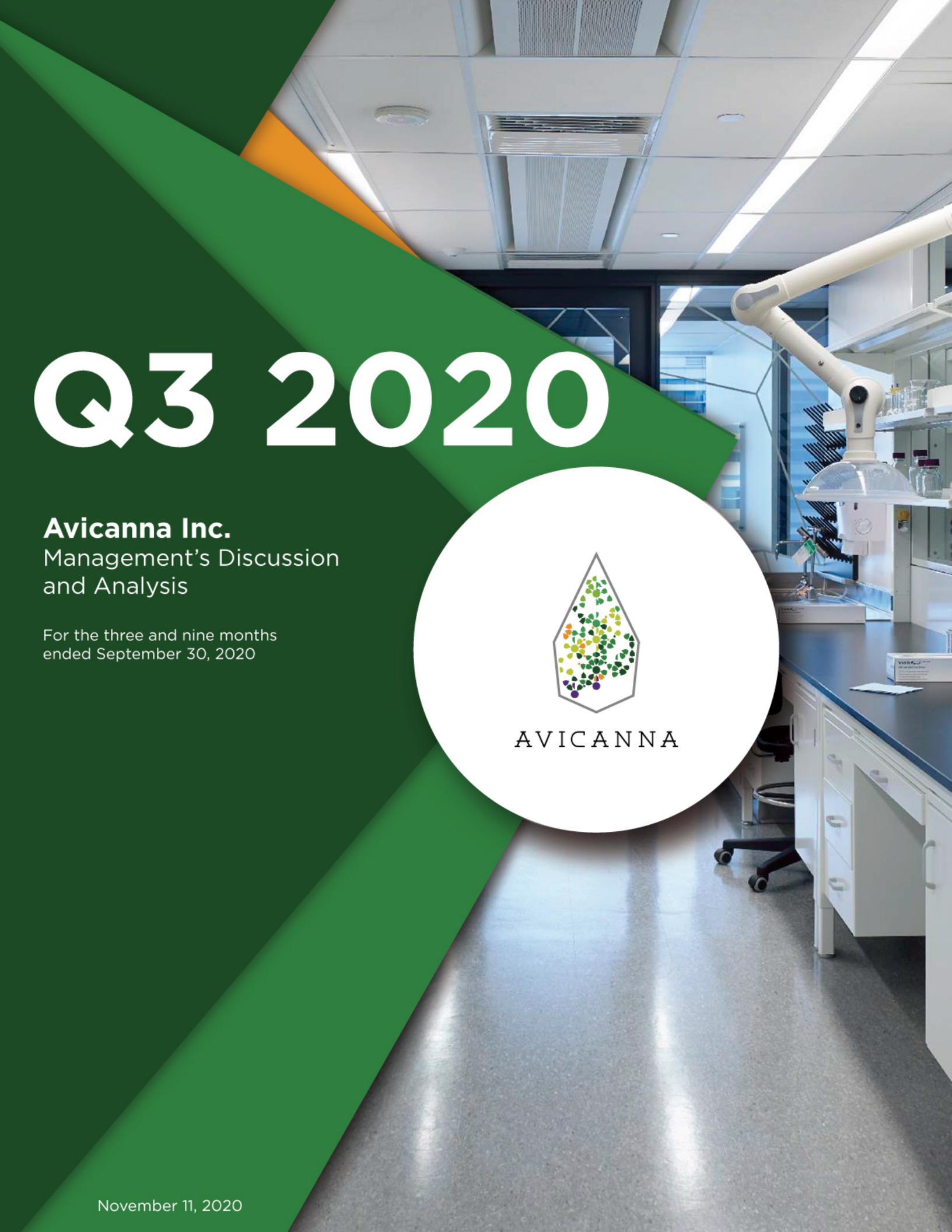


Q3 2020

Avicanna Inc.
Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

AVICANNA

November 11, 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:

- the impacts of the COVID-19 pandemic;
- 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 November 11, 2020 and is supplemental to and should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and the accompanying notes thereto (collectively, "Financial Statements"). The information contained in this MD&A is presented as of the date of the Financial Statements and is current to that date unless otherwise stated. The results reported herein have been derived from consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All amounts are expressed in Canadian dollars unless otherwise noted.

This MD&A is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The Financial Statements and this MD&A have been reviewed and approved by the Company's Board of Directors on November 11, 2020.

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

OUR BUSINESS

Avicanna is a diversified and vertically integrated Canadian biopharmaceutical company focused on the research, development, and commercialization of plant-derived cannabinoid-based products for the global consumer, medical cannabis, and pharmaceutical market segments.

Avicanna's team of experts continues to develop, optimize and conduct clinical studies on the Company's wide range of cannabinoid-based products for commercialization opportunities in four main market segments:

Hemp-derived CBD Consumer Retail Products

Marketed under the Pura H&W™ or Pura Earth™ brands, or under white-label or private-label brands, these pharmaceutical-grade products are an advanced and one of the world's only clinically tested line of cannabidiol ("CBD") consumer derma-cosmetic and topical products.

Market opportunity
Currently being sold in Colombia with anticipated product launches in Canada, the USA, the UK, and certain Latin American countries in the first half of 2021.

Medical Cannabis Products

Marketed under the RHO Phyto™ brand, or under white-label or private-label brands, these products are an advanced line of pharmaceutical-grade medical cannabis products containing varying ratios of CBD and tetrahydrocannabinol ("THC"). The product portfolio contains a full formulary of products including oil drops, sublingual sprays, capsules, and topicals that have controlled dosing, enhanced absorption and stability studies supported by pre-clinical data.

Market opportunity
Currently available nation-wide across Canada in partnership with Medical Cannabis by Shoppers™, a subsidiary of Shoppers Drug Mart. RHO Phyto is the first strictly medical formulary of advanced "Cannabis 2.0" products, developed with scientific rigour, manufactured under GMP standards, and supported by pre-clinical data and educational content for prescribers. These products are also expected to be commercialized in Colombia before the end of 2020, and in the UK and certain Latin American countries in 2021.

Pharmaceutical Pipeline

Pipeline of indication specific drugs in various stages of R&D, pre-clinical and clinical development. The intended pharmaceutical pathways include natural drug or phyto-therapeutic designations, generic pharmaceutical drugs, and rare diseases.

Market opportunity
These products are in varying stages of clinical development and are intended to be marketed once drug applications have been submitted and approved for marketing authorizations by national drug agencies such as the U.S. Food and Drug Administration ("FDA"), Health Canada, and Latin American health authorities including the National Institute for Drug and Food Surveillance ("INVIMA") in Colombia.

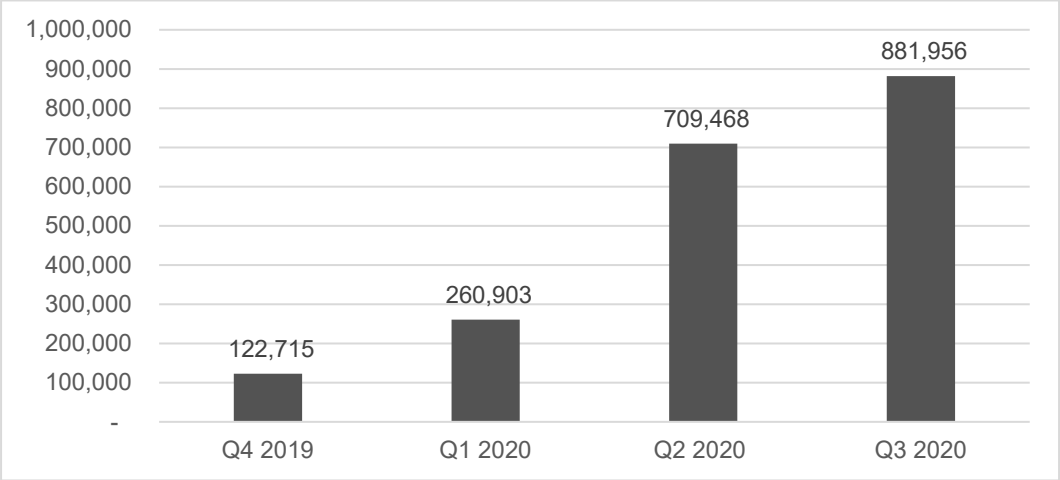
Cannabis Raw Materials, Seeds, and Bulk Formulations

Marketed under the Aureus™ brand, or under white-label or private-label brands, the Company offers feminized seeds, resins or whole plant crude oils, cannabinoid distillates, and isolated cannabinoids (CBD, THC, and cannabigerol ("CBG") and other cannabinoids), and bulk formulations (prepared and customized oil and water soluble formulations for use in oral, topical, and sublingual products) derived from hemp and cannabis cultivars through its sustainable, economical, and industrial scale subsidiaries based in Colombia. The cannabis raw materials supplied by the Company's Colombian subsidiaries form part of Avicanna's supply chain for its finished products that are manufactured and distributed in Colombia and the consumer retail and medical cannabis products expected to be exported from Colombia to other countries.

Market opportunity
The Company has exported raw materials and bulk formulations from Colombia to Canada, the USA, Argentina, South Africa, Germany, and the UK to research and manufacturing companies. In June 2020, the Company made history with a shipment of hemp seeds to the United States of America by completing the first ever export of hemp seeds from Colombia.

QUARTERLY HIGHLIGHTS Q3-2020

- The Company continued to make strides in its strategic commercial initiatives, leading to an increase in revenue of approximately 24% from Q2-2020, continuing the trend of double-digit growth, quarter over quarter from Q4-2019. In addition, the Company was able to reach a major milestone with the launch of certain products from its RHO Phyto product line in Canada and further diversifying its revenue streams. Below is a summary of the revenue trend over the last four quarters.



- During the quarter, the Company incurred general and administrative (G&A") expenses that total $2,954,438. While the Company's G&A expenses did marginally increase from the previous quarter, there were several expenses incurred that were one time in nature. Below is a summary of the adjusted EBITDA of the Company over the last four quarters, indicating its continued improvement.

	Q1 2020	Q2 2020	Q3 2020
Revenue	260,903	709,468	881,956
Adjusted EBITDA*	(3,063,524)	(3,641,496)	(2,608,063)

* Adjusted EBITDA is a Non-GAAP measure. Please refer below for a reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA.

- On July 21, 2020, Avicanna hosted its third annual symposium, "Medical Cannabis 2.0", through a virtual format. The presentations focused on the evolution of medical cannabis including the Avicanna led advancements in R&D for novel cannabinoid delivery forms and formulations. Presenters including Dr. Ruth Ross (Professor and Chair, Department of Pharmacology & Toxicology, Faculty of Medicine, University of Toronto, Senior Scientist, Campbell Family Mental Health Research Institute, Centre for Addiction and Mental Health) and Dr. Hance Clarke (Staff Anesthesiologist, Director Pain Services, Director Good Hope Ehlers Danlos Clinic, Medical Director of The Pain Research Unit, Department of Anesthesia and Pain Management, Toronto General Hospital, University Health Network, Associate Professor, Department of Anesthesia, University of Toronto). Over 1,000 participants attended the symposium.

- On July 24, 2020, Avicanna announced that the its research collaborators had received two independent peer-reviewed grants from the Natural Sciences and Engineering Research Council of Canada ("NSERC"). In addition to a recent MITACS award, Dr. Christine Allen, a Professor at the University of Toronto, was awarded an NSERC grant for development of cannabinoid-based pharmaceutical formulations for the treatment of COVID-19 induced lung inflammation. Avicanna further expanded its existing neurobiological research collaboration with Dr. Jibran Khokhar, a Professor at the University of Guelph, with a 2-year NSERC grant to investigate the neural basis of cannabis-induced toxicosis. The

NSERC grants are being used to expand the investigators' collaborative research with Avicanna at little to no additional cost to the Company.

- On August 12, 2020, Avicanna launched the first product of its RHO Phyto branded line of medical cannabis products on the Medical Cannabis by Shoppers™ ("Shoppers") platform. As of the date of this MD&A, Avicanna has launched its oil drops and sublingual sprays, for a total of four SKUs, through the Shoppers online platform, which offers nationwide service to Canadians.

- Certain of the RHO Phyto products are participating in the Medical Cannabis Real-World Evidence study ("MC-RWE study") at the University Health Network ("UHN"). This first-of-its-kind Canadian study is led by Dr. Hance Clarke, Director of Pain Services at Toronto General Hospital, and examines the efficacy of a select group of medical cannabis products including Avicanna's RHO Phyto line of products on patient reported outcomes of pain, sleep and anxiety. This specific study is aligned and in parallel with Avicanna's comprehensive clinical program of other real-world evidence studies involving the RHO Phyto products and clinical trials on its pharmaceutical pipeline with world-class, Toronto-based medical institutions.

- On August 11, 2020, Avicanna and Red White & Bloom Brands Inc. ("RWB") entered into a distribution agreement (the "Distribution Agreement") for the exclusive distribution of Avicanna's hemp-based CBD derma-cosmetic and topical products, branded as Pura H&W™, by RWB in the United States and certain other markets. Under the Distribution Agreement, which has an initial five-year term, RWB will exclusively distribute the Pura H&W™ brand and certain other white label brands at RWB's direction. In exchange for this exclusivity, RWB is required to pay Avicanna an upfront exclusivity fee in the amount of CAD$250,000 in cash, along with minimum purchase requirements for the rights to be the exclusive distributor of Avicanna's Pura H&W branded cosmetic products in the US. Under the Distribution Agreement, RWB also has the right to purchase Avicanna's cosmetic products for distribution into the United States and certain other territories under brands of RWB's choosing. The initial product offerings under the Distribution Agreement includes body and face lotions, cosmetic creams, gels and serums, as well as soaps and bath bombs.

- On August 18, 2020, the Company issued an aggregate of 1,952,410 units (the "August Units") at a price of $1.40 per August Unit, for aggregate gross proceeds of approximately $2.7 million. Each August Unit was comprised of one Common Share and one-half of one Common Share purchase warrant, each whole warrant exercisable into one Common Share at a price of $2.00 per share until August 18, 2022, subject to acceleration rights.

- On August 24, 2020, the Company announced that it completed exports of CBG and CBD isolates into the USA and CBD isolate into Germany. The Company also commenced a pilot tracking system for the export of its active pharmaceutical ingredient products in partnership with TruTrace Technologies Inc.

- On September 4, 2020, the Company announced that it completed further exports of CBD water soluble formula into the USA and CBD-based cosmetics into the United Kingdom. The Colombian Ministry of Health also granted SMGH a commercial and industrial fabrication quota to produce psychoactive THC derivatives.

- On September 14, 2020, the Company announced that through Avicanna LATAM S.A.S., the Company's pharmacy in Bogota has been certified with Good Preparation Practices and authorized by the INVIMA for the sale of compounded pharmaceutical products to service medical prescriptions of

individual patients in Colombia. This is the final step in the Company's fully integrated seed to patient business model in Colombia, which includes cultivation, extraction and manufacturing of pharmaceutical products for the emerging medical market of 50 million people.

- On September 29, 2020, the Company announced that it entered into an agreement with a US distributor partner, whereby the Company plans to develop certain hemp-derived cannabinoid-based products, including sublingual and sustained release tablets intended for the sleep market for such US distributor. Under the agreement. the Company is developing the intellectual property that forms the basis of the products for a development fee. The Company will receive an ongoing royalty payment based on the gross revenue of the products, and the Company will have the opportunity to supply cannabinoid for the manufacture of the products.

- Subsequent to quarter end, on November 2, 2020, the Company closed a non-brokered convertible debenture financing, pursuant to which it issued convertible debentures (the "Debentures") with an aggregate Face Principal Amount (as defined below) of $1,100,000 (the "Debenture Financing"). The Debentures bear interest at 8.0% per annum and will mature on the date that is 12 months from the date of issuance, with the first year of interest payable in advance on the date of issuance and capitalized and added into the principal amount (such aggregate amount being, the "Face Principal Amount"). With these funds the Company was able to strengthen its balance sheet and provide the necessary working capital to make a large commercial push in the first quarter of 2021.

STRATEGY AND OUTLOOK

Summary of commercial activities and expected brand launches

After three years of product development, optimization of its vertical integration, and establishing its brands the Company is at the early commercialization stage with several of its product lines across several markets, as outlined below.

Product line	Canada	United States	United Kingdom	Colombia	Ecuador	Peru
Pura HW	H1-2021	H1-2021	H1-2021	√	H1-2021	-
RHO Phyto/ Formulaciones Magistrales	√	-	H1-2021	Q4-2020	-	H1-2021
Aureus	-	√	√	√	-	H1-2021

Note: The above table is subject to regulatory approvals in each of the indicated countries.

Medical Cannabis Products

Avicanna's advanced phyto-therapeutic cannabinoid products contain cannabis plant extracts designed for medical or homeopathic use and will be marketed using the Company's RHO Phyto™ brand. The Company launched its RHO Phyto brand of products in August 2020 through the Medical Cannabis by Shoppers Drug Mart

online portal in the Canadian marketplace. In Canada, there are currently approximately 300,000 registered medical cannabis patients. The Company will look to increase its market share in the medical cannabis space.

The Company is expecting sales to continue to increase given the below strategy.

- **Increased number of SKU's:** The initial launch was with included two SKU's and by the end of Q3 that expanded to four SKU's, which included the addition of sublingual sprays. By the end of the year the Company expects to add its anticipated topical lines and THC-free products. It is expected that the formulary will include 10 SKU's by the first quarter of 2021.

- **Expansion of commercial sales efforts:** Pharmaceutical sales approach to increase training and education for the products, and expand sales channels into hospitals where they can be directly dispensed

Magisterial model – RHO Phyto formulations

The Company is anticipating launching its RHO Phyto line of products in the Colombian marketplace through a compound pharmacy model known as Formulaciones Magistrales. Selling under this model requires that medical professionals prescribe RHO Phyto products for their patients. The Company is on track to launch this line in Colombia in the fourth quarter of this year.

Potential markets

Certain of the RHO Phyto products are being sold in Canada and the Company will look to expand its product offering in Canada and into other potential markets in 2021. Several countries have defined or are expected to define regulations that will permit medical use of cannabinoids through various models and this trend seems to continue at a global level where governments are prioritizing medical cannabis over adult use. The Company expects to pursue commercial efforts in the United Kingdom and certain Latin American countries in 2021.

Consumer Retail Products (Pura H&W)

Marketed under the Pura H&W™ brand[1], the Company's consumer retail products form a unique line of premium and natural skincare products utilizing the benefits of hemp-derived CBD with synergistic natural ingredients. This line of products is the first known CBD-based skincare line that includes the participation of three products in human studies each with more than 50 subjects where both safety and efficacy were assessed. The results of the studies are positive, and the company is proceeding with publications.

Potential Markets

Certain products of the product line were initially launched in 2019 in Colombia[2]. The Company expects to launch the CBD skincare products in the US, the UK, Canada, and certain other Latin American markets in the first half of 2021. Specific products have been registered in the European Union through the European commission's cosmetic product notification portal in anticipation of regulatory clarifications regarding CBD cosmetics.

Pharmaceutical pipeline and products

[1] The Company markets its CBD skincare products under its Pura Earth™ brand in some jurisdictions.
[2] Initially marketed under the Company's Pura Earth™ brand, the Colombian products are expected to be rebranded to Pura H&W™.

The Company continues to make progress on its product and clinical development for intended pharmaceutical products and is exploring pathways to submit drug applications for marketing authorizations with national drug agencies such as the FDA, Health Canada, and Latin American health authorities including INVIMA in Colombia.

Cannabis Raw Materials, Seeds, and Bulk Formulations

Aureus is the Company's business-to-business brand for cannabinoid Active Pharmaceutical Ingredients ("API") and formulations offered with quality testing and tracking. Under the Aureus brand, Avicanna has completed commercial sales and exports of cannabinoids from Colombia into the United States, Canada, Chile, UK, Germany, Argentina, and South Africa. The Company offers feminized seeds, resins or whole plant crude oils, cannabinoid distillates, and isolated cannabinoids (CBD, THC, CBG, and other cannabinoids), and bulk formulations (prepared and customized oil and water soluble formulations for use in oral, topical, and sublingual products) derived from hemp and cannabis cultivars through its sustainable, economical, and industrial scale subsidiaries based in Colombia, as further described under "Supply Chain and Vertical Integration". The cannabis raw materials supplied by the Company's Colombian subsidiaries form part of Avicanna's supply chain for its finished products that are manufactured and distributed in Colombia and the consumer retail and medical cannabis products expected to be exported from Colombia to other countries.

Research and Development

Avicanna is an established leader in cannabinoid research and development, which it primarily conducts at its R&D headquarters in the Johnson & Johnson Innovation Centre, JLABS @ Toronto, Canada and in collaboration with leading Canadian academic and medical institutions. With ongoing clinical trials on its derma-cosmetic, medical cannabis, and a pipeline of pharmaceutical products, Avicanna's dedication to researching the important role that cannabinoids play in an increasingly wider scope of products has been at the core of the Company's vision since its inception.

Pre-Clinical and Clinical Development

Cosmetic clinical trials for Pura HW products

The first clinical trial completed by Avicanna evaluated Pura H&W topical cream containing 0.5% cannabidiol and 1% hemp seed oil. The study achieved its primary endpoint of increased skin hydration in people with dry skin. Avicanna's second study evaluated its Pura H&W facial cream containing 0.5% cannabidiol and 0.1% hemp oil on skin hydration and characteristics associated with acne-prone skin. In total, 49 self-assessed oily or acne-prone healthy adults had enhanced hydration. Furthermore, a significant decrease in oily skin was evident in a subset of individuals with higher sebum production. Avicanna's third study evaluated the effect of its Pura H&W topical serum containing 1% cannabidiol and apple stem cells on skin characteristics associated with aging. A total of 48 participants were evaluated over a two-month period. The results indicate an enhanced skin hydration effect following application of the cream and after 2 months of use.

The Real-World Evidence Opportunity

Leveraging from the company's relationship with the Canadian medical community, the commercial availability of RHO Phyto in Canada, and the product line's consistency in dosing and quality, the Company has an incredible opportunity to include certain of the RHO Phyto products in real-world evidence ("RWE") trials on specific therapeutic indications and patient populations. Data derived from RWE trials is expected to be a component of an overarching imperative of minimizing risk and maximizing efficacy from industry-leading research and development. The data is also expected to be utilized in the optimization of formulations, prioritization of pharmaceutical trials, and educational materials for the medical community.

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

Pharmaceutical trials

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. Avicanna's initial pipeline of pharmaceutical products will address chronic pain, neuropathic pain and epidermolysis bullosa.

Chronic Pain and Opioid-sparing

In collaboration with Dr. Hance Clarke at Toronto General Hospital (University Health Network), two varying concentrations of soft-gel capsules are expected to 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 is expected to evaluate whether oral cannabinoids can reduce daily opioid dose and decrease pain interference compared to placebo in patients using opioids for chronic pain. A clinical trial application (CTA) has been submitted to Health Canada for review.

Epidermolysis Bullosa

The Company is continuing its correspondences with Health Canada in relation to the submissions required for the clinical trial to study the effects of its 3% CBD cream on pediatric patients suffering from Epidermolysis Bullosa.

Neuropathic Pain in Sickle Cell Disease

The prevalence study for neuropathic pain in patients with Sickle Cell Disease ("SCD") at the University of the West Indies ("UWI") in Jamaica commenced in Q4 2019. During the first quarter, a total of 257 patients were screened for the study. Due to COVID-19, no more patients were recruited and the UWI SCD team started their review of the data collected. The data provided sufficient evidence of neuropathic pain in the Jamaican SCD population with a sufficient sample size thereby allowing the Company and UWI to progress to an intervention study. The protocol for the intervention study is being finalized and will use Avicanna's RHO Phyto products (capsule and sublingual spray). Commencement of the intervention study will depend on the appropriate clinical approvals and current restrictions in Jamaica for COVID-19.

Inflammation related to COVID-19

The Company, in collaboration with Dr. Christine Allen's Research Group (CARG) in the Leslie Dan Faculty of Pharmacy at the University of Toronto, is developing a solid lipid nano-particle cannabinoid-based formulation for treatment of COVID-19 related lung inflammation. This project has been supported by two grants including a MITACS award an NSERC Alliance grant.

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 and trademark applications and other available IP protection mechanisms. To date, the Company has three patent applications under examination and two provisional patent applications. In parallel to the patent protection of novel products and processes, the company also takes necessary steps to protect its trademarks. To date, the company has submitted 62 trademark applications in Canada, Colombia, the EU, Mexico, Argentina, Australia, South Africa, Japan, the US and the UK covering its logos, word marks and design marks.

Supply Chain and Vertical Integration

The Company's cultivation and extraction subsidiaries, Santa Marta Golden Hemp S.A.S. ("SMGH") and Sativa Nativa S.A.S. ("Sativa Nativa"), are located in Santa Marta, Colombia. SMGH and Sativa Nativa serve two critical purposes in the Company's supply chain: (i)supply quality API's for the Company's products, and (ii) allow the Company to fully vertically integrate by controlling the costs at each stage of a product's life cycle. The Company has 480,000 square feet of cultivation capacity with production capacity of over 30,000 kg of biomass per year with complete extraction, analytical testing and manufacturing infrastructure.

Milestones and highlights

- Completed over thirty harvests under a low-cost cultivation model.
- Ranked highest amongst global cannabis companies in the SAM Corporate Sustainability Assessment ("CSA") 2019 yearbook, a sustainability index that has become the basis for numerous S&P Global ESG indices.
- First known production, extraction, and export of CBG – a rare cannabinoid – into the United States .
- Realized commercial sales of CBD, CBG and THC under the Aureus™ brand with exports made into six countries.
- Currently has over thirty federally registered and registerable genetics in SMGH and Sativa Nativa.
- Commercial sales of CBD, CBG and THC seeds, under the Company's Avesta Genetica brand, with the first ever completed export of seeds into the United states in the second quarter of 2020.
- Commercial exports of cannabinoids from Colombia into the United States, Canada, Chile, UK, Germany, Argentina and South Africa.

Cultivation capacity and operations

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.

SMGH

SMGH continued its indoor, greenhouse and outdoor cultivation at full capacity during the quarter. It focused on the production of CBD, CBG and THC biomass and seeds. SMGH currently operates cultivation facilities that includes 340,000 square feet of shadehouse and outdoor space and 20,000 square feet of customized greenhouse space. The Colombian Ministry of Justice and Law granted SMGH a supplementary cultivation quota to cultivate psychoactive cannabis, THC. The Company will be able to leverage this quota to cultivate THC for sales in 2021 and use the API in its internal production of its medicinal line of products.

Sativa Nativa

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 nine months ending September 30, 2020	For the six months ending June 30, 2020
SMGH		
Total square feet	360,000	360,000
Shadehouse	*190,000*	*190,000*
Outdoor	*150,000*	*150,000*
Greenhouse	*20,000*	*20,000*
Annual yield - KGs	26,400	26,400
Cost per gram – dried flower	$0.11	$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	$0.11l

UPDATE ON COVID-19

On March 11, 2020, the outbreak of COVID-19 was officially declared a pandemic by the World Health Organization (WHO). During the third quarter of 2020, the impact of the global pandemic, COVID-19, continued to have a significant adverse impact on the global economy. Although certain sectors of the economy have seen a resumption of activity in the recent quarter as a result of the easing of social distancing measures, the overall economy continues to operate below pre-pandemic levels in Canada, the United States, the United Kingdom, Colombia and other regions where we operate. As a result, the COVID-19 pandemic continues to significantly impact our business. During the quarter, the Company continued to focus on the following:

- Ensuring the safety and wellbeing of the Company's employees. Staff across the Company have been required to work from home to protect their health and safety.

- The Company continues to operate; however, at a reduced capacity in certain areas. In particular, the Company's cultivation facilities in Santa Marta, Colombia have scaled back operations to conserve resources. Further, the Company and its research partners had reduced research and development activities to ensure the safety of its personnel and to comply with relevant pandemic restrictions.

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

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

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

RESULTS OF OPERATIONS

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

SELECTED OPERATIONAL INFORMATION	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($CDN, except per share amounts; Unaudited)	2020	2019	2020	2019
	$		$	
Revenues	**881,956**	**4,943**	**1,852,327**	45,537
Impairment of inventory	(612,105)		(612,105)	
Inventory production costs expensed to cost of sales	(439,099)	-	(673,387)	-
Gross margin before undernoted	(169,248)	4,943	566,835	45,537
Fair value changes in biological assets included in inventory sold	(37,818)	-	(607,370)	-
Unrealized gains/(loss) on changes in FV of Bio assets	(1,103,910)	-	723,361	-
Gross Margin	**(1,310,976)**	**4,943**	**682,826**	**45,537**
General and administrative	2,954,438	5,673,540	9,064,843	12,604,022
Share-based compensation	839,954	262,498	2,455,916	1,982,066
Depreciation and amortization	419,914	326,983	1,259,742	512,100
Impairment of goodwill	2,520,382	-	3,207,227	-
Total Expenses	**(6,734,688)**	**(6,263,021)**	**(15,987,728)**	**(15,098,188)**
Other income (loss)	378,512	72,748	(2,117,968)	473,646
Net loss before taxes	**(7,667,152)**	**(6,185,330)**	**(17,422,870)**	**(14,579,005)**

Revenue

Revenue for the nine months ended September 30, 2020 was $1,852,327 compared to $45,537 for the nine months ended September 30, 2019.

REVENUE BREAKDOWN	Three months ended				Total
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	
Assessment and commissions	2,739	5,268	5,464	3,858	17,329
Pura HW	3,417	5,753	-	58,822	67,992
Royalties and license fees	316,847	86,838	153,699	-	557,384
Aureus	493,623	611,608	101,740	60,033	1,267,004
RHO Phyto - Canada	65,330				65,330
Totals	881,956	709,468	260,903	122,713	1,975,040
% Increase (decrease)	24%	172%	112%	2383%	

The Company saw a substantial increase in its revenue for the nine months ended September 30, 2020, compared to the nine month period ended September 30, 2019. For the same period in 2019, the Company had one revenue stream, its assessment and commission revenues. In 2020, for the same period, the Company had several revenue streams. In particular, the Company saw an increase in its cultivation business for the nine month period ended September 30, 2020, when compared to the same period in 2019. In addition, the Company entered into key exclusivity and license agreements in 2020 which yielded additional revenue.

Expenses

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

($CDN; Unaudited)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
General and administrative	1,038,269	1,416,728	2,791,201	3,552,014
Selling, marketing and promotion	160,300	156,545	282,922	382,219
Consulting fees	523,057	602,931	1,182,064	1,661,199
Professional fees	355,098	858,539	1,181,768	1,738,766
Salaries and wages	702,660	2,383,046	3,290,127	4,677,185
Research and development	175,054	221,674	279,761	532,979
Board fees	-	34,077	57,000	59,660
Total	2,954,438	5,673,540	9,064,843	12,604,022

General and Administrative Expenses

For the three and nine months ended September 30, 2020 the Company incurred general and administrative expenses of $1,038,269, and $2,791,201, respectively. When compared to the same quarter and period from

the prior year the Company incurred $1,416,728 and $3,552,014 of general and administrative expenses. The Company continued to reduce its general and administrative expenses over the third quarter of 2020 in order to preserve cash and focus on commercial, revenue-generating activities.

Selling, Marketing and Promotion

For the three and nine months ended September 30, 2020 the Company incurred selling, marketing and promotional expenses totaling $160,300 and $282,922 compared to $156,545 and $382,219 for the same quarter and period from prior year. The Company continued to reduce expenditures in the current quarter as general cost reduction strategies, and due to COVID-19 the Company adjusted its expenses accordingly.

Consulting Fees

For the three and nine months ended September 30, 2020 the Company incurred consulting expenses totaling $523,057 and $1,182,064 compared to $602,931 and $1,661,199 in the same quarter and period from prior year. When compared to the same period from prior year, the decrease in consulting fees, for the quarter can be directly attributable to a reduction in consulting services as part of the Company's efforts to preserve working capital and focus on revenue-generating activities. Furthermore, the Company engaged additional consulting services during the same period last year due to the listing of the Company's common shares on the Toronto Stock Exchange (the "TSX").

Professional Fees

For the three and nine months ended September 30, 2020 the Company incurred professional fees of $355,098 and $1,181,768, respectively, compared to $858,539 and $1,738,766 for the same quarter and period last year. This decrease is a result of a reduced need for external professional services as the Company focused their efforts on commercialization. Furthermore, the company engaged in additional consulting services during the same period last year due to the listing of the Company's common shares on the TSX.

Salaries and Wages

For the three and nine months ended September 30, 2020 the Company incurred salaries and wages of $702,660 and $3,290,127, respectively, compared to $2,383,046 and $4,677,185 for the same quarter and period last year. This decrease is a result of the Company's reduced head count in the current quarter. The Company made an active choice to reduce its costs, including head count and focus its resources on commercial and revenue-generating activities.

Research and Development

For the three and nine months ended September 30, 2020, the Company incurred research and development expenses of $175,054 and $279,761, respectively, compared to $221,674 and $532,979 for the same quarter and period last year. Research and development activities were slowed during the first quarter of 2020 due to the COVID-19 pandemic. Since then, certain research and development activities have resumed as of the second quarter of 2020. However, laboratory activities have not fully returned to their full capacity and thus research and development expenses are lower as compared to the prior year.

Other Items

For the three and nine months ended September 30, 2020 the Company incurred other items totaled $378,512 and $(2,117,968), respectively, compared to $72,748 and $473,646 in the same quarter and period during the prior year. The other items are made up of (i) foreign exchange gains and losses; (ii) gains on revaluation of derivative liabilities and assets; and, (iii) interest expense and interest income.

Adjusted EBITDA

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

ADJUSTED EBITDA *($CDN, except share amounts; Unaudited)*	For the Three Months Ended September 30, 2020	 2019	For the Nine Months Ended September 30, 2020	 2019
	$	$	$	$
Net Loss	**(7,667,152)**	**(6,185,330)**	**(17,422,870)**	**(14,579,005)**
Amortization	419,914	326,983	1,259,742	512,100
Net interest income	47,282	(63,835)	141,210	(55,067)
EBITDA	**(7,199,956)**	**(5,922,182)**	**(16,021,918)**	**(14,121,972)**
Share based compensation	839,954	262,498	2,455,916	1,982,066
IPO related costs	-	290,936	-	1,901,968
Fair value of biological assets	1,103,910	(138,981)	(723,361)	(596,484)
Goodwill impairment	2,520,382	-	3,207,227	-
Revaluation of derivative liability	(1,285)	(7,387)	(23,894)	(20,690)
Revaluation of derivative asset	-	-	2,279,426	-
One-time non-operating expenses	528,000	-	528,000	-
Other income (expenses)	(399,068)	-	(327,634)	-
Adjusted EBITDA	**(2,608,063)**	**(5,515,116)**	**(8,626,238)**	**(10,855,112)**

REVIEW OF FINANCIAL POSITION

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

SELECTED FINANCIAL INFORMATION ($CDN; Unaudited)	As at September 30, 2020	As at December 31, 2019
Assets	$	$
Cash	101,088	441,757
Amounts receivable	2,442,488	1,202,924
Prepaid assets	652,287	704,632
Biological assets	233,644	117,367
Inventory	2,084,414	1,484,371
Right to use asset	392,516	539,710
Property and equipment	19,951,265	22,622,322
Intangible assets	10,504,182	11,063,900
Derivative asset	1,501,034	3,780,000
Investments	72	72
Goodwill	-	3,207,227
Total Assets	37,862,990	45,164,282
Liabilities and Equity		
Amounts payable	4,815,132	5,177,634
Due to related party	4,952,124	3,319,116
Convertible debentures	757,400	715,626
Derivative liability	-	23,434
Lease liability	417,975	555,339
Term loan	-	-
Deferred revenue	3,074,752	3,323,518
Deferred tax liability	2,173,834	2,173,834
Total Liabilities	16,191,217	15,288,501
Shareholder's equity	21,671,773	29,875,781
Total Liabilities and Shareholder's Equity	37,862,990	45,164,282

Assets

Total assets decreased slightly to approximately $37.8 million as at September 30, 2020 from approximately $45.16 million as at December 31, 2019.

Cash decreased by approximately $0.34 million from December 31, 2019. The main drivers of this decrease were the use of the funds raised in the quarter for commercial activities and working capital.

Prepaid assets decreased by approximately $0.05 million. As the Company reduced its capital expenditures many of the deposits with contractors were reclassified to capital assets.

The Company recognized both inventory and biological assets as at September 30, 2020. This increased from December 31, 2019 by approximately $0.72 million. The main driver for this increase was the significant yield of seeds the Company realized, which were harvested during the first half of 2020.

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

Property, plant and equipment decreased by $2.67 million from December 31, 2019. The Company completed the majority its capital expenditures in fiscal 2019. In addition, there was a large foreign exchange translation loss given the movement of the Colombian Peso the Canadian dollar. As most of the Company's capital assets are located in Colombia this resulted in a downward adjustment to capital assets.

Liabilities

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

Shareholders' Equity

Total Shareholders' Equity remained relatively consistent from December 31, 2019 to September 30, 2020. While the Company raised an additional $.2.7 million during the quarter, this was partially offset by the losses incurred during the period.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows for period ended September 30, 2020 and September 30, 2019

Cash from Operating Activities

During the current period the Company used cash for operating activities in the amount of $10.7 million compared to $15.6 million in the same period from prior year. The reduction in cash used is largely driven by a reduction in working capital expenditures.

Cash used in Investing Activities

During the current period the Company spent $1.1 million on investing activities which was largely driven by capital expenditures in SMGH and SN. When compared to the comparable period from prior year, it represents a reduction of $4.2 million. In prior year the Company was focused on building out its cultivation and extraction capabilities. The Company completed a significant amount of its build out in prior year and did not require the same level of expenditures for the current period.

Cash from Financing Activities

During the current period the Company generated $11.47 million from financing activities. In prior year comparable period the Company raised $23.9 million from financing activities. The decrease is largely driven by the Company completing its go public transaction in prior year.

SUMMARY OF QUARTERLY RESULTS

The following provides a summary of the quarterly results:

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	$	$	$	$	$	$	$	$
Revenues	881,956	709,468	260,903	122,715	4,943	16,571	24,023	24,142
Net comprehensive loss	(9,243,716)	(8,969,165)	(2,656,658)	(7,345,054)	(7,194,831)	(5,180,516)	(3,918,014)	(3,475,698)
Loss per share	(0.35)	(0.36)	(0.12)	(0.33)	(0.33)	(0.25)	(0.25)	(0.27)

Increases in revenue for the first, second, and third quarter of 2020 are the result of the Company commercializing several of its business lines. Increases in the net comprehensive loss in the second and third quarter of 2020 are the result of the company recognizing impairment on certain assets and other one-time expenses.

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 ending September 30, 2020 and December 31, 2019 were as follows:

	For the nine months ended September 30, 2020	December 31, 2019
Salaries and benefits	$ 474,492	$ 1,292,089
Share-based compensation	521,894	302,332
Total	$ 996,386	$ 1,594,421

Additionally, as at September 30, 2020, the Company received advances from certain related parties who represent the minority shareholders of SMGH in the amount of $4,952,124. The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free and due on demand.

CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares in the capital of the Company which may be issued in series. As of November 11, 2020, 28,858,986

common shares were issued and outstanding as fully paid and non-assessable and no preferred shares had been issued. As of September 30, 2020, the Company also had the following securities, convertible into common shares, outstanding: (i) 1,671,567 stock options, (ii) 3,617,942 common share purchase warrants, (iii) 745,378 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.

Recent Capital Raises

On January 24, 2020, the Company issued an aggregate of 822,721 units (the "January Units") at a price of $2.50 per January Unit for aggregate gross proceeds of approximately $2.06 million (the "January Private Placement"). Each January Unit issued under the offering was comprised of one Common Share and one-half of one warrant, each whole warrant is exercisable into one Common Share at an exercise price of $3.00 per Common Share for a period expiring on January 24, 2023, subject to acceleration rights. In connection with the January Private Placement, the Company disclosed that it intended to use the net proceeds thereof for corporate development and general working capital purposes. The Company applied the net proceeds of the January Private Placement as follows: (i) approximately $1.21 million for general working capital purposes; (ii) approximately $30,000 for corporate development expenses; and (ii) approximately $820,000 applied towards capital expenditures in its cultivation facilities in order to take advantage of an unexpected commercial opportunity to produce seeds for sale, an opportunity not known to be taken by other Colombian-based cannabis companies.

On April 20, 2020, the Company issued an aggregate of 3,200,000 units (the "April Units") at a price of $0.80 per April Unit, for aggregate gross proceeds of approximately $2.56 million (the "April Private Placement"). Each April Unit was comprised of one Common Share and one-quarter of one Common Share purchase warrant, each whole warrant exercisable into one Common Share at a price of $1.20 per share until April 20, 2022, subject to acceleration rights. In connection with the April Private Placement, the Company disclosed that it intended to use the net proceeds thereof for commercialization, corporate development and general working capital purposes. The aggregate net proceeds of the April Private Placement were used by the Company as follows: (i) approximately $100,000 applied towards corporate development expenses; (ii) approximately $166,000 was applied towards commercialization efforts; and (iii) approximately $2,294,000 applied towards general working capital.

On August 18, 2020, the Company issued an aggregate of 1,952,410 August Units at a price of $1.40 per August Unit, for aggregate gross proceeds of approximately $2.7 million (the "August Private Placement"). Each August Unit was comprised of one Common Share and one-half of one Common Share purchase warrant, each whole warrant exercisable into one Common Share at a price of $2.00 per share until August 18, 2022, subject to acceleration rights. In connection with the August Private Placement, the Company disclosed that it intended to use the net proceeds thereof for corporate development and general working capital purposes. The aggregate net proceeds of the August Private Placement were used by the Company as follows: (i) approximately $220,000 for corporate development; and (ii) approximately $2.48 million for general working capital purposes.

On November 2, 2020, the Company closed the Debenture Financing, pursuant to which it issued the Debentures with an aggregate Face Principal Amount of $1,100,000 (the "Debenture Financing"). The Debentures bear interest at 8.0% per annum and will mature on the date that is 12 months from the date of

issuance. In connection with the Debenture Financing, the Company also issued an aggregate of 550,000 Common Share purchase warrants, each exercisable at a price of $1.50 per share until November 2, 2022, subject to acceleration rights. The net proceeds from the Debenture Financing were intended to be used by the Company for working capital and general corporate purposes. As at the date hereof, approximately $250,000 of the net proceeds of the Debenture Financing has been used for working capital purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Financial Instruments and Risk Management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

In addition to the commitments disclosed, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
Amounts payable	$4,815,132	$4,815,132	$4,815,132	$ -	$ -
Lease liability	417,975	417,975	224,950	193,025	-

Convertible Debentures	757,400	757,400	757,400	-	-
Due to related party	4,952,124	4,952,124	4,952,124		
	10,942,631	10,942,631	10,749,606	193,025	-

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 nine-month period ended September 30, 2020, 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.