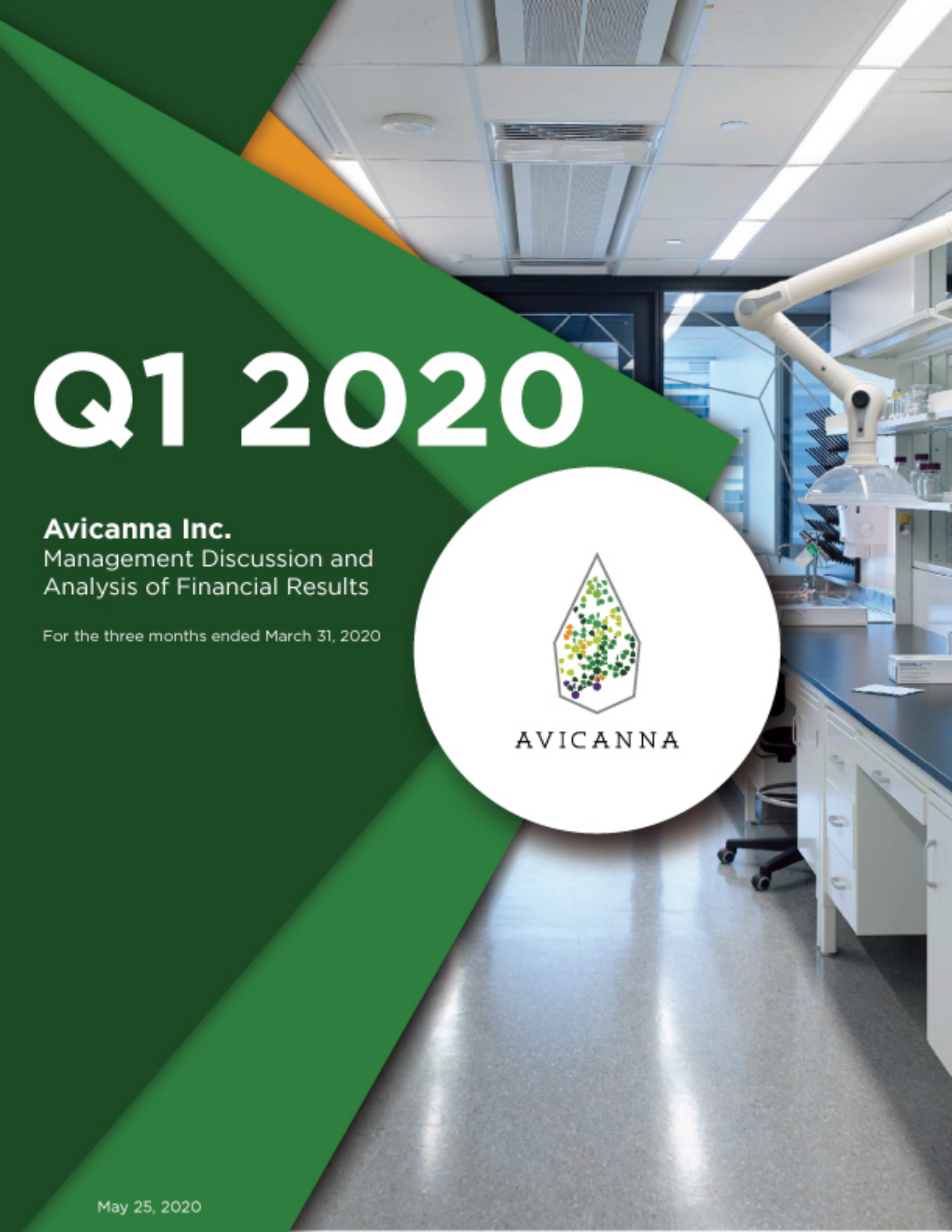
Q1 2020

Avicanna Inc.
Management Discussion and Analysis of Financial Results

For the three months ended March 31, 2020



AVICANNA

May 25, 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 May 25, 2020 and is supplemental to and should be read in conjunction with the Company's consolidated financial statements for the three months ended March 31, 2020 and the accompanying notes thereto (collectively, "Financial Statements"). The information contained in this MD&A is presented as of the date of the Financial Statements and is current to that date unless otherwise stated. The results reported herein have been derived from consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All amounts are expressed in Canadian dollars unless otherwise noted.

This MD&A is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The Financial Statements and this MD&A have been reviewed and approved by the Company's Board of Directors on May 25, 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. The Company has formed research strategic 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 the current fiscal year. In addition, the Company acquired 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 March 31, 2020, 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 Q1 – 2020

- Early in 2020, the Company reacted immediately to the COVID-19 crisis and initiated several cost cutting and optimization initiatives to ensure that it directed its resources to its strategic and commercial, revenue-focused activities. These measures resulted in operating expenditures decreasing by approximately 45% from Q4 2019 to Q1 2020. In addition, the Company reduced its headcount by approximately 70 persons in the quarter, which represented approximately 30% of the overall global headcount. Furthermore, management reduced their pay by approximately 30% in an effort to conserve cash and resources. This, coupled with the completion of capex-heavy projects, significantly reduced the company's cash burn rate. In addition, our minority partners in our cultivation subsidiaries, Santa Marta Golden Hemp S.A.S. ("SMGH") and Sativa Nativa S.A.S. ("Sativa Nativa"), contribute their portion of capital on an ongoing basis. As such the Company does not carry full cash burden of operations or capital expenditures.

- In parallel with the cost cutting initiatives, the Company's commercial preparations and initiatives continue to progress and saw growth in its revenue by approximately 112% over the fourth quarter of 2019. The Company is expecting revenues to continue to increase through fiscal 2020 putting it in the position to generate positive cash flow by the end of 2020.

- While we saw a steep decline in API market prices and demand, our optimization efforts in our agricultural projects, including cultivation and extraction processes, continue to demonstrate global competitiveness. We are anticipating that the efforts during the quarter will lead to an overall reduction in cost per gram of dry flower of $0.05, which will be realized in the second quarter of 2020.

- In January 2020, the Company entered into an agreement, whereby its Rho Phyto™ and Pura Earth™ product lines 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 initial products, which include oil drops, sublingual sprays and topical applications, are now approved by Health Canada for launch and the Company expects to have the products available to the medical community in the beginning of the third quarter of 2020. The advanced non-inhalation product line will be positioned as the new standard of advanced medical solutions for the Canadian medical community.

- In January and February 2020, the Company received positive results from the three cosmetic clinical studies of its Pura Earth line of products targeted at cosmetic factors associated with aging, acne-prone skin, and eczema-prone skin. The Company is one of the select few entities to complete initial trials on a line of derma-cosmetic products.

- In January 2020, the Company closed a non-brokered private placement for approximately $2.06 million pursuant to which the Company issued 822,721 units at a price of $2.50, which represented a premium to market.

- In February 2020, the Company announced that it ranked highest amongst global cannabis companies in the SAM Corporate Sustainability Assessment ("CSA"), a sustainability index that has become the basis for numerous S&P Global ESG indices and showcases the sustainability performance of some of the world's largest companies.

- In February 2020, the Company entered into an import and distribution agreement with Cannvalate Pty Ltd. ("Cannvalate") to supply its Rho Phyto advanced medical cannabis products to patients under the Australian Therapeutic Goods Administration Special Access Scheme, as well as cannabis active pharmaceutical ingredients ("APIs"). The Company also agreed to supply Cannvalate with a line of advanced cannabinoid phyto-therapeutic products on a white-labelled basis.

Subsequent to the Quarter

- In April 2020, at the height of the COVID-19 pandemic, the Company closed a non-brokered private placement for $2.56 million, issuing 3,200,000 units at a price of $0.80 per unit. The financing primarily included strategic partners, including Tasly International Capital Limited, a division of Tasly Holding Group Co., Ltd., a large healthcare and pharmaceutical group in China.

- In April 2020, through its Avesta Genetica genetics and seed division, SMGH completed the first known industrial scale seed harvest in Colombia which included approximately 80 million premium and feminized cannabigerol ("CBG") dominant seeds. The seeds have been tested for germination and attained feminization rates of 99%, which are deemed premium within the global seed market. The seeds will be utilized for local production, sales and exports.

- In May 2020, the Company was approved by Colombian government for the first ever export of hemp seeds (genetics) through SMGH in Santa Marta, Colombia. This export was authorized with support from the Colombian ministries of justice and agriculture.

- In May 2020, the Company entered into a strategic manufacturing and intellectual property ("IP") licensing agreement with MediPharm Labs Inc. ("MediPharm") involving licensed production, domestic and international distribution and intellectual property licensing. Under the terms of the agreement, MediPharm will use the specialized contract manufacturing capabilities resident at its state-of-the-art Canadian production facility to produce Avicanna's advanced Rho Phyto medical cannabis products and Pura Earth topicals under license for commercial sales through Medical Cannabis by Shoppers. The partnership provides Avicanna with a commercial pathway to Canadian and international sales, as well as pharmaceutical manufacturing of its products destined for clinical development with its Canadian clinical partners. Additionally, Avicanna will grant MediPharm a license to use proprietary Avicanna formulations to develop additional MediPharm Labs and white label branded products for the domestic and international market. MediPharm has proven expertise in product development and will leverage its in-house sensory testing, processing and packaging capabilities to manufacture finished products using these formulations. MediPharm Labs' pharmaceutical and GMP-certified capabilities and international supply chain expertise will be deployed to produce and deliver the proprietary finished products to partners worldwide.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's research and development activities over the past 4 years have been focused on the development and optimization of cannabinoid formulations and delivery methods for various product types. These include consumer derma-cosmetics, medical cannabis lines and pharmaceutical development activities. Avicanna has commercialized several of its products from the research and development stage. In addition, the Company is committed to further developing and optimizing formulations to create products that will better address patient needs. Furthermore, Avicanna is dedicated to completing clinical research and real world evidence trials ("RWET").

Avicanna's Rho Phyto formulations were submitted in early January 2020 to Health Canada. The sixty (60) day notification period was met and products were approved for commercialization in Canada. Rho Phyto formulations include oil drops (advantage D 50, advantage D 20-5), sublingual sprays (advanced S 40-2, advanced S 20-10), capsules (advanced C 25-1, advanced C 5-2) and topicals (cream TC 10 and TC 10-2, gel TG 10 and TG 10-2). All products were reassessed for stability and pharmacokinetic profiles at the University of Toronto to ensure that they meet the Company's quality standards. Rho Phyto will be launched on the Medical Cannabis by Shoppers Drug Mart platform in the initial part of the third quarter of 2020; the technical transfer for the production of these products at MediPharm in Ontario has commenced to meet the expected launch date. In addition, Avicanna is partnering with academic institutions and hospitals to conduct RWET on the formulations underlying its Rho Phyto product line. Avicanna continues to explore novel product delivery forms with varying cannabinoid profiles for potential launch in the future.

Completion of studies at the University of Toronto, Faculty of Dentistry, provided guidance on the development of our oral care product pipeline and facilitated discussions for a potential joint venture. Further product pipeline development was delayed due to COVID-19.

Our partnership continues with the Dr. Christine Allen Research Group ("CARG") at the Leslie Dan Faculty of Pharmacy at the University of Toronto. CARG evaluated the pharmacokinetic profiles of Avicanna's products in preparation for Canadian commercialization. In addition, the Company and CARG continue to develop novel delivery forms for cannabinoids including solid lipid nanoparticles. During Q1, the Avicanna-CARG team began final development of a novel analytical method that will increase detection of cannabinoids and their metabolites. Furthermore, novel delivery forms and cannabinoid ratios will be further optimized for particular therapeutic indications and evaluated in pre-clinical models for efficacy.

At the University of Guelph, Dr. Jibran Khokhar completed the development of an animal model for nicotine addiction. With this development, Dr. Khokhar is ready to study various cannabinoid ratios and delivery forms for their efficacy in decreasing withdrawal symptoms in nicotine dependent animals. The timelines for this study are being adjusted in accordance with research regulations during COVID 19.

Technical transfer of Avicanna's CBD cream to Altea Farmaceutica S.A.S. was completed, and a pilot batch of the pharmaceutical product produced during Q4 2019 continues to be tested for physical, chemical and safety testing The results of the testing will be included in the CTA filing to Health Canada for clinical protocols of the Phase 2/3 trial on epidermolysis bullosa, which will be conducted with the Hospital for Sick Children in Toronto.

The prevalence study for neuropathic pain in patients with Sickle Cell Disease ("SCD") at the University of the West Indies ("UWI") in Jamaica commenced in Q4 2019. At the end of Q1 2020, a total of 257 patients were screened for the study. Due to COVID-19, patients were no longer recruited and the UWI SCD team started their review of the data collected. Although the recruitment ended early, it is the largest prevalence study to be completed for neuropathic pain in SCD. The data is expected to provide sufficient evidence of neuropathic pain in the Jamaican SCD population with a sufficient sample size for the prevalence study allowing the Company and UWI to progress to the intervention study. The intervention study will use one of Avicanna's Rho Phyto products (sublingual spray). Abstracts for conferences and publications are currently in preparation from the prevalence study. Commencement of the intervention study will depend on the current state of COVID-19 restrictions in Jamaica.

Pursuant to various research and development agreements, as further described in this MD&A, 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 quarter ending March 31, 2020	For the quarter ending March 31, 2019
Research and development expenditures	28,808	118,066
Total Expenditures	28,808	118,066

A large portion of Avicanna's research and development expenditures include fees for partnerships, namely, University of Toronto Faculty of Pharmacy ("U of T Pharmacy"), CAIMED, the University of the West Indies

("UWI"), and the University of Guelph ("U of Guelph"). Additional research and development expenditures include laboratory supplies, materials and equipment, and consulting fees.

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

Partner	Current Activities	Total Budget	Costs Expended as at March 31, 2020	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	549,529	1,111,540
CAIMED Framework Agreement	Cosmetic trials completed.	192,007	42,000	150,007
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		**2,762,184**	**761,277**	**2,000,907**

Pharmaceuticals

Avicanna's pharmaceutical products follow the traditional drug discovery and development process for submission to the applicable governmental agencies, such as Health Canada, and the FDA, of a drug application for approval and market authorization. Avicanna's pharmaceutical products use only plant-derived cannabinoid extracts, purified cannabinoids, including distillates and isolate ("Extracts"). 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	Q2 2020 (amended from Q1 2020 due to COVID 19 delays)
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. Due to COVID-19 we expect delays in the start of the clinical trial at Sick Kids. Anticipated start will be the second half of 2020.	312,000	-

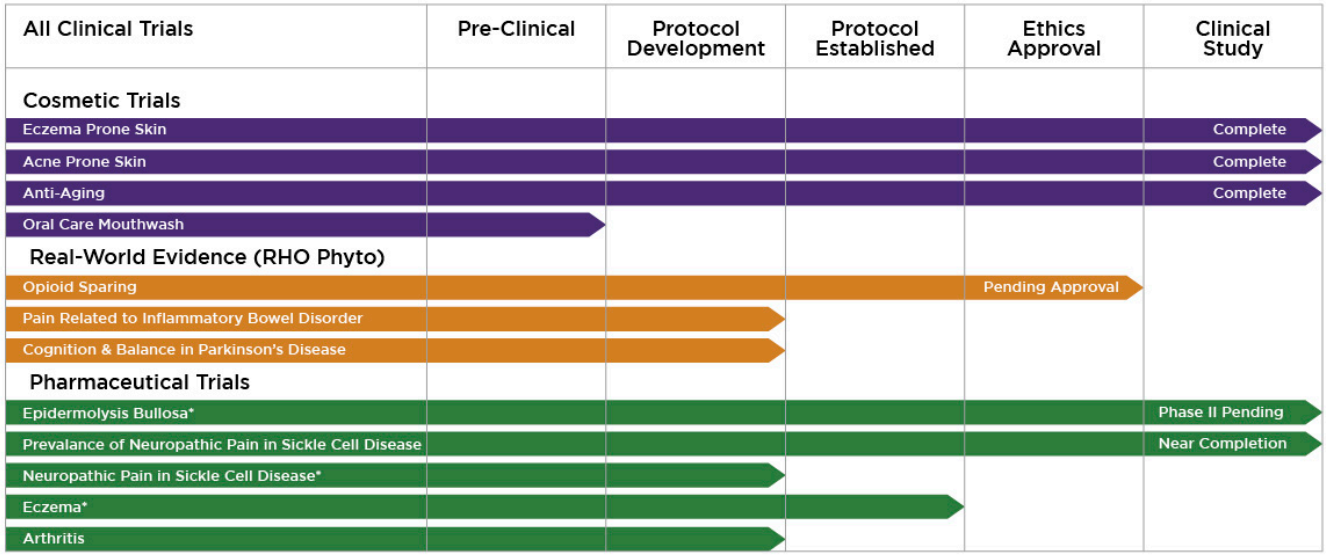
AVCN319301	Neuropathic Pain in SCD	Prevalence study completed during the current quarter. The intervention study anticipated start date is delayed by COVID-19 to Q4 2020.	TBD	-
Total			312,000	-

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.

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 capsules will be used in a pilot randomized controlled trial evaluating the feasibility of conducting a double-blind, randomized, placebo-controlled clinical trial for the use of oral cannabinoids for opioid-sparing and pain reduction in patients using opioids for chronic pain management. Additionally, the study will evaluate whether oral cannabinoids can reduce daily opioid dose and decrease pain interference compared to placebo in patients using opioids for chronic pain. An investigational brochure was developed for the Rho Phyto products that will be used in this trial. Further development of RWET will occur in Q2 2020 in anticipation of product launch including pain related to inflammatory bowel disorder and cognition and balance in Parkinson's disease.

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



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

Phyto-therapeutics – Rho Phyto Line of Products

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 tetrahydrocannabinol ("THC") and CBD. The advanced line of products is expected to set the new standard for medical cannabis products. The formulations are designed for higher bioavailability, faster uptake and have followed Avicanna's pharmaceutical R&D process including stability, optimization and pre-clinical analysis. The products are also inhalation free and targeted towards sophisticated users through significant education and training plans the company has in place for the brand launches. To date, each jurisdiction has implemented separate and distinct regulatory environments governing a path to commercializing this product line. We have summarized our path to commercialization in each market that the Company intends to target for 2020.

Canadian Distribution

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

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

Colombian Distribution

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

United Kingdom Distribution

In the United Kingdom ("UK"), the Company will be distributing its Rho Phyto line through its partner, Lyphe Group. Prior to launch, the Company will obtain all required regulatory approvals. The Company is expecting to receive initial orders in the second quarter of 2020 and commence distribution in the third quarter 2020 in the UK market.

Derma-Cosmetics – Pura Earth Line of Products

Derma-cosmetics are products with a cosmetic purpose, generally topical in nature and designed to achieve a specific aesthetic objective. Avicanna's derma-cosmetic products, Pura Earth, 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 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.

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

Intellectual Property

As the Company continues to expand its research and development activities, the expectation is to grow its intellectual property (IP) portfolio through patent applications. As of March 31, 2020, the Company has filed five patent applications in the United States as summarized below.

Description	Date of Filing	Status
Methods of cannabis cultivation	August 15, 2019	Filed, awaiting examination

Oral cannabinoid compositions and methods for treating neuropathic pain	September 5, 2019	Filed, awaiting examination
Topical cannabinoid compositions for clear skin	October 21, 2019	Filed, awaiting examination
Topical skin care composition and methods for treating eczema	December 10, 2019	Filed, awaiting examination
Topical cannabinoid compositions and methods for treating skin diseases	March 6, 2020	Filed, awaiting examination

In parallel to the patent protection of novel products and processes, the company also takes necessary steps to protect its trademarks. As of March 31, 2020, 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 operations are located in Santa Marta, Colombia. The Company holds controlling interest in two entities, Sativa Nativa and SMGH, that are fully licensed to cultivate, process, extract and sell cannabinoid products and API.

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

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

	For the three months ending March 31, 2020	For the three months ending December 31, 2019
SMGH		
Total square feet	360,000	360,000
Shadehouse	*190,000*	*190,000*
Outdoor	*150,000*	*150,000*
Greenhouse	*20,000*	*20,000*
Annual yield - KGs	26,400	26,400
Cost per gram – dried flower	$0.12	$0.12
Distillate Crystallization Efficiency	80%	80%
Extraction capacity – Dried Flower KGs per day	300	300
Sativa Nativa		
Total square feet	120,000	120,000
Shadehouse	*50,000*	*50,000*
Outdoor	*50,000*	*50,000*
Greenhouse	*20,000*	*20,000*
Annual yield - KGs	4,500	4,500
Cost per gram – dried flower	$0.11	$0.12

Avesta Genetica Program

Avesta Genetica ("Avesta") is Avicanna's seed and genetics program based out of SMGH in Santa Marta, Colombia. To date, a total of twenty nine (29) commercial genetics have been registered with the required Colombian authorities. This allows the Company to sell both domestically and internationally utilizing these genetics in its pure form, API, or as an ingredient in one of the Company's products.

The Company was recently approved by the Colombian government for the first ever export of cannabis seeds from Colombia. The export is being initiated to the US for CBG-dominant, feminized seeds with genetics that expresses approximately 17% CBG. These premium feminized seeds have demonstrated in excess of 99% germination and feminization rates, deeming them as premium industrial seeds in the global marketplace. This first industrial scale seed harvest demonstrates the quality and ability of Avicanna's various divisions, its rich genetics catalogue and its ability to establish new commercial revenue streams.

The following table provides a summary of the costs incurred on the cultivation facilities to March 31, 2020:

TOTAL EXPENDITURES AS AT MARCH 31, 2020 ($CDN; Unaudited)	Construction in Progress	Equipment	General infrastructure	Structures	Total
Santa Marta Golden Hemp S.A.S	2,656,837	1,591,893	2,879,030	3,009,886	10,137,646
Sativa Nativa S.A.S	2,373,354	67,335	-	-	2,440,689
Total Expenditures	5,030,191	1,659,228	2,879,030	3,009,886	12,578,335

Impact and Outlook of COVID-19

At the time of writing this MD&A, the World Health Organization has declared the coronavirus disease ("COVID-19") a global pandemic. This pandemic has had far-reaching impact, both socially and economically. Given the impact, the Company has taken certain strategic initiatives as follows:

- Ensure the safety and wellbeing of the Company's employees during this time. Staff across the Company have been required to work from home to protect their health and safety.
- The Company continues to operate. In particular, its cultivation facilities in Santa Marta, Colombia have remained open and operations have been minimally impacted.
- The Company has engaged a third-party advisor to assist with the potential reopening of offices. While a definitive date has not been set to reopen offices, these advisors have been working with management to provide guidance on reopening strategies and actions to ensure employee health and safety.
- Ensure the Company preserves its capital by reducing non-essential operating expenditures, significant reduction in capital expenditures and directing resources towards commercial efforts.
- Focus the Company's efforts and resources on commercial initiatives that will produce immediate revenue.
- The Company's research and development activities were temporarily paused due to the pandemic. However, recently the CARG lab at the University of Toronto has reopened as an essential service.

As the Company has personnel in four different countries, it continues to monitor the pandemic in each respective market and implement strategies that will ensure the health and safety of its staff. To date, the Company has been able to operate effectively while ensuring the health and safety of its staff. Commercial efforts, to date, have been minimally impacted as the Company continue to see commercial traction for its products during the pandemic. While there have been some delays with respect to certain commercial initiatives, the Company has been able to advance these efforts and any delays will be temporary in nature.

RESULTS OF OPERATIONS

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

SELECTED OPERATIONAL INFORMATION *($CDN, except per share amounts; Unadudited)*	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
	$	$
Revenues	**260,903**	**24,023**
Inventory production costs expensed to cost of sales	100,807	-
Gross margin before undernoted	160,096	
Fair value changes in biological assets included in inventory sold	(28,668)	-
Unrealized gains/(loss) on changes in FV of Bio assets	1,916,120	-
Gross Margin	**2,047,548**	24,023
General and administrative	3,185,943	2,687,206
Share-based compensation	338,193	1,044,639
Depreciation and amortization	509,143	56,295
Total Expenses	**(4,033,278)**	**(3,788,140)**
Other income (loss)	(123,806)	(121,359)
Net loss before taxes	**(2,109,536)**	**(3,885,476)**
Deferred tax recovery	-	-
Net loss after taxes	**(2,109,536)**	**(3,885,476)**
Exchange differences	**(547,122)**	**(32,538)**
	(2,656,658)	**(3,918,014)**
Weighted average number of Common Shares outstanding – basic and diluted	22,970,463	15,885,863
Loss per share – basic and diluted	**$ (0.12)**	**$ (0.25)**

REVENUE

Revenue for the three months ending March 31, 2020 was $260,903 compared to $24,023 for the three months ending March 31, 2019. The Company earned licensing fees of $150,000 during the quarter to develop a line of products in conjunction with a commercial partner. Fifty percent of these revenues were recognized during the quarter, with the other fifty percent being recognized upon completion of additional milestones. The remaining revenues were earned from the sale of the Company's API. During the quarter the Company saw significant traction for its API business as it commercializes its assets in Santa Marta, Colombia.

REVENUE BREAKDOWN	3 months ending March 31, 2020	3 months ending December 31, 2019	3 months ending September 30, 2019	3 months ending June 30, 2019	Total
Assessment and commissions	5,464	3,858	4,943	16,572	30,837
Pura Earth	-	58,822	-	-	58,822
Royalties and license fees	153,699	-	-	-	153,699
Aureus - API	101,740	60,033	-	-	161,773
Totals	260,903	122,713	4,943	16,572	405,131
% Increase (decrease)	112%	2,383%	(70%)	-	

Significant strides were made in the current 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 March 31	
	2020	2019
General and administrative	647,767	883,010
Selling, marketing and promotion	30,126	101,513
Consulting fees	265,887	246,094
Professional fees	662,352	401,122
Salaries and wages	1,507,503	930,702

Research and development	28,808	118,066
Board fees	43,500	6,699
Total	3,185,943	2,687,206

General and Administrative Expenses

For the quarter and year ended March 31, 2020 the Company incurred general and administrative expenses of $647,766. When compared to the same quarter and period from the prior year the Company incurred $883,010 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. However, the Company significantly reduced its general and administrative expenses from the fourth quarter of 2019 in order to preserve cash and focus on commercial activities.

Selling, Marketing and Promotion

For the quarter ended March 31, 2020 the Company incurred selling, marketing and promotion expenses totaling $30,126 compared to $101,513 for the same quarter and period from prior year. The Company reduced expenditures in the current quarter as general cost reduction strategies, and due to COVID-19 the Company reduced its expenses accordingly.

Consulting Fees

For the quarter ended March 31, 2020 the Company incurred consulting expenses totaling $265,887 compared to $246,094 in the prior year. When compared to the same period from prior year the increase in consulting fees, for the quarter 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, (ii) 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 months ended March 31, 2020 the Company incurred professional fees of $662,352 compared to $401,122 in the prior period. When compared to the same quarter in prior year, professional fees increased as the Company is engaging in additional commercial efforts requiring legal and professional services. In addition, the Company requires ongoing legal and professional consultation being a public company.

Salaries and Wages

For the three months ended March 31, 2020 the Company incurred salaries and wages of $1,507,503, compared to $930,702 for the same period last year. While the Company reduced head count in the current quarter, it still expanded its team when compared to the same period last year. The Company has expanded its team in its research and development, professional services, and regulatory departments compared to the same period last year.

Research and Development

Research and development activities decreased from the same period last year given the COVID-19 pandemic. The Company had to pause certain research and development activities in the current quarter. Certain research and development activities have commenced again in the second quarter of 2020.

Other Items

For the three months ended March 31, 2020 the Company incurred other items totaled $(110,860), compared to $(121,359) 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 Three Months Ended March 31	
($CDN, except share amounts; Unaudited)	2020	2019
	$	$
Net Loss	**(2,109,536)**	**(3,885,476)**
Amortization	509,143	56,295
Net interest income	52,780	(7,585)
EBITDA	**(1,547,613)**	**(3,836,766)**
Share based compensation	338,192	1,044,639
Fair value of biological assets	(1,916,120)	-
Revaluation of derivative liability	(23,434)	-
Other income (expenses)	85,451	128,944
Adjusted EBITDA	**(3,063,524)**	**(2,663,183)**

REVIEW OF FINANCIAL POSITION

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

SELECTED FINANCIAL INFORMATION	As at March 31, 2020	As at December 31, 2019
Assets	$	$
Cash	76,568	441,757
Amounts receivable	670,497	1,202,924
Prepaid assets	1,129,470	704,632
Biological assets	2,110,703	117,367
Inventory	1,774,354	1,484,371
Right to use asset	490,646	539,710
Property and equipment	20,938,344	22,622,322
Intangible assets	10,864,475	11,063,900
Derivative asset	3,780,000	3,780,000
Investments	72	72
Goodwill	3,207,227	3,207,227
Total Assets	**45,042,357**	**45,164,282**
Liabilities and Equity		
Amounts payable	5,271,444	5,177,634
Due to related party	3,428,114	3,319,116
Convertible debentures	728,946	715,626
Derivative liability	-	23,434
Lease liability	510,473	555,339
Term loan	-	-
Deferred revenue	3,315,430	3,323,518
Deferred tax liability	2,173,834	2,173,834
Total Liabilities	**15,428,241**	**15,288,501**
Shareholder's equity	**29,614,116**	**29,875,781**
Total Liabilities and Shareholder's Equity	**45,042,357**	**45,164,282**

Assets

Total assets decreased slightly to approximately $43.9 million as at March 31, 2020 from approximately $45.2 million as at December 31, 2019.

Cash decreased slightly by approximately $0.3 million from December 31, 2019. The two main drivers of this decrease were the use of the funds raised in the quarter for commercial activities and working capital. Subsequent to the quarter, the Company raised approximately $2.5 million to increase its cash position.

Prepaid assets increased by approximately $0.4 million. The Company made several large advances to contractors for the construction of its cultivation facilities at Sativa Nativa and SMGH. In addition, the Company has made several advances for research and development activities.

The Company recognized both inventory and biological assets as at March 31, 2020. The increase from December 31, 2019 approximated $2.4 million. The main driver for this increase was the significant yield of seeds the Company realized.

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

Property, plant and equipment remained consistent from December 31, 2019 to March 31, 2020. The Company completed the majority its capital expenditures in fiscal 2019.

Liabilities

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

Shareholders' Equity

Total Shareholders' Equity remained consistent from December 31, 2019 to March 31, 2020. While the Company raised an additional $2.5M during the quarter, its losses were consistent with the amount raised.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash from Operating Activities

During the quarter the Company had a cash deficit from operating activities that totalled approximately $(2.5) million. Much of the operating cash was utilized for working capital purposes. The Company's working capital had minimal changes from December 31, 2019.

Cash used in Investing Activities

During the quarter the Company purchased $1,563 in capital assets. These assets were purchased primarily for SMGH and Sativa Nativa.

Cash from Financing Activities

During the quarter the Company generated $2.1 million from financing activities. The Company raised approximately $2.06 million in an equity issuance during the quarter which accounted for the majority of the cash

SUMMARY OF QUARTERLY RESULTS

The following provides a summary of the quarterly results:

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
	$	$	$	$	$	$	$	$
Revenues	260,903	122,715	4,943	16,571	24,023	24,142	35,166	25,156
Net comprehensive loss	(2,656,658)	(7,345,054)	(7,194,831)	(5,180,516)	(3,918,014)	(3,475,698)	(2,021,518)	(1,756,683)
Loss per share	(0.12)	(0.33)	(0.33)	(0.25)	(0.25)	(0.27)	(0.14)	(0.12)

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 three months ending March 31, 2020 and March 31, 2019 were as follows:

	March 31, 2020	March 31, 2019
Salaries and benefits	$ 232,500	$ 162,500
Share-based compensation	89,330	-
Total	$ 321,830	$ 162,500

Additionally, as of March 31, 2020 a minority shareholder of SMGH, Inmobiliaria Bondue S.A.S. ("Bondue") advanced funds in the amount of $3,428,114. 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 March 31, 2020, 23,187,444 common shares were issued and outstanding as fully paid and non-assessable and no preferred shares had been issued. As of March 31, 2020, the Company also had the following securities, convertible into common shares, outstanding: (i) 1,904,501 stock options, (ii) 2,042,081 common share purchase warrants, (iii) 98,158 restricted share units, (iv) $783,000 principal amount convertible debentures (the principal of which is convertible into 97,875 common shares) and (v) 147,380 compensation warrants (each convertible into one common share and one-half of one common share purchase warrant).

USE OF FUNDS RECONCILIATION

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

The 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	$ 5,271,442	$ 5,271,442	$ 5,271,442	$ -	$ -
Lease liability	510,473	510,473	224,950	224,950	60,573
Convertible Debentures	728,946	728,946	728,946	-	-
	$ 6,510,861	**$ 6,510,861**	**$ 6,225,338**	**$ 224,950**	**$ 60,573**

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.