million through a non-brokered private placement, at a premium to the market price.

- Leveraging the Company's Avesta genetics division, Avicanna commenced cultivation of CBG dominant cultivars for both API and seeds in the first quarter of 2020 which is expressing cannabigerol ("CBG"), a once rare cannabinoid as high as 14% in the flower. The Company is expecting to realize commercial sales in the second quarter of 2020 through this program via the sale of the seeds and API. The Company continued to see traction in its other API including sales of CBD API into various international markets going into 2020.

- In addition, the Company continues to pursue commercial opportunities in specific international jurisdictions that would allow for the distribution of its finished branded and white label products, seeds and API. The Company entered into a supply agreement with Cannvalate Pty Ltd. to distribute the Company's Rho Phtyo products in Australia. This agreement is a major supply and distribution agreement for its Rho Phyto line of products. Other such agreements are with Medical Cannabis by Shoppers Drug Mart Inc. in Canada and Astral Health Ltd., an operating subsidiary of the LYPHE Group Ltd., in the U.K. The Company expects that distribution of its products will commence in 2020 for these three groups.

- Years of dedication to R&D and product optimization has led to advanced product offerings but also valuable intellectual property which can be licensed. The company is currently engaged in several discussions with companies around the world that are interested in licensing Avicanna's IP related formulations, delivery mechanisms and finished products that will yield royalty payments as well as supply agreements with respect to API.

- The Company continues to be focused on its research and development activities. With the expansion of key partnerships, most notably the Christine Allen Research Group of the University of Toronto's Department of Pharmacy, and the formation of new partnerships, the Company continues to position itself as a global leader in the industry. Furthermore, while the Company has filed five patent and 55 trademark applications to date, its continued focus is building its IP portfolio and intends on submitting additional applications in 2020, which is supported through increased lab capacity at its R&D headquarters in JLABS @ Toronto, for which it has been granted an amendment by Health Canada to its Cannabis Research Licence.

- All 3 clinical trials for Pura Earth products that were commenced during the third quarter of 2019 were completed in early Q1 2020. The products involved were Avicanna's formulations targeted at cosmetic factors associated with aging, acne prone skin, and eczema prone skin. The successfully completed trials involved 156 patients that were tested for both safety and certain derma-cosmetics endpoints. The results of all three studies were positive with no adverse effects, making Pura Earth one of the only cannabinoid consumer product lines with human safety and efficacy data.

- While the Company remains optimistic about its future business prospects, it remains subject to approvals by respective authorities in Colombia and abroad. Until regulatory approvals to sell and distribute THC-containing and its finished Rho Phtyo line are obtained, orders cannot be fulfilled.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's research and development activities for the past 4 years included the development and optimization of cannabinoid formulations and delivery methods for various product types. These included consumer cosmetics, medical cannabis lines and pharmaceutical development activities. During the quarter, while the company is now in commercial stage, it continues to advance its research to include both commercial and clinical activities.

Centro de Antencion e Investigacion Medica Caimed S.A.S. ("CAIMED") commenced 3 cosmetics clinical trials and completed all 3 on the Company's Pura Earth product line during the quarter with positive results on the primary and secondary end points. The phyto-therapeutic brand of medical cannabis products, Rho Phyto, was revised to meet Canadian standards and further optimized for advanced delivery of cannabinoids. This work was

done in anticipation of the launch with Medical Cannabis by Shoppers Drug Mart Inc. (a subsidiary of Shoppers Drug Mart Inc.) in 2020. Recently, all advanced formulations related to oral, sublingual and topical formulations were approved for launch in Canada

Studies at the University of Toronto, Faculty of Dentistry, identified particular cannabinoids, terpenes and essential oils that activate neutrophils at specific concentrations and were found to have potential anti-inflammatory and anti-bacterial properties. These studies provided guidance on the development of our oral care product pipeline.

The Company is continuing its work on pharmaceutical products in several therapeutic areas including pain, neurology and dermatology. The formulations consist of more advanced delivery systems such as solid lipid nano particles, and sustained release tablets. Technical transfer of Avicanna's CBD cream to Altea Farmaceutica S.A.S. ("Altea"), the Company's contract manufacturer in Colombia, was successfully completed, and a pilot batch of the pharmaceutical product was produced during the quarter. A pre-CTA meeting with Health Canada was held in October 2019. Health Canada reviewed the product development package of the CBD isolate cream and clinical protocols of the Phase II/III trial on epidermolysis bullosa, which will be conducted with the Hospital for Sick Children in Toronto. Ongoing physical, chemical and safety testing on the initial, test clinical batch will provide the necessary data support for the CTA submission on the Phase II and III clinical trial. Avicanna is partnering with academic institutions and hospitals to conduct real world evidence trials ("RWET") on its Rho Phyto product line to be exclusively available on the Medical Cannabis by Shoppers platform.

The prevalence study for neuropathic pain in patients with Sickle Cell Disease (SCD) at the University of West Indies in Jamaica has commenced and will be completed in the second quarter of 2020. The data will provide evidence of neuropathic pain in the Jamaican SCD population and will be correlated for the first time to age, lactate dehydrogenase (indicator of red blood cell hemolysis) and leg ulcers. The patients from this trial will then be carefully selected for an intervention study with Avicanna's pharmaceutical agent that will commence in the first half of 2020.

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 year ending December 31, 2019	For the year ending December 31, 2018
Research and development expenditures	1,216,626	456,622
Total Expenditures	1,216,626	456,622

A large portion of Avicanna's research and development fees include partnerships, namely, University of Toronto Faculty of Pharmacy ("U of T Pharmacy"), CAIMED, the University of the West Indies ("UWI"), the University of Toronto Faculty of Dentistry ("U of T Dentistry"), and the University of Guelph ("U of Guelph"). 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, UWI, U of T Dentistry, and the increased scope of work with U of T Pharmacy.

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 December 31, 2019	Remaining Expenditures
U of T Pharmacy Sponsored Research and Collaboration Agreement Revised	Ongoing analysis of several pharmaceutical formulations under development. Preclinical evaluation of advanced formulations and optimization Development of nanoparticles and microparticles based pharmaceutical applications.	1,661,069	450,771	1,210,298
CAIMED Framework Agreement	Application for Phase II trials is completed and to be submitted by year end.	580,000	42,000	538,000
SickKids	Pre-Clinical Trial Application submission meeting completed. CTA to be submitted Q1 2020.	312,000	-	312,000
UWI Services Agreement	Ethics approval obtained and prevalence study underway.	110,000	55,000	55,000
	Trial protocol is expected to be completed by year end.	13,000	-	13,000
U of T Dentistry Service Agreement	Study results provided and future study protocols being drafted.	114,748	114,748	-
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	300,000	-	300,000
Totals		**3.090,817**	**662,519**	**2,487,658**

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. The Company's using purified cannabinoids and whole plant extracts produced by its subsidiaries in Colombia in the pharmaceutical products it is both clinically developing and offering.

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
CTA for Epidermolysis Bullosa	Health Canada	CTA for Phase II/III trial for 3% CBD cream for Epidermolysis Bullosa	Q1 2020
IND for Epidermolysis Bullosa	FDA	IND for Phase III trials for Epidermolysis Bullosa	Q3 2020
CTA for Neuropathic Pain	Jamaican Ministry of Health & Wellness	CTA for Phase II trial for Sickle Cell Disease Patients with Neuropathic Pain	Q2 2020
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	Costs Expended as at December 31, 2019
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. Expected to begin clinical trial at SickKids in first half of 2020.	312,000	-
AVCN319301	Neuropathic Pain		Once the prevalence study is completed at the end of Q1 2020, a phase II a study on the diagnosed patients will then begin at UWI	TBD	-
Total				312,000	-

Real World Evidence Trials

Avicanna is partnering with academic institutions and hospitals to conduct RWET on its Rho Phyto product line to be exclusively available at Medical Cannabis by Shoppers. The RWET will evaluate the efficacy of Rho Phyto Products on specific therapeutic indications and patient populations. Data derived from RWET 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. Patients with these conditions are often widely different demographically and the clinical trials that bring these products to market often cannot adequately represent many demographics. Carefully performed ongoing RWET will permit deep yet broad-based insights and continued evaluation and iterative improvement of our indication-specific products.

The first RWET 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 products 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.

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

All Clinical Trials	Pre-Clinical	Protocol Development	Protocol Established	Ethics Approval	Clinical Study
Cosmetic Trials					
Eczema Prone Skin					Complete
Acne Prone Skin					Complete
Anti-Aging					Complete
Oral Care Mouthwash					
Real-World Evidence (RHO Phyto)					
Opioid Sparing				Pending Approval	
Pain Related to Inflammatory Bowel Disorder					
Cognition & Balance in Parkinson's Disease					
Pharmaceutical Trials					
Epidermolysis Bullosa*					Phase II Pending
Prevalance of Neuropathic Pain in Sickle Cell Disease					Near Completion
Neuropathic Pain in Sickle Cell Disease*					
Eczema*					
Arthritis					

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

Phyto-therapeutics

Avicanna's phyto-therapeutic advanced cannabinoid products contain cannabis plant extracts designed for medical or homeopathic use and are intended to be marketed using the Company's Rho Phyto brand. 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 cannabinoids, including the ones that the Company has capacity to produce such as THC, CBD and CBG. 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.

In Colombia, the Company intends on distributing its Rho Phyto line through a compound pharmacy model known as Formulacion 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. The Company anticipates revenue from this model in the second quarter of 2020.

In Canada, the Rho Phyto line will be launched exclusively on the Medical Cannabis by Shoppers Drug Mart platform in the second quarter of 2020. The agreement initially includes oral delivery forms of sublingual sprays, oral drops and soft gel capsules. Topical creams and gels will be launched shortly thereafter. Data derived from RWET on these products is critical to minimize risk and maximize efficacy from industry-leading research and development. These products are designed for inflammatory dermatological conditions, several neurological conditions, chronic pain and palliative oncological care. Patients with these conditions have varying demographic profiles and the clinical trials that bring these products to market often cannot adequately represent these varying demographic profiles. Carefully performed, ongoing RWE will permit deep and considerable insights and continued evaluation and iterative improvement of our indication-specific products, which were approved for sale in the first quarter of 2020.

The following table provides a summary of Avicanna's current phyto-therapeutic line of products.

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

Formulations for these products are all complete. In Colombia, the Company has manufactured its first test batch of phyto-therapeutics for stability. Once testing is complete, the Company will register these products with 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 cosmetic purpose, generally topical in nature and designed to achieve a specific aesthetic objective. Avicanna's derma-cosmetic products 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 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 completed three clinical trials with CAIMED on its derma-cosmetic products evaluating their effectiveness on specific cosmetic endpoints.

The first clinical trial, with 49 participants, completed by Avicanna evaluated Pura Earth 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 Earth 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 Earth 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.

In October 2019 the Company officially commercialized its Pura Earth product line. It launched in over 59 retail locations in Colombia, through the Company's distribution partner, Percos S.A ("Percos"). A total of 3,872 units was sold to Percos in the fourth quarter of 2019.

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. As of December 31, 2019, the Company has filed five patent applications in the United States as summarized below.

Description	Date of Filing	Status
Topical cannabinoid compositions and methods for treating skin diseases	March 5, 2019	Filed, awaiting examination
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

In parallel to the patent protection of novel products and processes, the company also takes necessary steps to protect its trademarks. As of December 31, 2019, the company has submitted 55 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 facilities are located in Santa Marta, Colombia. The Company holds a majority interest in two entities, Sativa Nativa and SMGH, that have licenses to cultivate, manufacture, extract and sell medicinal cannabis in Colombia.

In the fourth quarter of 2019, the Company's subsidiary, SMGH, continued its outdoor cultivation efforts. 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 Company was able to add an additional 50,000 square feet of outdoor cultivation space bringing its total cultivation area at SMGH up to 340,000 square feet, which was initially projected to be 290,000 square feet.

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.

Outdoor large-scale cultivation

One of the main challenges with implementing this strategy was to use the appropriate cultivars of high-yield cannabinoids that would adapt to the local conditions at SMGH. A significant amount of agronomic analyses was completed, ensuring the strategy would be a success. Implementing these strategies, we are expecting to achieve lower cost per gram of dried flower as we continue to up-scale operations.

Nutrient and Pest Control Optimization

Collecting the data and experience from prior cultivation cycles, the research and development team has implemented an improved nutrition plan. This plan will aim to minimize costs and improve the irrigation infrastructure and techniques. The Company's pest control plan has been improved to minimize the effect of local pests and diseases. To date, there has been no major pest or disease infestation.

Process automation

Our process engineering team has been working with external key partners to identify opportunities for automation and optimization. This includes a wide range of activities, including breeding and post-harvest activities. The Company is currently working on varying drying techniques that would make the process more efficient and effective. This includes reducing loss and maintaining the integrity of the trichomes in which the cannabinoids reside during cultivation, harvest and post-harvest.

Focusing on these efficiencies, the Company was able to realize the following in the fourth quarter of 2019 for SMGH, representing a significant improvement from the previous quarter.

	For the three months ending December 31, 2019	For the three months ending September 30, 2019
SMGH		
Total square feet	360,000	290,000
Shadehouse	*190,000*	*190,000*
Outdoor	*150,000*	*80,000*
Greenhouse	*20,000*	*20,000*
Annual yield - KGs	26,400	12,000
Cost per gram – dried flower	$0.12	$0.12
Distillate Crystallization Efficiency	80%	65%
Extraction capacity – Dried Flower KGs per day	300	150
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	$0.12	$0.12

Avesta Genetica Program

Avesta Genetica ("Avesta") is Avicanna's seed and genetics program based out of SMGH in Santa Marta, Colombia.

In addition to the successful registration of optimal genetics, the Avesta program has yielded some early victories for the Company with recent developments that included a genetic that expresses 17% CBG, a once rare cannabinoid, and increase of CBD expression to upwards of 20% in its outdoor cultivation. Additionally, the

Company is now producing feminized, stabilized seeds for various cultivars including its CBD and CBG dominant genetics.

To date, SMGH has completed detailed characterizations following strict government guidelines and methodologies in Colombia. 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.

As at December 2019, Sativa Nativa was in the process of harvesting its first characterization batches These included 19 promising genetics made up of high CBD, CBG, THC, CBD-THC genetics and phenotypes. We are anticipating to register an additional 10 genetics in the first quarter of 2020.

The following table provides a summary of the costs incurred on the cultivation facilities to December 31, 2019:

TOTAL EXPENDITURES AS AT DECEMBER 31, 2019 ($CDN; Unaudited)	Construction in Progress	Equipment	General infrastructure	Structures	Total
Santa Marta Golden Hemp S.A.S.	1,506,146	1,591,893	2,879,030	3,009,886	8,986,954
Sativa Nativa S.A.S.	2,373,354	67,335	-	-	2,440,689
Total Expenditures	3,879,500	1,659,228	2,879,030	3,009,886	11,427,643

Laboratory and Extraction Facility

SMGH currently has a laboratory and extraction facility on site that is approximately 1,883 square feet. Eventually this will be expanded to 6,000 square feet facility that has already been constructed. During the last quarter the Company has optimized its extraction and isolation processes increasing its capacity to process 300 kg a day of dried flowers. The Company has also seen significant improvements in the recovery of cannabinoids, which has resulted in higher quality and purified compounds. The Company's analytical and R&D laboratories at SMGH are continuing to operate at full capacity ensuring continued R&D during COVID-19 measures.

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	For the Three Months Ended December 31		For the Year Ended December 31	
($CDN, except share amounts; Unaudited)	2019	2018	2019	2018
	$	$	$	$
Revenues	**122,715**	**24,142**	**168,252**	**117,971**
Inventory production costs expensed to cost of sales	(103,734)	-	(103,734)	-
Fair value changes in biological assets included in inventory sold	(76,264)	-	(76,264)	-
Unrealized gains/(loss) on changes in FV of Bio assets	(492,597)	-	103,887	-
Gross Margin	(549,880)	-	92,141	-
General and administrative	7,102,556	2,798,997	19,706,578	6,990,041
Share-based compensation	703,563	729,819	2,685,629	1,401,320
Depreciation and amortization	411,414	55,942	923,514	172,705
Total Expenses	**(8,217,533)**	**(3,584,758)**	**(23,315,721)**	**(8,564,066)**
Other income (loss)	99,988	220,299	(22,850)	1,156,698
Net loss before taxes	**(8,667,425)**	**(3,340,317)**	**(23,246,430)**	**(7,289,397)**
Future income tax recovery	**1,033,393**	-	**1,033,393**	-
Net loss after taxes	**(7,634,032)**	**(3,340,317)**	**(22,213,037)**	**(7,289,397)**
Weighted average number of Common Shares outstanding –	22,334,723	13,892,382	20,054,013	13,587,925
Loss per share – basic and diluted	$ (0.33)	$ (0.25)	$ (1.16)	$ (0.55)

REVENUE

Revenue for the three months ending December 31, 2019 was $122,715 compared to $24,142 for the three months ending December 31, 2018. For the year ended December 31, 2019 revenue was $168,252 compared to $117,971 for the year ended December 31, 2018. The company commenced its commercial sales of API and its Derma Cosmetic products, which resulted in an increase in revenue for both the quarter and year when compared to the same period in 2018. The following provides a breakdown, quarter over quarter for 2019.

REVENUE BREAKDOWN	3 months ending December 31, 2019	3 months ending September 30, 2019	3 months ending June 30, 2019	3 months ending March 31, 2019	Total
Assessment and commissions	3,858	4,943	16,572	24,023	49,396
Pura Earth	58,823	-	-	-	58,823
Aureus - API	60,033	-	-	-	60,033
Totals	122,715	4,943	16,572	24,023	168,252
% Increase (decrease)	2,383%	(70%)	(31%)	-	

Significant strides were made in the fourth quarter to commercialize the Company's product lines. This allowed the Company to increase its revenue significantly in the fourth quarter.

EXPENSES

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

($CDN; Unaudited)	For the Three Months Ended December 31		For the Year Ended December 31	
	2019	2018	2019	2018
General and administrative	2,779,970	799,738	6,331,984	1,541,039
Selling, marketing and promotion	267,105	85,701	649,324	248,731
Consulting fees	857,806	249,363	2,519,005	1,198,855
Professional fees	743,587	958,065	2,482,353	1,915,725
Salaries and wages	1,734,426	576,519	6,411,611	1,543,325
Research and development	683,647	115,691	1,216,626	456,622
Board fees	36,015	30,097	95,675	85,744

Total	$7,102,556	$2,815,174	$19,706,578	$6,990,041

General and Administrative Expenses

For the quarter and year ended December 31, 2019 the Company incurred general and administrative expenses of $2,779,970 and $6,331,984, respectively. When compared to the same quarter and period from prior year the company incurred $799,738 and $1,541,039 of general and administrative expenses. The increase in the quarter and period from the prior year is related to the expansion of the Company's operational activities. As part of the expansion efforts, the company increased its head count which required additional office space and built out its IT infrastructure which included the implementation of an entity wide enterprise resource planning software. Furthermore, additional travel expenses were incurred through business development efforts in the quarter and period as the Company continues to expand its global footprint. Such expenses were required to build out the infrastructure the Company needs to support its future growth.

Selling, Marketing and Promotion

For the quarter and year ended December 31, 2019 the Company incurred selling, marketing and promotion expenses totaling $267,105 and $649,324, respectively, compared to $85,701 and $248,731 for the same quarter and period from prior year. The increase in both the quarter and period is directly attributable to marketing expenses related to the Company's launch of its initial, global, brand Pura Earth™. Leading up to the its October 2019 commercial launch the company incurred significant advertising, design and promotional expenditures. The strong marketing campaign to resulted in strong Derma Cosmetic sales in the fourth quarter of this year.

Consulting Fees

For the quarter and year ended December 31, 2019 the Company incurred consulting expenses totaling $857,806 and $2,519,005, respectively, compared to $249,363 and $1,198,855 in the prior year. When compared to the same period from prior year the increase in consulting fees, for both the quarter and period, can be directly attributable to the following; (i) the Company increased its research and development teams to assist with the expanded research and development projects in fiscal 2019, (ii) certain consulting services were retained to assist with the Company's listing on the Toronto Stock Exchange (the "TSX"), and (iii) the Company retained the services of consultants in international markets to assist with its global commercial expansion, which included advisors for both its regulatory and commercial efforts.

Professional Fees

For the three and twelve months ended December 31, 2019 the Company incurred professional fees of $743,587 and 2,482,353, respectively, compared to $958,065 and 1,915,725 in the prior year. When compared to the same quarter in prior year, professional fees decreased as the company did not incur any go public transaction costs in the current quarter. For the year ended December 31, 2019, the increase in professional fees is driven by the go public transaction costs that were incurred in the first three quarters of the year which primarily related to the Company's successful listing on the TSX. Substantial legal, accounting and compliance fees were incurred as part this process.

Salaries and Wages

For the three months ended December 31, 2019 the Company incurred salaries and wages of $1,734,426, compared to $576,519 in the prior year. The Company has expanded its team as operations have scaled up, particularly in Colombia. Our cultivation facilities have increased in size substantially, requiring additional staff. In addition, as our commercialization efforts expand, additional team members were added, particularly in its Bogota offices. In addition, the Company has added certain key personnel in its Canadian offices particularly as it relates to research and development, finance and legal activities.

For the year ended December 31, 2019 the Company incurred salaries and wages of $6,411,611 compared to $1,543,325 in the prior year comparative period. The increase year-over-year is related to the same factors noted above for the three month period.

Research and Development

For the three and twelve month periods ended December 31, 2019 the Company incurred research and development expenses totaling $683,647 and $1,216,626, respectively, compared to $115,691 and $456,622 in the prior year. The increase from comparable periods is directly attributable to the expansion of its partnerships, team and research activities.

Other Items

For the three and twelve periods ended December 31, 2019 the Company incurred other items totaled $99,988 and $(22,850), respectively, compared to $220,299 and $1,156,698 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, (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 Twelve Months Ended December 31	
($CDN, except share amounts; Unaudited)	2019	2018
	$	$
Net Loss	**(22,213,037)**	**(7,289,397)**
Amortization	923,514	172,705
Future tax recovery	(1,033,393)	
Net interest income	(14,166)	(10,355)
EBITDA	**(22,337,082)**	**(7,127,047)**
Share based compensation	2,685,629	1,401,320
IPO related costs	1,901,968	-
Fair value of biological assets	(103,887)	-
Gain on Sativa Nativa acquisition		(1,129,976)
Revaluation of derivative liability	(77,569)	-
Other income	(383,415)	(180,475)
Adjusted EBITDA	**(18,314,356)**	**(7,036,178)**

REVIEW OF FINANCIAL POSITION

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

SELECTED FINANCIAL INFORMATION	As at December 31, 2019	As at December 31, 2018
Assets	**$**	**$**
Cash	441,757	69,295
Amounts receivable	1,202,924	258,608
Prepaid assets	704,632	863,624
Biological assets	117,367	-
Inventory	1,484,371	-
Right to use asset	539,710	-
Property and equipment	22,622,322	16,256,136
Intangible assets	11,063,900	10,733,266
Derivative asset	3,780,000	-
Investments	72	72
Goodwill	3,207,227	3,207,227
Total Assets	**45,164,282**	**31,388,228**
Liabilities and Equity		
Amounts payable	5,177,634	1,455,565
Due to related party	3,319,116	331,320
Convertible debentures	715,626	-
Derivative liability	23,434	-
Lease liability	555,339	-
Term loan	-	14,441
Deferred revenue	3,323,518	-
Deferred tax liability	2,173,834	3,207,227
Total Liabilities	**15,288,501**	**5,008,553**
Shareholder's equity	**29,875,781**	**26,379,675**
Total Liabilities and Shareholder's Equity	**45,164,282**	**31,388,228**

Assets

Total assets increased significantly to approximately $45.2 million as at December 31, 2019 from approximately $31.4 million as at December 31, 2018.

Cash increased slightly by approximately $0.4 million from December 31, 2018. The two main drivers of this increase were the closing of Avicanna'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 Avicanna approximately $2.8 million. The proceeds that were generated from these financing activities were subsequently used to build out the cultivation facility to increase Avicanna's production capacity.

Prepaid assets increased significantly by approximately $0.15 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 Avicanna's extraction and analytical capabilities, and whose delivery is schedules for the fourth quarter 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 from the commencement of the agreement.

The Company recognized both inventory and biological assets as at December 31, 2019. During the third quarter, nineteen genetics were approved allowing the Company to harvest, extract and sell these specific genetics. As a result, any plants that were not harvested at December 31, 2019 were recognized as biological assets at their fair market value less any costs to sell. Furthermore, dried flower, resins, distillates, and crystals on hand at December 31, 2019 that were extracted from one of the 19 approved genetics were recognized into inventory. All these items were recognized into inventory, which were not present for the same period in 2019.

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 increased by approximately $6.0 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 and the purchase of equipment for research, development and extraction activities.

Liabilities

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

Accounts payable increased by approximately $3.7 million from December 31, 2018 to December 31, 2019. The increase was the result of several accruals and payables related to 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. Furthermore, the Company has accrued for variable compensation for the 2019 fiscal year. The related party balance represents the minority shareholders of Sativa Nativa and SMGH. These advances represented proportional contributions and were utilized for capital and operational expenditures.

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. The increase in lease liability as at December 31, 2019 relates to the multi year office lease signed in 2019 and capitalized in accordance with IFRS 16.

Shareholders' Equity

Total Shareholders' Equity increased by approximately $3.5 million at December 31, 2019 compared to December 31, 2018. For the year ended December 31, 2019, the Company closed the second tranche of its special warrant financing which yielded net cash proceeds of approximately $17.1 million. Furthermore, shareholders' equity was further increased from the exercise of warrants in the amount of $3.5 million and partial sale of Sativa Nativa in the amount of $2.8 million. The increases were offset by losses in the period of $23.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows for the year ended December 31, 2019 and December 31, 2018

Cash from Operating Activities

Cash used in operating activities was $19.4 million for the year ended December 31, 2019 compared to a usage of $5.0 million for the year ended December 31, 2018. The increase in cash used is attributed to an increase in losses from operations. Larger losses were driven by the expansion of operations and increased costs to go public. Furthermore, as cultivation ramped up during the year the Company used a significant amount of its working capital to build up its inventory to meet commercial needs in the future.

Cash used in Investing Activities

Cash used in investing activities was approximately $7.5 million for the year ended December 31, 2019 compared to $7.0 million for the year ended December 31, 2018. The variance primarily relates to an increase in purchases of capital assets in the current year which was largely offset by a to a $3.2 million advance that was made to SMGH prior to the acquisition in prior year.

Cash from Financing Activities

Cash from financing activities increased by approximately $27.3 million for the year ended December 31, 2019, compared to approximately $10.9 million for the nine months ended December 31, 2018. The large increase of approximately $16.4 million was the result of increased financing activities for the year ended December 31, 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 December 31, 2019, the Company had working capital deficit of approximately $1.4 million, with current assets of approximately $4.0 million and current liabilities of approximately $5.4 million, which excludes related party advances. The Company commenced its commercial sales activity in the fourth quarter of 2019, however given the volumes there wasn't a substantial amount of inventory that was required to fulfill sales orders. In addition, while the Company requires a significant amount of harvested inventory and assets to be on hand to meet future demand, the cost for cultivation and extraction is

cost effective given the region of world in which its cultivation assets are located. Therefore, there is not a substantial amount of working capital required to build up inventory.

Furthermore, the related party balance due of $3.3 million is not intended to be repaid. As these amounts become due, the outstanding balances will convert into common shares of SMGH and Sativa Nativa, consistent with current ownership splits.

SUMMARY OF QUARTERLY RESULTS

The following provides a summary of the quarterly results:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
	$	$	$	$	$	$	$	$
Revenues	122,715	4,943	16,571	24,023	24,142	35,166	25,156	33,507
Net comprehensive loss	(7,345,054)	(7,194,831)	(5,180,516)	(3,918,014)	(3,475,698)	(2,021,518)	(1,756,683)	(224,269)
Loss per share	(0.33)	(0.33)	(0.25)	(0.25)	(0.27)	(0.14)	(0.12)	(0.02)

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 nine months ended December 31, 2019 and year ended December 31, 2018 is as follows:

	December 31, 2019	December 31, 2018
Salaries and benefits	$ 1,292,089	$ 671,433
Share-based compensation	302,332	34,000
Total	$ 1,594,421	$ 705,433

Additionally, as of December 31, 2019 a minority shareholder of SMGH, Inmobiliaria Bondue S.A.S. ("Bondue") advanced funds in the amount of $3,319,116. 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.

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 December 31, 2019, 22,364,723 common shares were issued and outstanding as fully paid and non-assessable and no preferred shares had been issued. As of December 31, 2019, the Company also had the following securities, convertible into common shares, outstanding: (i) 1,627,915 stock options, (ii) 1,483,341 common share purchase warrants, (iii) 108,658 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	1,538,180	500,000

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 Shoppers Drug Mart Inc. to be the exclusive distributor of its Rho Phyto 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 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 the UfT 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 line in Canada. Increased marketing expenses are anticipated in the early part of 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 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:

Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases, replacing IAS 17, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in the standard, IFRS 16 was adopted retrospectively without restating

comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2019. The Company also utilized certain practical expedient elections whereby (i) there is no need to reassess whether an existing contract is a lease, or contains an embedded

lease if previously determined under IAS 17, (ii) short term and low value leases are treated as operating leases, and (iii) there is no need to reassess the previous assessments in respect of onerous contracts that confirmed there were no existing onerous lease contracts. Under IFRS 16, leases greater than 12 months are now recognized on the balance sheet for lessees, essentially eliminating the distinction between a finance lease and an operating lease under IAS 17, where operating leases were reflected in the consolidated statements of operations and comprehensive loss. There were no transitional adjustments upon adoption of this standard as all outstanding leases were entered in the current year.

The following are the Company's new accounting policies for its leases under IFRS 16:

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement on the inception date.

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of operations and comprehensive loss. The right of-use asset is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;

- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate. Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of operations and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise primarily small equipment.

Revenue recognition

The Company recognizes revenue in accordance with IFRS 15. IFRS 15 specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer
2. Identifying the performance obligations within the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligation
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Company currently generates revenue from patient referral services and sale of its cannabis-based products. Consulting and patient referral services are 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. Revenue from the sale of the Company's cannabis-based products is recognized when the Company transfers control of the goods to the customers. Control of the product transfers at a point in time either upon shipment to, or receipt by, the customer, depending on the contractual terms. The Company recognizes revenue in an amount that

reflects the consideration that the Company expects to receive considering any variation that may result from rights of return.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. All other repair and maintenance costs are recognized in the consolidated statements of operations and comprehensive loss.

The initial cost of property and equipment comprises its purchase price or construction cost and any costs directly attributable to bringing it to a working condition for its intended use. The purchase price or construction cost is the aggregate amount of cash consideration paid and the fair value of any other consideration given to acquire the asset. Where an item of property and equipment is comprised of significant components with different useful lives, the components are accounted for as separate items of property and equipment.

For all property and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is calculated starting on the date that property and equipment is available for its intended use.

Construction-in-progress includes property and equipment in the course of construction and is carried at cost less any recognized impairment charge. These assets are reclassified to the appropriate category of property and equipment and depreciation of these assets commences when they are completed and ready for their intended use.

Intangible assets

Intangible assets acquired separately are measured upon initial recognition at cost, which comprises the purchase price plus any costs directly attributable to the preparation of the asset for its intended use. Intangible assets acquired through business combinations or asset acquisitions are initially recognized at fair value as at the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment charges.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible assets require the use of estimates and assumptions and are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense attributable to an intangible asset is recognized in the consolidated statements of operations and comprehensive loss in the expense category consistent with the function of the intangible asset.

Business Acquisitions

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration

paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss. Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

Biological assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Cost to sell includes post-harvest production, which include API extraction, shipping and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations of the related reporting year.

Research and development

Research costs are expensed when incurred. Development costs are capitalized when the feasibility and profitability of the project can be reasonably considered certain. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

Inventories

Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent direct and indirect postharvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for resale and supplies and consumables are valued at the lower of costs and net realizable value, with cost determined using the weighted average cost basis.

The line item “Inventory production costs expensed to cost of sales” in the consolidated statements of operations is comprised of the cost of inventories expensed in the year and the direct and indirect costs of shipping and fulfillment including labour related costs, materials, shipping costs and facilities costs

Convertible debentures

Convertible debentures are recorded on the consolidated statement of financial position at amortized cost. The convertible debentures are separated out into their liability and derivative liability components. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature-less the value associated to derivative liability as mentioned below. The fair value of the derivative liability was determined as the difference between the total proceeds on issuance of the convertible note less the value of the convertible debenture. Subsequent to initial recognition, the company will accrete the debenture over its contractual term using the effective interest rate method.

Derivative liability

The Derivative liability is recorded on the consolidated statement of financial position at fair value. The conversion features of the convertible debentures, whereby the holder of the notes can convert any accrued interest payments to common shares (see note 8) is determined to be an embedded derivative liability and is separately valued and accounted for on the statement of financial position with changes in fair value recognized through profit and loss. The pricing model the Company uses for determining the fair value of the derivative liability is the Black Scholes Model. The model uses market sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management’s judgment and may impact net income.

Derivative asset

The Derivative asset is recorded on the consolidated statement of financial position at fair value. The asset relates to the call option which was granted to the company as part of Avicanna’s transaction with LC2019 Inc (See Note 11). The fair value of the option is determined by using a discounted cash flow which involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows. The Company will revalue the Call Option each reporting period and will recognize any changes in the fair value through profit and loss.

Income taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities on the taxable loss or income for the period. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the end of the reporting period.

Current income tax assets and current income tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Investment tax credits on Scientific Research and Experimental Development expenditures are reflected in intangible assets as deductions from development costs when such expenditures have been capitalized to intangible assets. Otherwise, investment tax credits on Scientific Research and Experimental Development expenditures are recorded as other income.

Deferred income tax

Deferred income tax is provided on temporary differences on the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be generated in future periods to utilize these deductible temporary differences.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable income will be generated to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will be generated to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the consolidated statement of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate future taxable income in order to utilize the deferred income tax assets. Estimates of future taxable income are based on forecasted cash flows from operations or other activities. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the reporting date could be impacted.

Provisions and contingencies

Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of a past event; and b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision as a result of the passage of time is recognized in finance cost in the consolidated statements of operations and comprehensive loss.

A contingent liability is not recognized in the case where no reliable estimate can be made; however, disclosure is required unless the possibility of an outflow of resources embodying economic benefits is remote. By its nature, a contingent liability will only be resolved when one or more future events occur or fail to occur. The assessment

of a contingent liability inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recorded when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

Share-based compensation

The fair value of stock options and warrants is based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the share price, volatility of the share price, expected dividend yield and expected risk-free interest rate.

Share capital

Common shares and warrants are classified as equity. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes option pricing model to determine the fair value of warrants issued.

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	$ 5,177,634	$ 5,177,634	$ 5,177,634	$ -	$ -
Lease liability	555,339	555,339	224,950	224,950	168,713
Convertible Debentures	715,626	715,626	-	715,626	-
	$ 6,448,599	**$ 6,448,99**	**$ 5,402,584**	**$ 940,576**	**$ 168,713**

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.