# AVICANNA INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**FOR THE THREE MONTHS ENDED MARCH 31, 2021**

**SEPTEMBER 7, 2021**

## Special Note Regarding Forward-Looking Statements

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. See "Risk Factors" below.

This MD&A was prepared by management as of September 7, 2021 and is supplemental to and should be read in conjunction with the Company's condensed consolidated interim financial statements (the "Financial Statements") for the three months ended March 31, 2021 and the accompanying notes thereto. The information contained in this MD&A is presented as of the date of the MD&A 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 September 7, 2021.

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

## Introduction

This MD&A, which should be read in conjunction with our Financial Statements and the notes thereto, provides additional information on our business, current developments, financial condition, cash flows and results of operations. It is organized as follows:

- *Part 1 – Business Overview.* This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition, and future trends.

- *Part 2 – Results of Operations.* This section provides an analysis of operations for the three month period ended March 31, 2021.

- *Part 3 – Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flow and outstanding debt and commitments, inclusive of the amount of financial capacity available to fund our ongoing operations and future commitments.

- *Part 4 – Critical Accounting Policies and Estimates.* This section identifies those accounting policies that are considered important to our results of operations and financial condition and require significant management estimates.

We prepare and report our Financial Statements in accordance with IFRS, and the financial information contained herein are reported in Canadian Dollars.

## Part 1 – Business Overview

This Part 1 – Business Overview is presented and current as at the date of this MD&A.

Avicanna is a commercial stage Canadian biopharmaceutical company and an established leader in cannabinoid research, development, and evidence-based products for the global consumer, medical cannabis, and pharmaceutical market segments. Avicanna conducts its research in Canada including its research and development ("R&D") headquarters in the Johnson & Johnson Innovation Centre, JLABS @ Toronto, Canada, located in the MaRS Discovery District, and in collaboration with leading Canadian academic and medical institutions and has established an industry leading scientific platform including advanced R&D and clinical development which has led to the commercialization of over twenty (20) products across four main market segments:

**Medical Cannabis & Wellness Products**

Marketed under the RHO Phyto™ brand, or Magisterial Preparations (compound pharmacy) preparations, or private-label brands, these medical and wellness products are an advanced line of pharmaceutical-grade cannabis products containing varying ratios of cannabidiol ("CBD") and tetrahydrocannabinol ("THC"). The product portfolio contains a full formulary of products including oral, sublingual, topical, and transdermal deliveries that have controlled dosing, enhanced absorption and stability studies supported by pre-clinical data. These products are developed using pharmaceutical drug development processes and are supported with pre-clinical data. The advanced formulary is marketed with consumer, patient and medical community education and training. Avicanna's medical and wellness product portfolio also forms the foundation of the Company's pharmaceutical pipeline with the contribution of the formulations that form the basis of the products as well as the data generated from sales and participation of the products in real world evidence studies.

*Market opportunity*

Currently available nation-wide across Canada in partnership with Medical Cannabis by Shoppers™, a subsidiary of Shoppers Drug Mart Inc., at the Odette Cancer Centre pharmacy of Sunnybrook Health Science Centre, a major hospital group in Canada, and in adult-use sales channels through provincial retailers in several provinces, the RHO Phyto products are some of the leading brands of medical products in the Canadian market. The products are also expanding into much larger adult use market in the first half of 2021 to provide easier access to patients and consumers seeking medical and wellness products. The Company is targeting to launch this line of products in several other markets as regulations permit.

These products are also commercialized in Colombia under the magisterial legislation with comprehensive program including education, advanced products and patient support programs. The products are offered as a part of Avicanna's vertical integration including its Good Production Practices ("GPP") certification in Colombia and the program is designed to be expanded into other Latin American countries, as regulations permit.

**CBD Derma-Cosmetic Products**

Marketed under the Pura H&W™ or Pura Earth™ brands, these registered, clinically tested, cosmetic products include a portfolio of functional CBD consumer derma-cosmetic and topical products.

*Market opportunity*

Currently available nation-wide across Canada in medical sales channels in partnership with Medical Cannabis by Shoppers™, in adult-use sales channels through provincial retailers.

These products are also currently being sold nation-wide in Colombia, with anticipated product launches in the USA, the UK, and certain Latin American countries by the end of 2021.

**Cannabis Raw Materials, Seeds, and Bulk Formulations**

Marketed under the Aureus™ brand, or under white-label or private-label brands, the Company offers feminized and standardized 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.

*Market opportunity*

The cannabis raw materials supplied by Avicanna's Colombian subsidiaries form part of the Company's supply chain for its finished products that are manufactured and distributed in Colombia and Avicanna's consumer retail and medical cannabis products expected to be exported from Colombia to other countries.

Avicanna's supply chain business units are also dedicating to providing a consistent, high-quality source of input materials for the Company's global partners for use in the development and production of their own food, cosmetic, medical and pharmaceutical products.

The Company has exported raw materials and bulk formulations from Colombia to Canada, the USA, Argentina, South Africa, Germany, Austria, Chile, Uruguay, Brazil, Peru 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. Avicanna's Aureus division is well positioned to supply the emerging cannabis sector with raw input materials for food, cosmetic, medical, wellness, and pharmaceutical use in addition to standardized seeds required for cultivation projects, particularly in South America.

**Pharmaceutical Pipeline**

Leveraging Avicanna's scientific platform, vertical integration, and real-world evidence, Avicanna has established a pipeline of indication specific cannabinoid-based drug candidates that are in various stages of clinical development and commercialization. Avicanna's drug candidates are in pre-clinical stage and are dedicated to providing solutions for unmet medical needs in the areas of dermatology, chronic pain and various neurological disorders.

*Market opportunity*

These indication specific drugs are in varying stages of clinical development and registration 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 and the National Health Surveillance Agency ("ANVISA") in Brazil. Specific drugs from Avicanna's pharmaceutical pipeline have undergone GMP level pilot production and analysis under ICH guidelines necessary for generic and phyto-therapeutic drug registrations expected by the end of the first half of 2022 in several countries in Latin America.

## Q1 2021 and subsequent event highlights

### *Q1 2021 highlights*

- Strategic partnerships with two companies founded by former NBA star Al Harrington for the use of his brands, re+PLAY™ and Viola ™, in connection with specific formulations developed by Avicanna that are intended to be commercialized in the US and Canada, which are expected to commence in Q4 2021. See *Strategic Partnerships* below.

- The Company continued to progress on its R&D plans and pharmaceutical product pipeline:

    - Entered into a master services agreement with the University Health Network ("UHN") for projects to be performed by Dr. Peter Carlen as the principal investigator related to establishing optimal cannabinoid ratios and delivery for epilepsy.

    - Completion of technical transfer and first pharmaceutical pilot production of its epilepsy drug candidate at Altea Farmaceutica S.A. in Bogota, Colombia, a major step required for final production for its registration and commercialization in South America.

    - Updated and amended its collaboration with Dr. Jibran Khokhar, Assistant Professor at the University of Guelph, and initiated prioritized pre-clinical studies on the RHO Phyto formulations that are commercialized in Canada and Colombia.

    - Research commencement with Thompson Rivers University for the evaluation of cannabinoids for antibacterial effects and evaluation of cannabinoid-based products in tissue model of inflammation.

    - Initiation of pre-clinical osteoarthritis evaluations after successful in vitro studies and the enrollment of the Deep Tissue Gels in the Medical Cannabis Real World Evidence ("MC-RWE") study. The MC-RWE study is led by the UHN with the goal to evaluate the effectiveness of medical cannabis on pain, sleep and other related comorbidities.

- Raised $5.6 million pursuant to a non-brokered private placement, under which the Company has issued an aggregate of 4,480,000 units (the "Units") at a price of CAD$1.25 per Unit.

- Increase in net revenue by 4%, reduction of operating expenses by 14%, and reduction of Adjusted EBITDA loss by 7% from the same quarter in 2020.

- The Company, through Avicanna's Colombian-based cultivation subsidiary, Santa Marta Golden Hemp S.A.S. ("SMGH"), completed its first commercial export to Chile of Aureus™ branded 20.75 kilograms of high THC and high CBD full spectrum psychoactive cannabis resin to a leading Chilean homeopathic and naturopathic pharmaceutical company.

### *Other 2021 highlights subsequent to Q1*

- Launch of RHO Phyto and Pura Earth branded product lines in adult use sales channels in Canada with listings in the Ontario, Manitoba, Saskatchewan, Alberta, and New Brunswick provincial retailers.

- Strategic partnership with Sunnybrook Health Sciences Centre ("Sunnybrook Hospital") whereby Sunnybrook Hospital will distribute the Company's RHO Phyto products to patients with appropriate medical authorization at Odette Cancer Centre pharmacy. See *Strategic Partnerships* below.

- Execution of a multi-year supply agreement by SMGH with a Brazilian pharmaceutical company to supply industrial volumes of high THC and high CBD full spectrum psychoactive cannabis resin, which are expected to be used by the Brazilian pharmaceutical company in the production of medicinal cannabis products to be commercialized pursuant to Brazil's medicinal cannabis regulations.

- Further expansion by SMGH of its global business with initial exports to Austria, Peru, and Brazil of Aureus™ branded psychoactive and non-psychoactive cannabis extracts, with exports reaching a total of 11 countries across 4 continents.

- The Company was extended a term loan (the "Term Loan") with a principal amount of $2,118,000 with an original issue discount of 15% resulting in gross proceeds to the Company of $1,800,000. In connection with the Term Loan, the Company intends to issue warrants to the lender thereof with the exercise price and number of warrants to be determined in accordance with the terms of the Term Loan and the policies of the Toronto Stock Exchange.

## STRATEGY AND OUTLOOK

### *Summary of commercial activities and expected brand launches.*

The Company has continued to make commercial progress with a specific focus on the well-established Canadian marketplace in both medical and adult use sales channels. In particular, the Company made advancements with the introduction of its products into the adult use sales channels, a $4 billion market. Avicanna has established its commercialization strategy involving each of its individual product lines in respective geographical markets. In addition, the Company has laid the technical and regulatory foundation for commercialization of its medical and pharmaceutical products in key Latin American markets and is expecting commercial traction by 2022.

| ***Product Line & Brand*** | **Canada medical** | **Canada adult use** | **USA** | **Colombia** | **UK** | **Ecuador** | **Brazil** | **Mexico** | **Chile** | **Peru** |
|---|---|---|---|---|---|---|---|---|---|---|
| RHO Phyto/Magisterial Medical | √ | √ | | √ | 2022 | | | | | |
| Pharmaceutical products | 2024 | | 2024 | 2022 | 2024 | 2022 | 2022 | 2022 | | 2022 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Pura H&W/Earth Derma-Cosmetics | √ | √ | Q4-21 | √ | Q4-21 | Q4-21 | | | | | |
| re+PLAY | Q4-21 | Q4-21 | Q4-21[(1)] | | | | | | | | |
| Viola | Q4-21 | Q4-21 | | | | | | | | | |
| Aureus API and/or Seeds | | | √ | √ | √ | Q4 2021 | √ | 2022 | √ | | √ |

Note: The above table indicates expected launch dates, which are subject to regulatory approvals in each of the indicated countries, among other factors. See "Risk Factors".

(1) Strategic partnership with Red White & Bloom Brands Inc.

### *Strategic partnerships*

Avicanna has entered into several key strategic partnerships that the Company believes not only that they validate and enhance Avicanna's credibility and scientific leadership, but will strengthen the foundation for continued growth across several business units.

Partnership with Al Harrington's brands, Re+PLAY and Viola

In Q1 2021, Avicanna signed agreements with two companies founded by former NBA star Al Harrington for the use of his brands, re+PLAY™ and Viola™, in connection with specific formulations developed by Avicanna that are intended to be commercialized in the US and Canada, which are expected to commence in Q4 2021.

The agreement with Harrington Wellness Inc. ("Harrington Wellness"), for the re+PLAY brand, focuses on the commercialization of a CBD topical product line targeting athletes and active consumers in Canada and the U.S. Avicanna and Harrington Wellness have worked together extensively on researching, developing and optimizing a bespoke line of CBD-based topicals designed specifically for the athletic and sports community. These CBD-based topicals utilize Avicanna's proprietary deep tissue technology for cannabinoid delivery and have been curated with the support of Harrington Wellness' deep understanding of the needs of professional athletes.

Viola, a social equity focused consumer retail brand, is licensed to Avicanna for commercialization of ultra premium products in the Canadian cannabis market. Founded by NBA veteran Al Harrington, Viola is leading the charge on minority participation and social equity in the US cannabis industry through its social equity and education initiative "Viola Cares". Through this partnership, Avicanna will manage the commercialization of Viola branded products in Canada.

Partnership with Red White & Bloom

In Q4 2021, Avicanna expects to commence sales of its advanced and clinically backed CBD-based cosmetic and topical products Pura H&W™ by Red White & Bloom in the US pursuant to the exclusive distribution agreement the parties entered into in August 2020. The $532 billion beauty industry continues growing rapidly and new trends such as the introduction of CBD cosmetics is anticipated to establish a strong market presence in markets that permit retail sales such as the United States. The Pura H&W branded products

utilize hemp-derived CBD, the non-psychoactive and non-controlled cannabinoid, which allows for cosmetic designation and retail sales in the US. Red White & Bloom is a prominent US multi-state operator that is primed to help drive market penetration of Avicanna's CBD derma-cosmetic products in the US.

Partnership with Sunnybrook Hospital

In June 2021, sales commenced of Avicanna's RHO Phyto products pursuant to a relationship agreement with Sunnybrook Health Sciences Centre ("Sunnybrook Hospital") whereby Sunnybrook Hospital will distribute the Company's RHO Phyto products to patients with appropriate medical authorization at Odette Cancer Centre pharmacy. This first of its kind collaboration will focus on increasing healthcare provider and patient education on medical cannabis products and provide patients with a one stop process for accessing plant-based cannabis for medical use, in coordination with their hospital healthcare team. Pursuant to the agreement with Sunnybrook Hospital, Avicanna and Sunnybrook Hospital, which is one of Canada's leading hospitals and research centres, have agreed to collaborate on the development of an education program to educate patients and train health care professionals about the RHO Phyto product formulary.

### *Medical Cannabis & Wellness Products*

Avicanna's advanced phyto-therapeutic cannabinoid-based products contain cannabis plant extracts designed for medical or homeopathic use and are marketed using the Company's RHO Phyto™ brand or private-label brands. 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 product line has seen increased demand from patients ordering product through the Medical Cannabis by Shoppers Drug Mart portal, particularly in 2021 as the Company increased the total number of SKUs available for sale to seven (7). Due to this increased demand, and as a potential solution to addressing unmet needs of consumers who purchase cannabis for medical purposes from retail sales channels, Avicanna expanded the RHO Phyto formulary into adult use sales channels through Canadian provincial retailers, where the products are marketed to the growing wellness segment within those channels. Currently, RHO Phyto products are available for sale in retailers in five (5) provinces in Canada, including Alberta, Manitoba, New Brunswick, Ontario, and Saskatchewan.

**A Solution to Address Medical Comorbidities**

Avicanna's education and commercial plans include information related to the line's potential in treating a wide range of clinical indications and more specifically specific common symptoms as pain, sleep, appetite, anxiety and depression that are prevalent in wide range of medical conditions.

**RHO Phyto product offerings**

- **Micro Drops:** RHO Phyto's Micro Drops are offered in a blood orange flavour and deliver metered dosing for easy titration. As a result of years of research and development, these advanced

formulations are designed to provide higher and faster cannabinoid absorption compared to basic MCT (medium-chain triglyceride) oil products available in the market. RHO Phyto's unique combination of ingredients helps maintain the stability of the cannabinoids to ensure more consistent dosing over the course of treatment. Developed with the patient in mind, these products allow for discreet self-administration.

- **Rapid Act Sprays:** RHO Phyto's Rapid Act Sprays offered in lemon-mint flavour, are administered under the tongue to provide more direct absorption into the bloodstream by avoiding first pass metabolism by the gut and liver. RHO Phyto's Rapid Act Sprays are optimized for increased absorption and faster onset in comparison to basic MCT (medium-chain triglyceride) sublingual sprays. Rapid Act Sprays are discreet, easy to use, and convenient. Rapid Act Spray is also available in a tetrahydrocannabinol (THC)-Free formula. It is designed to limit side-effects commonly associated with THC and provide an alternative for users that would like to avoid products containing THC.

- **Deep Tissue Gel:** RHO Phyto Deep Tissue Gel combines unique ingredients and natural polyphenols in an advanced emulsion formulation to consistently deliver the same amount of CBD in every pump. Years of research and development have optimized this formulation for improved stability and faster absorption of cannabinoids into the deeper layers of the skin. RHO Phyto's Deep Tissue Gel is stored in pharmaceutical grade airless packaging, which provides protection from light and air to preserve the integrity of the product. This quick absorbing gel comes in a mint scent and delivers a cooling effect.

- **Pipeline:** The company continues to advance its pipeline of unique medical products through its scientific platform and R&D infrastructure which includes novel drug delivery mechanisms including capsules, tablets, and water-soluble formulations, in addition to the incorporation of rare cannabinoids into specific formulations.

| Category | Channel | Primary Demographics | Psychographics | Utility | CAD Brand | CAD Products |
|---|---|---|---|---|---|---|
| Recreational | Online Dispensaries | Young adults (males) | Early adopters & Connoisseurs | Social Mood enhancement | VIOLA. | Oral, sublingual, inhalation |
| Wellness | Online Dispensaries | Young to Middle aged adults | Early adopters & Healthy lifestyle | Lifestyle Health & well being | PURA EARTH™ re+PLAY RHO™ | Oral, sublingual, topical |
| Medical | Online Dispensaries Shopper's Drug Mart | Middle aged adults to Aging population | Open minded, Educated | Well being & Unmet medical needs | PURA EARTH™ re+PLAY RHO™ | Oral, sublingual, topical |
| Clinical | Shopper's Drug Mart Hospital Pharmacies | Medical patients | Conservative | Unmet medical needs | RHO™ | Oral, sublingual, topical |

*Canadian segmentation strategy describing market opportunities for the four brands in Canada across medical and adult use channels.*

**Product line attributes**

- *A comprehensive, consistent, and scientifically- advanced medical cannabis line of formulations in Canada*

- *Inhalation free, discrete, and pleasantly flavored products designed for wellness and medical users.*

- *Pipeline of over 20 SKUs including oral, sublingual, transdermal and topical deliveries offered with various CBD-THC and THC-Free formulations.*

- *Accurate dosing and consistent delivery with demonstrated shelf-life stability.*

- *Evidence-based, scientific approach to product development and drug delivery.*

- *Supported with education and training for patients, physicians, consumers and retailers.*

**The Company is expecting sales to continue to increase, based on a few key elements of Avicanna's strategy.**

- **Expansion into adult use markets:** Expansion into adult use channels through provincial boards and retailers which are projected to surpass $3B market in 2021 with initial sales of limited SKU's that commenced end of Q1 2021 with Alberta, Ontario, Manitoba, Saskatchewan, and New Brunswick. The company has expanded the units, number of SKUs and number of listings significantly in 2021.

- **Expansion into major hospitals:** Leveraging from the credibility Avicanna has established the Canadian medical community, the growing demand for access to standardized cannabinoid medicine in the medical community and with the advancement of cannabis access regulations permits Canadian hospitals with appropriate infrastructure to store and dispense qualified medical cannabis products such as industry-leading RHO Phyto medical formulary. The company aims to first commercialize its medical formulary to Sunnybrook Health Sciences Centre, a major Canadian hospital with which the Company has entered into an agreement in May 2021 whereby Sunnybrook Health Sciences Centre will distribute Avicanna's RHO Phyto products to patients with appropriate medical authorization at Odette Cancer Centre pharmacy. The Company hopes to expand this commercial structure to a larger network of hospitals in 2022 with initial proof of concept completed.

- **Expansion of SKUs:** Since the initial launch of RHO Phyto in Canada with 2 SKUs of micro drops in Q3 2020, the Company has consistently expanded the product offerings, to a current total of 7 SKUs, and continues to introduce additional doses and deliveries of products desired by the medical community and patients.

**Magisterial Preparations model – RHO Phyto formulations**

The Company has launched its RHO Phyto line of products in the Colombian marketplace through a compound pharmacy model known as Formulaciones Magistrales or Magisterial Preparations. Selling under this model requires that medical professionals prescribe RHO Phyto products for their patients. The comprehensive medical program includes education and training physicians, an advanced formulary of over 10 medical products and complete patient support program marketed as AviCare, which also allows the Company to generate indication-specific real world evidence data on specific doses and deliveries. The

business unit operates in an arm's length and ethical discipline with the medical community in which the products are available for direct sale to patients and through supply agreements with medical institutions.

The program is a part of Avicanna's vertical integration including the source of the raw materials which are derived from Santa Marta Golden hemp, the company's subsidiary, its own Good Production Practices (GPP) certified compound pharmacy laboratory and the company's own education and patient support teams.

The Company is one of the few licensed companies to provide patients in Colombia with a medical cannabis service that includes a diverse formulary of drug delivery systems including oil drops, sublingual sprays and topicals as well as patient and healthcare practitioner education. Notably, Avicanna is the only company with medical cannabis sales in both Canada and Colombia to date.

**Potential markets**

The RHO Phyto products have been successfully commercialized in Canada and Colombia establishing a proof of concept in both North and South America where patient, consumer and medical community adoption has been success. The Company will look to expand its product offering in Canada and into other potential markets in 2021 and beyond. 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 Europe and certain Latin American countries in late 2021 and 2022.

### *CBD Derma-Cosmetic Products*

Marketed under the Pura H&W™ brand[1], or private-label brands, 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 believed to be one of the first known CBD-based skincare lines that includes the participation of three products in human studies, each with approximately 50 subjects where both safety and efficacy were assessed. The results of the studies are positive – please see "Cosmetic clinical trials" below.

Pura product offerings are categorized in 3 distinct groups where several SKUs are available in specific markets:

- **Beauty line**
    - **Anti-aging cream -** Luxurious combination of CBD and Japanese cedar bud extract that floods the skin with moisture to visibly improve natural lifting, toning and smoothing effects.

[1] The Company markets its CBD skincare products under its Pura Earth™ brand in some jurisdictions.

- **Anti-aging serum –** A clinically backed emulsion gel that combines CBD with stem cells from a rare variety of Swiss apple to deliver powerful ingredients to the skin. A refreshing and fast absorbing formula maximizes results for bouncy, glowing skin.

- **Under eye cream –** A formulation of CBD and ash tree bark extract gently moisturizes the delicate area under your eyes and may help reduce the appearance of dark circles

- **Dark spots cream -** The triple effect of CBD, kiwi and sophora root extract is formulated to help reduce the appearance and number of dark spots.

- **Specialized care line**

  - **Clear skin gel –** A clinically backed formulation combining CBD with rosemary extract, tea tree oil and other ingredients to help manage oil and provide fresher looking skin

  - **Intensive moisturizing cream** – A clinically backed and rich combination of CBD and colloidal oatmeal designed to help soothe extremely dry skin

- **Moisture and protection line**

  - **Skin protecting facial lotion PM -** Overnight cream that combines CBD, pro-retinol, and vitamin E, which work together to hydrate your skin while you rest

  - **Skin protecting facial lotion AM -** Lightweight moisturizer combines CBD and vitamin E, which protects against drying effects and to boost skin's glow.

  - **Skin protecting body lotion -** Fast absorbing creamy lotion with CBD a touch of shea butter for total body application

**Cosmetic clinical trials**

The first clinical trial completed by Avicanna evaluated Pura H&W topical cream containing 0.5% cannabidiol and 1% hemp seed oil on 49 adults. 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.[2]

[2] Study details are published on clinicaltrials.gov as interventional clinical trials.

**Potential Markets**

Certain products of the CBD derma-cosmetic product line have been commercialized in Colombia[3] and in Canada. In Canada, sales initially commenced in the adult use sales channels and are expected to commence in the medical sales channels in Q3 2021. The Company expects to launch the CBD derma-cosmetic products in the US, the UK, and Ecuador by the end 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***

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.

Intended Pharmaceutical Pathways

- **Generic pharmaceutical** (LATAM market - expected commercialization Q1 2022
- **Natural drug or phyto-therapeutic designations** (LATAM market - expected commercialization 2021)
- **Rare disease pharmaceutical pipeline** (Canada, USA, EU, LATAM markets - expected commercialization 2022)

| Drug Development Program | Delivery | Development status | Clinical status | Registration |
|---|---|---|---|---|
| Refractory Epilepsy Trunerox™ | Oral | ✔ | - | Generic Pharmaceutical |
| Multiple Sclerosis | Sublingual | ✔ | - | Generic/Phyto-therapeutic |
| Chronic Pain | Oral | ✔ | - | Phyto-therapeutic |
| Anxiety and Depression | Sublingual | ✔ | - | Phyto-therapeutic |
| Epidermolysis Bullosa | Topical | ✔ | Pre-clinical | Orphan Drug |
| Osteoarthritis | Nasal | ✔ | Pre-clinical | Pharmaceutical |

## *Research and Development*

With ongoing preclinical and clinical studies on medical cannabis, and a pipeline development of pharmaceutical products, Avicanna's dedication to researching the potential role of cannabinoids of therapeutic and or symptom management while optimizing product delivery forms has been at the core of the Company's vision since its inception.

**Pre-Clinical and Clinical Development**

Avicanna's preclinical and clinical development pipeline is conducted in collaboration with leading university and hospital partners. Several collaborations have been granted various peer-reviewed government funding for projects and student grants. All formulations developed and data generated in collaboration with our partners are considered Avicanna Intellectual Property and can be submitted for patent filing at any time. Highlighted below are some of the Company's ongoing research projects.

[3] Initially marketed under the Company's Pura Earth™ brand, the Colombian products are expected to be rebranded to Pura H&W™.

- At the University of Guelph in collaboration with Dr. Jibran Khokhar, RHO Phyto products are undergoing secondary pharmacokinetic and behavioral evaluation with comparison to basic MCT oil products. The results of this study, along with previous investigation of pharmacokinetic profiles of products, will help generate dosing guidance for Health Care Providers. Additionally, various cannabinoid ratios and terpenes are being evaluated in Avicanna optimized formulation in animal models of addiction and withdrawal from alcohol and nicotine, and neuropathic pain for pharmaceutical development.
- Our collaboration with the University Health Network and Dr. Peter Carlen is focused on evaluating various cannabinoid and terpenes ratio in optimized Avicanna formulation for reduction in seizure frequency and severity in various preclinical models of epilepsy for pharmaceutical development.
- In collaboration with Thompson River University and Dr. Kingsley Donkar and team, we are evaluating optimal cannabinoid and terpenes ratios for its effect on various bacteria and fungi, and for its anti-inflammatory effects on tissue models of lung, nasal and airway caused by the COVID-19 virus.
- At Charles River, Avicanna's topical pharmaceutical candidate is being evaluated for attenuating pain and inflammation in animal model of osteoarthritis at Charles River. Ongoing formulation optimization including evaluating various cannabinoid and terpene ratios will continue over various phases of the study.

| Partner Institution & Researcher | Project Highlights | Project Status |
|---|---|---|
| **University of Guelph – Dr. Jibran Khokhar** | Preclinical Pharmacokinetic and behavioral analysis of RHO Phyto Products and comparison to MCT based products<br>Drug discovery for cannabinoid-based products in animal model of alcohol and nicotine addiction for attenuating withdrawal side effects.<br>Drug discovery for cannabinoid-based products for decreasing pain in preclinical model of neuropathic pain. | Studies ongoing – anticipating completion of studies and analysis by H2 2021.<br>Model Development Ongoing<br>Expected completion of studies by end of year 2021.<br>Model Development H2 2021<br>Study Completion H1 2022 |
| **University Health Network - Dr. Peter Carlen** | Epilepsy research program including in vitro and in-vivo analysis of cannabinoid ratios and formulations for seizure frequency and severity reduction. | Commenced Q4 2021.<br>Ongoing series of studies to be completed over 2022. |
| **Charles River** | Evaluating RHO Phyto Deep Tissue gel and other drug candidates for attenuating pain and inflammation in animal model of osteoarthritis | Commenced Q1 2021.<br>Estimated Completion Q3 2021. |
| **Thompson Rivers University** | Evaluation of cannabinoids for antibacterial effects and evaluation of cannabinoid-based products in tissue model of inflammation | Commenced Q1 2021.<br>Estimated completion Q4 2021. |

**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 magisterial preparations in Colombia, and the product line's consistency in dosing and quality, the Company has a timely opportunity to include certain of the RHO Phyto products in real-world evidence ("RWE") trials on specific therapeutic indications and patient populations.

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.

Data derived from RWE trials in Canada and from patient support programs in Colombia 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.

**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, osteoarthritis and epidermolysis bullosa.

**Epidermolysis Bullosa**

The Company is continuing discussions 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.

### *Intellectual Property*

As the Company continues to expand its research and development activities and further establish its scientific platform, 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 seven patent pending 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 a total of 78 trademark filings covering Avicanna's logos, word marks and design marks in over a dozen countries in North and South America, Europe, Africa, Australasia, and Asia.

### *Cannabis Raw Materials, Seeds, and Bulk Formulations*

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 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 25,000 kg of biomass per year with complete extraction, analytical testing and manufacturing infrastructure.

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.

**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") in the 2020 Sustainability Yearbook, a sustainability index that has become the basis for numerous S&P Global ESG indices.
- First known 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 eleven 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 known completed export of seeds into the United States from Colombia in the second quarter of 2020.

- Commercial exports of cannabinoids from Colombia into the United States, Canada, Chile, UK, Germany, Argentina, Uruguay, Peru, Austria, Brazil 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.

***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.

| ***Summary of Cultivation Operations*** *(Units as indicated)* | **As at March 31, 2021** | **As at December 31, 2020** |
|---|---|---|
| **Santa Marta Golden Hemp** | | |
| Total square feet | 360,000 | 360,000 |
| Annual yield (kg) | 26,400 | 26,400 |
| Cost per gram – dried flower | $0.09 | $0.11 |
| Extraction capacity – dried flower per day (kg) | 300 | 300 |
| **Sativa Nativa** | | |
| Total square feet | 120,000 | 120,000 |
| Annual yield (kg) | 4,500 | 4,500 |
| Cost per gram – dried flower[1] | nil | $0.11 |

[1] Production was idled during the quarter ended March 31, 2021, therefore there was no cost per gram to report.

Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2020, is available under the Company's SEDAR profile at www.sedar.com.

## Part 2 – Results of Operations

The following table sets forth selected consolidated financial information for the three months ended March 31, 2021 and 2020.

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| ***Selected Consolidated Financial Information*** *(Canadian Dollars , except per share amounts)* | **2021** | **2020** | **$ Change** | **% Change** |
| Net revenue | 270,908 | 260,903 | 10,005 | 4% |
| Gross profit before biological assets adjustment | 180,366 | 160,096 | 20,270 | 13% |
| Net impact, fair value of biological assets | 223,358 | 1,887,452 | (1,664,094) | (88%) |
| Gross margin | 403,723 | 2,047,548 | (1,643,825) | (80%) |
| Operating expenses | (3,459,583) | (4,009,844) | 550,261 | (14%) |
| Operating loss | (3,055,860) | (1,962,296) | (1,093,564) | 55% |
| Net loss and comprehensive loss | (5,016,588) | (2,656,658) | (2,359,930) | 89% |
| Loss per share – basic and diluted | (0.14) | (0.12) | (0.02) | 17% |

**Net Revenues**

We report net revenues in three key segments: Canadian medical cannabis, licensing and royalty revenue, and international and other revenue. The following table presents revenue by these segments for the three months ended March 31, 2021 and 2020.

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| ***Revenue by Segment*** *(Canadian Dollars)* | **2021** | **2020** | **$ Change** | **% Change** |
| Canadian medical cannabis net revenue | $ 66,643 | $ - | 66,643 | - |
| Licensing and royalty revenues[1] | 100,750 | 158,088 | (57,338) | (36%) |
| International and other revenue | 103,515 | 102,815 | 700 | 1% |
| **Net Revenue** | **$ 270,908** | **$ 260,903** | **10,005** | **4%** |

[1] *For the three months ended March 31, 2020 these revenues were included in service revenue. Subsequent to March 31, 2020, the Company classified this revenue as a separate stream.*

Canadian medical cannabis revenue increased to $66,643 for the three months ended March 31, 2021, compared to nil for the three months ended March 31, 2020. The Company's medical line of products was introduced in the Canadian market in the third quarter of 2020; therefore, there were no sales in for the first quarter of 2020.

Licensing and royalty revenues decreased to $100,750 for the three months ended March 31, 2021 from $158,088 for the three months ended March 31, 2020. In the first quarter of fiscal 2020, the Company recognized a one-time license fee in the amount of $75,000 for a specific development project. Recurring licensing and royalty revenues, therefore, increased from $83,088 for the three months ended March 31, 2020 by $17,662 to $100,750 for the same period in 2021.

International and other revenue increased to $103,515 for the three months ended March 31, 2021 from $102,815 for the three months ended March 31, 2020. The Company saw a slight increase in sales for its products out of its Colombian subsidiaries.

The following table summarizes the number of SKUs of the Company's products listed for sale (the "Listings") in the Canadian market, the total units sold in the Canadian market, and provides a summary of the international revenue streams for the three months ended March 31, 2021 and 2020.

| ***Key Revenue Metrics*** *(Units as Indicated)* | **For the three months ended March 31, 2021** | **For the three months ended March 30, 2020** |
|---|---|---|
| **Canadian Revenue Channels** | | |
| SKU Listings - medical | 5 | - |
| SKU Listings – adult use | 1 | - |
| Canadian finished goods sold (units) | 4,104 | - |
| **International Revenue Channels** | | |
| Finished products sold (units) | 4,747 | - |
| Sale of API (kg) | 12 | 20 |

During the quarter ended March 31, 2021, the Company had 5 SKUs in the medical sales channel and 1 SKU in the adult use sales channel listed for sale in Canada. The Company sold 4,104 units in the Canadian channel for the three months ended March 31, 2021. Internationally, the Company sold 4,747 units of its derma cosmetic line of products through its subsidiary, Avicanna LATAM S.A.S. The Company had no sales of finished products on a consolidated basis during the same period in 2020. SMGH realized sales of 12 kilograms of API for the three months ended March 31, 2021, compared to 20 kilograms for the three months ended March 31, 2020.

**Gross Margins**

The following outlines the gross margin by channel for the three months ended March 31, 2021 and 2020.

| | **Three months ended March 31** | | | |
|---|---|---|---|---|
| *(Canadian Dollars)* | **2021** | **2020** | **$ Change** | **% Change** |
| Canadian medical cannabis revenue | 22,199 | - | 22,199 | - |
| *Gross margin %* | *33%* | - | - | - |
| Licensing and royalty revenues | 100,750 | 158,088 | (57,338) | (36%) |

| | | | | |
|---|---|---|---|---|
| *Gross margin %* | *100%* | *100%* | - | - |
| International and other revenue | 57,417 | 2,008 | 55,499 | 2,864% |
| *Gross margin %* | *56%* | 2% | - | 54% |
| Total gross margin | 180,366 | 160,096 | 20,270 | 13% |

Gross margin for the Canadian medical cannabis net revenue increased by $22,199 for the three months ended March 31, 2021, from nil for the three months ended March 30, 2020. The Company launched its medical cannabis line of products in the third quarter of fiscal 2020 and therefore there were no sales for the first three months of fiscal 2020. There is no recognized cost of sales on licensing and royalty revenues. Gross margin from international and other revenues totaled $57,417 for the three months ended March 31, 2021, compared to $2,008 for the three months ended March 31, 2020. Gross margins improved from 2% for the three months ended March 2020 to 56% for the three months ended March 31, 2021. These gross margin amounts don't include fair value adjustments or impairment amounts. The improvement of gross margins during this period is as the result of a reduction in general costs and realization of certain economies of scale.

**Operating Expenses**

The following table presents operating expenses for the three months ended March 31, 2021 and 2020.

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| ***Operating Expenses*** *(Canadian Dollars)* | **2021** | **2020** | **$ Change** | **% Change** |
| Operating expenses | | | | |
| General and administrative | $ 784,648 | $ 691,267 | 93,381 | 14% |
| Selling, marketing and promotion | 120,904 | 30,126 | 90,778 | 301% |
| Consulting fees | 485,940 | 265,887 | 220,053 | 83% |
| Professional fees | 228,882 | 662,352 | (433,470) | (65%) |
| Salaries and wages | 1,159,543 | 1,507,503 | (347,960) | (23%) |
| Research and development | 60,639 | 28,808 | 31,831 | 110% |
| Selling, general and administrative expenses | $ 2,840,556 | $ 3,185,943 | (345,387) | (11%) |
| | | | | |
| Share based compensation | $ 171,781 | $ 338,192 | (166,411) | (49%) |
| Depreciation and amortization | $ 265,039 | $ 509,143 | (244,104) | (48%) |
| Expected credit loss | $ 41,639 | $ - | 41,639 | - |
| Loss (gain) on revaluation of derivative liability | $ 140,568 | $ (23,434) | (164,002) | (700%) |
| **Total Operating Expenses** | **$ 3,459,583** | **$ 4,009,844** | **(550,261)** | **(14%)** |

*General and Administrative expenses*

For the three months ended March 31, 2021, the Company incurred general and administrative expenses totaling $784,648 compared to $691,267 for the same period in the prior year. The increase was primarily attributed to an increase in rent and other activities related to increased commercial efforts.

*Selling, Marketing and Promotion*

For the three months ended March 31, 2021, the Company incurred selling, marketing and promotional expenses totaling $120,904 compared to $30,126 for the same period from the prior year. These costs relate to general marketing and education costs. The increase was primarily attributed to scaling its selling and marketing costs with its commercialization plans, particularly in North America. As sales continued to increase in Canada, in particular, the Company has started to increase its selling and marketing costs.

*Consulting Fees*

For the three months ended March 31, 2021, the Company incurred consulting expenses totaling $485,940 compared to $265,887 in the same period from prior year. The increase was primarily attributed to:

- Increased expenses for capital market consulting services during the quarter.
- The Company retained healthcare consultants to support its Canadian and Colombian commercial launches and ongoing commercial activities.

*Professional Fees*

For the three months ended March 31, 2021, the Company incurred professional fees of $228,882 compared to $662,352 for the same period last year. This decrease can be attributed to a general reduction in legal and accounting fees in the first quarter of 2021.

*Salaries and Wages*

For the three months ended March 31, 2021, the Company incurred salaries and wages of $1,159,543 compared to $1,507,503 for the same period last year. This decrease is attributed to:

- A further reduction in head count in international operations, particularly Latin America and Europe.
- The Canadian operations experienced a reduction in head count for the three months ending March 31, 2021 compared to the three months ending March 31, 2020.

*Research and Development*

For the three months ending March 31, 2021, the Company incurred research and development expenses of $60,639 compared to $28,808 for the same period last year. Research and development activities commenced by the fourth quarter of fiscal 2020, which led to the increased expenses for the three months ending March 31, 2021. For the three months ending March 31, 2020 research and development activities slowed with the onset of the COVID-19 pandemic.

*Share-based Compensation*

For the three months ended March 31, 2021, the Company incurred share-based compensation expenses of $171,781 compared to $338,192 for the same period last year. There were additional restricted stock units (“RSUs”) and stock options granted in the first quarter of fiscal 2020.

*Depreciation*

Depreciation and amortization for the three months ending March 31, 2021 was $265,039 compared to $509,143 for the three months ending March 30, 2020. The decrease was attributable to certain limited life intangible assets being written off in fiscal 2020, and therefore no depreciation was recognized for the first quarter in fiscal 2021.

*Expected Credit Loss*

For the three months ended March 31, 2021, the Company recognized an expected credit loss of $41,639 compared to nil for the three months ended March 31, 2020. The Company did not recognize any expected credit losses for the three months ended March 31, 2020.

*Loss (gain) on revaluation of Derivative Liability*

For the three months ended March 31, 2021 the Company recognized a loss on the revaluation of a derivative liability of ($140,568), compared to recognizing a gain of $23,434 on the revaluation of a derivative liability for the three months ended March 31, 2020 based on the fair value of the derivative liability at March 31, 2021.

*Exchange differences on translation of foreign operations*

For the three months ended March 31, 2021, the Company recognized a loss of ($1,913,827) on translation of foreign operations compared to ($547,122) for the three months ended March 31, 2020. The increase was as the result of movement of the Colombian Peso at March 31, 2021.

**Other**

*Other income (expenses)*

The following table presents other income and (expense) items for the three months ended March 31, 2021 and March 30, 2020.

| | | Three months ended March 31 | | | |
|---|---|---|---|---|---|
| *(In Canadian Dollars)* | **2021** | **2020** | **$ Change** | **% Change** |
| Foreign exchange loss | (10,474) | (9,009) | (1,465) | 16% |
| Other income (expense) | 42,644 | (85,451) | 128,095 | (150%) |
| Interest expense | (132,809) | (52,780) | (80,029) | 104% |
| Gain on disposal of capital assets | 53,738 | - | 53,738 | - |
| | $ **(46,901)** | $ **(147,240)** | **100,339** | **(68%)** |

Other income and expenses (net) was ($46,901) for the three months ended March 31, 2021 compared to ($147,240) for the three months ended March 31, 2020. The increase of $100,339 was primarily attributable to:

- The Company sold a piece of its equipment in its subsidiary, Santa Marta Golden Hemp S.A.S. during the three month period ended March 31, 2021.
- The Company recognized other income for the three months ending March 31, 2021 related to referral fees from a customer, and didn't have as many other expenses as the same period in 2020.
- The additional interest expense for the three months ending March 31, 2021 compared with the three months ending March 31, 2020 is the result of the Company carrying additional debt from its November 2020 convertible debt financing.

**Adjusted EBITDA**

The following table presents Adjusted EBITDA for the three month period ending March 31, 2021 and 2020:

| | For the three month ended March 31 | | | |
|---|---|---|---|---|
| *(In Canadian Dollars)* | **2021** | **2020** | **$ Change** | **% Change** |
| Net comprehensive loss | $ (5,016,588) | $ (2,656,658) | (2,359,930) | (89%) |
| Exchange differences on translation | 1,913,827 | 547,122 | 1,366,705 | 250% |
| Share-based compensation | 171,781 | 338,192 | (166,411) | (49%) |
| Depreciation and Amortization | 265,039 | 509,143 | (244,104) | (48%) |
| Other (income) expenses, net | 93,667 | 147,240 | (57,573) | (36%) |
| Unrealized changes in biological assets | (231,666) | (1,916,120) | 1,684,454 | (88%) |
| Adjusted EBITDA[1] | $ (2,803,940) | $ (3,031,081) | 227,141 | (7%) |

*[1]Adjusted EBITDA is a non-GAAP measure and is calculated as the reported net loss, adjusted to exclude deferred tax (recovery) expense, impairments, share-based compensation, amortization, other (income) and expenses and removal of any one time costs and fees.*

The Adjusted EBITDA loss for the three months ended March 31, 2021 was ($2,803,940) million as compared to an Adjusted EBITDA loss of ($3,031,081) for the three months ended March 31, 2020. The increase in EBITDA was the result of further reductions in general and administrative expenses and improvements in gross margin.

**Summary of Quarterly Results**

The following tables presenting our quarterly results of operations should be read in conjunction with the Financial Statements and related notes. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. Our operating results for any quarter are not necessarily indicative of the results for any future quarters or for a full year.

The following tables present our unaudited quarterly results of operations for the eight consecutive quarters ended March 31, 2021.

| | Quarter Ended | | | |
|---|---|---|---|---|
| *(In Canadian Dollars)* | **March 31, 2021** | **December 31, 2020** | **September 30, 2020** | **June 30, 2020** |
| Net revenues | 270,908 | (2,182) | 851,871 | 459,468 |
| Net comprehensive loss | (5,016,588) | (16,320,464) | (6,600,303) | (9,219,165) |
| Loss per share | (0.14) | (0.18) | (0.35) | (0.36) |

| | Quarter Ended | | | |
|---|---|---|---|---|
| *(In Canadian Dollars)* | **March 31, 2020** | **December 31, 2019** | **September 30, 2019** | **June 30, 2019** |
| Net revenues | 260,903 | 122,715 | 4,943 | 16,571 |
| Net comprehensive loss | (2.656,658) | (7,345,054) | (7,194,831) | (5,180,516) |
| Loss per share | (0.12) | (0.33) | (0.33) | (0.25) |

## Part 3 – Financial Liquidity and Capital Resources

The Company's primary liquidity and capital requirements are for capital expenditures, inventory, working capital and general corporate purposes. The Company currently has a cash and cash equivalents balance of $3,903,663 at March 31, 2021. The Company's ability to fund operating expenses and capital expenditures will depend on its future operating performance, and its ability to raise capital which will be affected by general economic conditions, financial, regulatory, and other factors, including factors beyond the Company's control.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of trade receivables, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including debt financing and the issuance of capital stock.

The following table provides a summary of the cash flows for the three months ending March 31, 2021 and March 31, 2020.

| *(In Canadian Dollars)* | **For the three months ended March 31, 2021** | **For the three months ended March 31, 2020** |
|---|---|---|
| Net cash (used in) provided by: | | |
| Operating activities | $ (5,445,384) | $ (1,324,660) |
| Investing activities | 1,475,538 | (1,150,691) |
| Financing activities | 5,565,383 | 2,110,162 |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | 1,041,394 | - |
| Net increase (decrease) in cash and cash equivalents | 1,595,537 | (365,189) |
| Cash, beginning of year | 1,266,732 | 441,757 |
| Cash, end of year | 3,903,663 | 76,568 |

Cash used in operations during the three months ended March 31, 2021 was ($5,445,384), compared to ($1,324,660) for the same period in 2020. The decrease in cash used in operations is primarily due to a reduction in working capital.

Net cash flows from investing activities totaled $1,475,538 for the three months ended March 31, 2021 compared to ($1,150,691) for the three months ended March 31, 2020. The increase in cash flows from investing activities was as the result of the Company redeeming a $1,250,000 GIC and selling an asset in SMGH.

Net cash flow from financing activities totaled $5,565,383 for the three months ending March 31, 2021 compared to $2,110,162 for the three months ending March 31, 2020. The Company raised $5,600,000 in the first quarter of 2021 which represented the large increase in cash flow from financing activities, when compared to the same period last year.

The following table provides information about the Company's remaining funds from the public offering prior to the three month period ended March 31, 2021 and the private placement during the quarter and the actual use of proceeds from those financings compared to the intended use of proceeds from the offerings. The remaining cash related to financings raised for general corporate and working capital needs are prorated based timing of funds raised and the current periods cash flow.

| Date | Type | Gross Proceeds | Initially Intended Use of Proceeds | Actual Usage of Proceeds |
|---|---|---|---|---|
| December 31, 2020 | Underwritten public offering (see below) | $5,832,645 | The net proceeds generated from the public offering amounted to $5,413,305.<br><br>The Company's stated intended use of the net proceeds were for personnel, commercialization, sales, development and research, working capital, and production. | Management required additional funds to be allocated towards general working capital, to enable the Company to complete its year end filings. After applying the net loss and funds required for general working capital needs in the three month period ended March 31, 2021, the raised funds had been utilized as at March 31, 2021. |

| | | | | |
|---|---|---|---|---|
| March 4, 2021 | Private Placement offering (see below) | $5,600,000 | The net proceeds generated from the public offering amounted to $5,350,050.<br><br>The Company's stated intended use of the net proceeds were for general working capital. | Management has not adjusted its originally intended use of the net proceeds of the financing.<br><br>There was an estimated amount of $3,903,663 remaining as at March 31, 2021. |

December 2020 Public Offering

On December 8, 2020, the Corporation closed a marketed public offering of 5,966,900 units (the "December 2020 Units") of the Corporation at a price of $0.85 per December 2020 Unit, for gross proceeds of $5,071,865 (the "December Prospectus Offering"). Each December 2020 Unit was comprised of one Common Share and one Warrant of the Corporation (each full Warrant, a "December 2020 Warrant" and collectively the "December 2020 Warrants"). Each December 2020 Warrant is exercisable for one Common Share at a price of $1.20 per share at any time for a period of 36 months following closing of the December Prospectus Offering. On December 31, 2020, the Corporation announced the closing of an over-allotment option issued to a syndicate of agents, pursuant to which an additional 895,034 December 2020 Units ("Additional December 2020 Units") were issued at a price of $0.85 per unit, for gross proceeds of approximately $760,780. Including the December 2020 Units sold pursuant to the over-allotment option, a total of 6,861,934 December 2020 Units were issued under the December Prospectus Offering for aggregate gross proceeds of approximately $5,832,645.

March 2021 Private Placement

On March 4, 2021, the Corporation closed a non-brokered private placement (the "March 2021 Offering"). Under the March 2021 Offering, the Corporation has issued an aggregate of 4,480,000 units (the "March 2021 Units") at a price of CAD$1.25 per March 2021 Unit for aggregate gross proceeds of approximately CAD$5.6 million. Each March 2021 Unit is comprised of one (1) Common Share and one (1) Common Share purchase warrant, each of which is exercisable into one Common Share at a price of CAD$1.75 per share until March 4, 2024.

***Off Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements.

***Related Party Balances and Transactions***

Compensation expense for Avicanna's key management personnel for the three months ended March 31, 2021 and 2020 are as follows:

| | **For the three months ended March 31** |
|---|---|

| *(Canadian Dollars)* | | 2021 | | 2020 |
|---|---|---|---|---|
| Salaries and benefits | $ | 190,000 | $ | 798,333 |
| Share-based compensation | | 147,832 | | 671,150 |
| | $ | 337,832 | $ | 1,469,483 |

Additionally, as at March 31, 2021, the Company received advances from certain related parties who represent the minority shareholders of SMGH and SN in the amount of $4,167,715. 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.

## Part 4 – Critical Accounting Policies and Estimates

Our significant accounting policies are fully described in Note 3 of the consolidated financial statements. Certain accounting policies require the application of significant judgement by management and, as a result, are subject to an inherent degree of uncertainty. We believe that the following accounting policies and estimates are the most critical to fully understand and evaluate our reported financial position and the results of operations, as they require our most subjective or complex management judgments. The estimates used are based on our historical experience, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Actual results may vary from our estimates in amounts that may be material to the Financial Statements.

***Inventory valuation***

*Critical judgment.* Inventory is valued at the lower of cost and net realizable value. The valuation of our inventory balances involves calculating the estimated net realizable value of our inventory and assessing it against the cost. A component of this analysis therefore involves determining whether there is excess, slow-moving or obsolete inventory on hand.

*Assumptions and judgment.* When determining whether there is excess, slow-moving or obsolete inventory, management makes assumptions around future demand and production forecasts, which are then compared to current inventory levels. Management also makes assumptions around future pricing and considers historical experience and the application of the specific identification method for identifying obsolete inventory.

*Impact if actual results differ from assumptions.* If the assumptions around future demand for our inventory are more optimistic than actual future results, the net realizable value calculated using these assumptions may be overstated, resulting in an overstatement of the inventory balance.

***Estimated useful lives and depreciation and amortization of long-lived assets***

*Critical estimates.* During the purchase or construction of our property and equipment, and during the acquisition or purchase of intangible assets, amounts are capitalized onto the statement of financial position. When the assets go into service, a useful life is assigned to determine depreciation and amortization expense. Useful lives are determined through the exercise of judgment.

*Assumptions and judgment*. The useful lives are determined based on the nature of the asset. Management considers information from manufacturers, historical data, and industry standards to estimate the appropriate useful life and salvage value. In certain cases, management may obtain third party appraisals to estimate salvage value.

*Impact if actual results differ from assumptions*. If actual useful lives differ from the estimates used, the timing of depreciation and amortization expense will be impacted.

***Impairment of property and equipment and definite lived intangible assets***

*Critical estimates.* Property and equipment and definite lived intangible assets need to be assessed for impairment when an indicator of impairment exists. If an indicator of impairment exists, further judgement and assumptions will be required in determining the recoverable amount.

*Assumptions and judgment.* When determining whether an impairment indicator exists, judgement is required in considering the facts and circumstances surrounding these long-lived assets. Management considers whether events such as a change in strategic direction, changes in business climate, or changes in technology would indicate that a long-lived asset may be impaired. When an impairment indicator does exist, judgement and assumptions are required to estimate the future cash flows used in assessing the recoverable amount of the long-lived asset.

*Impact if actual results differ from assumptions.* If impairment indicators exist and are not identified, or judgement and assumptions used in assessing the recoverable amount change, the carrying value of long-lived assets can exceed the recoverable amount.

***Impairment of indefinite lived intangible assets and goodwill***

*Critical estimates.* Indefinite lived intangible assets and goodwill assets need to be assessed for impairment annually. Judgement and assumptions are required in determining the recoverable amount.

*Assumptions and judgment.* Qualitatively, judgement is required when considering relevant events and circumstances that could affect the fair value of the indefinite lived intangible asset. Management considers whether events and circumstances such as a change in strategic direction and changes in business climate would impact the fair value of the indefinite lived intangible asset. In performing the quantitative analysis, assumptions around expected future cash flows, discount rates and other inputs into a financial model may be required to compare the fair value to the carrying value.

***Derivative asset fair value measurement***

*Critical estimates*. The derivative asset is measured at fair value through net income (loss) using Level 3 inputs.

*Assumptions and judgment.* The valuation of the derivative asset is highly subjective, and management applies a probability-weighted expected return model which considers a number of potential outcomes. We use judgment to make assumptions on the key inputs, primarily; (i) probability and timing of U.S. legalization, (ii) expected returns from US operations and (iii) an appropriate discount rate.

*Impact if actual results differ from assumptions.* If the assumptions and judgments differ, the fair value calculation will be impacted.

***Derivative liability fair value measurement***

*Critical estimates.* The derivative liability is measured at fair value through net income (loss) using Level 3 inputs.

*Assumptions and judgment.* The valuation technique requires assumptions and judgement around the inputs to be used. Specifically, there is a high degree of subjectivity and judgement in evaluating the determination of the expected share price volatility inputs. Historical and peer group volatility levels are used to provide a range of expected volatility inputs.

*Impact if actual results differ from assumptions.* An increase or decrease in the share price volatility will result in an increase or decrease in fair value. Fair value estimates are sensitive to the expected volatility inputs.

***Stock-based compensation***

*Critical estimates*. We use the Black-Scholes option pricing model to calculate our share-based compensation expense.

*Assumptions and judgment.* The option pricing model relies on key inputs such as rate of forfeiture, expected life of the option, the volatility of our share price, and the risk-free interest rate used.

*Impact if actual results differ from assumptions*. If key inputs differ, the fair value of options will be impacted. A higher fair value of the options will result in higher share-based compensation expense over the vesting period of the option.

***Income taxes***

*Critical estimates*. Many of our normal course transactions may have uncertain tax consequences. We use judgment to determine income for tax purposes and this may impact the recognized amount of assets or liabilities, the disclosure of contingent liabilities or the reported amount of revenue or expense and may result in an unrealized tax benefit for transactions that have not yet been reviewed by tax authorities and that may in the future be under discussion, audit, dispute, or appeal.

*Assumptions and judgment.* We use historical experience, current and expected future outcomes, third-party evaluations and various other assumptions believed to be reasonable in making judgements.

*Impact if actual results differ from assumptions.* An unrealized tax benefit will be recognized when we determine that it is more likely than not that the tax position is sustainable based on its technical merits. In any case, if the outcome is different from our estimate this will impact our income taxes and cash flow.

***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 |
|---|---|---|---|---|
| Amounts payable | 6,127,345 | 6,127,345 | 6,127,345 | - |
| Lease liability | 425,440 | 600,000 | 600,00 | - |
| Convertible Debentures | 310,432 | 310,432 | 224,950 | 85,482 |
| | **6,863,217** | **7,037,777** | **6,952,295** | **85,482** |

**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, 2020 and December 31, 2019.

**OUTSTANDING SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares (each, a "Common Share"). As of the date of this MD&A, there are 41,271,574 Common Shares issued and outstanding. In addition, as of the date of this MD&A, there are 1,802,417 Common Shares issuable on the exercise of stock options of the Company, 10,934,740 Common Shares issuable on the exercise of warrants of the Company, 300,000 Common Shares issuable upon the conversion of the convertible debentures issued in November, 2020 having a face principal amount of $300,000, and 210,379 Common Shares issuable on the vesting of outstanding restricted share units of the Company. In addition, in accordance with a term loan in the principal amount of $2,118,000, which was subject to an original issue discount of approximately 15%, such that $1,800,000 (the "Funded Amount") was advanced on August 18, 2021, the Company has agreed to issue such number of warrants to purchase Common Shares representing 100% warrant coverage for the Funded Amount. The warrants are anticipated to be issued, and the exercise price thereof will be determined, following the full revocation of the cease trade order issued by the Ontario Securities Commission on June 11, 2021 in respect of the Company and resumption of trading of the Common Shares on the Toronto Stock Exchange. The number of warrants to be issued by the Company will be the Funded Amount divided by the exercise price.

**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: the impacts of COVID-19 to our business; the future customer concentration; the ability to anticipate future needs of customers; no unusual delays to receive regulatory approvals for our clinical trials or cultivation quotas; our expectations with respect to the competitive landscape of the industry in which we operate and our present intentions to differentiate our business within that industry; the regulatory framework governing cannabis for recreational and medicinal use in Canada, Colombia, and any other jurisdiction in which we may conduct our business in the future; there being no significant delays in the completion of our cultivation facilities; there being no significant delays in the development and commercialization of our products; maintaining sufficient and effective production and R&D capabilities; our ability to analyze customer data; our ability to secure partnerships with manufacturers and distributors in international markets; the ability of our strategic partnerships to effectively operate; our ability to develop a brand to market our products successfully to consumers; future production and supply levels, and future consumer demand levels; the price of cannabis and cannabis related products; continuing to attract and retain key personnel; the demand for our products will grow for the foreseeable future; there being no significant barriers to acceptance of our products in the market; 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; and, ability to access financing on commercially attractive terms.

As at March 31, 2021, 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.

The Company’s overall performance and results of operations are subject to various risks and uncertainties which could cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the following factors, some of which, as well as other factors, are discussed in the Company’s Annual Information Form dated September 3, 2021 for the year ended December 31, 2020 available under the Company’s profile on www.sedar.com, which risk factors should be reviewed in detail by all readers:

- our business segments are heavily regulated in Canada and Colombia;
- the regulatory regime is evolving and uncertainty exists regarding the impact of the regime on the the Company;
- the political environment surrounding the cannabis industry is in flux and subject to change;
- the inability to successfully complete clinical trials or obtain regulatory approval of products;
- risks of foreign operations generally, including but not limited to agriculture and drug policies, nationalization, expropriation, contractual rights, foreign exchange restrictions, currency fluctuations, export quotas, royalty and tax increases, and risks of loss due to civil strife, acts of war, guerilla activities and insurrections;
- the potential inability to enforce judgments obtained in Canada against any person or company incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or that resides outside of Canada, even if the party has appointed an agent for service of process;
- the potential inability to obtain or retain licences required to grow, store and sell cannabis in Colombia,
- the potential inability to establish and maintain bank accounts;
- potential involvement in regulatory or agency proceedings, investigations and audits;
- compliance with evolving environmental, health and safety laws;
- the potential risk of exposure resulting from the control of foreign subsidiaries in Colombia;
- potential government policy changes or shifts in public opinion;
- exposure to foreign exchange risks;
- inflationary risks based on Colombia's historic experience of double digit rates of inflation;
- the potential that Colombia will impose repatriation of earnings restrictions in the future;
- Colombian political and economic conditions are subject to intervention and change;
- constraints on marketing of products;
- the cannabis industry and market is subject to general business risks, and those associated with agricultural and regulated consumer products;
- competitive conditions, consumer tastes, patient requirements and spending patterns remain relatively unknown;
- there are no assurances that the cannabis industry and market will continue to exist or grow as anticipated;
- the industry is changing at rapid speeds, and we may be unable to keep pace;
- the consumer perception of cannabis can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media, and other publicity;
- future clinical research into effective medical cannabis therapies could raise concerns regarding, and perceptions relating to, cannabis;
- limited history of operations;
- the inability to retain and attract employees and key personnel;
- potential for delays in obtaining, or restructuring conditions imposed by, regulatory approvals;
- potential increases in material and labour costs;
- we have incurred losses since inception and may continue to incur losses in the future;
- the ownership of the Common Shares is heavily concentrated among our directors and officers;

- the potential to experience difficulty developing new products and remaining competitive;
- the completion and commercial viability of new products in the prototype stage;
- construction risk in connection with the facilities in Colombia;
- potential for adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment;
- reliance on third-party manufacturers and distributors;
- there can be no assurances of profit generation or immediate results;
- risks against which we are unable or unwilling to insure against;
- shareholder dilution pursuant to additional financings;
- transportation disruptions to our courier services;
- the cost of our key inputs is unpredictable;
- compliance with laws relating to privacy, data protection, and consumer protection;
- potential for information systems security threats;
- we are reliant on key suppliers and skilled labour;
- inability to effectively implement quality control systems;
- there is a potential for conflicts of interest to arise among our key stakeholders;
- we may be unable to sustain our pricing models;
- we may not be able to successfully identify or complete future acquisitions;
- we may be unable to effectively protect personal information;
- exposure to product recalls, liability claims, regulatory action and litigation based on products;
- we may be unable to protect intellectual property in relevant markets;
- the market price for the Common Shares may be volatile and subject to wide fluctuations;
- we may not be able to effectively prevent fraudulent or illegal activities by our employees, contractors or consultants;
- we may not be able to effectively prevent security breaches at our facilities;
- management may not be able to effectively manage our growth;
- outside factors may harm our reputation;
- we may become subject to legal proceedings from time to time;
- management has limited experience managing public companies;
- we may be unable to effectively protect our trade secrets;
- securities analysts may publish negative coverage;
- our financial statements have been prepared on a going concern basis;
- we may be dependent on the performance of our subsidiaries;
- certain of our operating subsidiaries are not wholly-owned;
- there may be future sales of the Common Shares by directors, officers and principal shareholders; and
- interruptions or changes in the availability or economics of our supply chain.

For a discussion of the risks faced by the Company, please refer to the Company's Annual Information Form for the year ended December 31, 2020 and other public filings of the Company, each of which is 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"), 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.

For the three months ended March 31, 2021, 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.

During the course completing the audit of the Financial Statements, the Company's auditors identified two material control weaknesses, namely: i) controls around the record keeping and source documentation for the Company's property, plant and equipment; and ii) weaknesses around the recording and approval of manual journal entries. Management determined that these material weaknesses did not have any impact on the Company's financial reporting or its ICFR. As a result of these material weaknesses, management intends to undertake a detailed review of its internal control environment, including engaging an advisor to complete an assessment and provide suggestions concerning these weaknesses identified and the Company's overall control environment.

In response to the material weaknesses identified by the Company's auditors during their fiscal 2020 audit, the Company is engaging a third party advisor to assist with the design and implementation of effective controls. The Company plans to have this engagement commence in the fourth quarter of 2021.

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.