OVATION SCIENCE INC.

Management Discussion & Analysis

For the year ended December 31, 2018 and 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of April 30, 2019 and should be read in conjunction with the audited financial statements for the year ended December 31, 2018, and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of Ovation Science Inc. (the "Company"), unless specifically noted.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the Company's operations. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or its achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. See also "Cautionary Statement Regarding Forward-Looking Information".

DESCRIPTION OF BUSINESS

The Company was incorporated under the Business Corporations Act of British Columbia on July 18, 2017. The Company was established to take advantage of a new business opportunity to use patented Invisicare® technology in the production of skin products containing derivatives of cannabis, including THC, cannabinoids and hemp oil. Under the terms of the Invisicare Agreement described in detail below, the Company holds the exclusive world wide right to manufacture, distribute, sell, market, sub-license and promote products formulated with Invisicare®, containing cannabis products including cannabinoids, hemp seed and synthetic derivatives of cannabis.

Invisicare® is a patented polymer-based technology for topical and transdermal skin care products. The advantages of products using Invisicare® are enhancement of drug delivery to the skin by delivering greater amounts and enhancing cannabinoid penetration to enter the blood stream as required. The technology also forms a protective bond that holds ingredients on skin resisting rub-off and wash off, is non-occlusive and allows for normal skin respiration and perspiration and the formulations do not contain alcohol, parabens, waxes or other organic solvents.

The Company's business model is to sublicense Invisicare® enhanced product formulations to licensed businesses engaged in the production of cannabis or hemp products for approved markets and/or geographic areas. During the year ended June 30, 2018, the Company had two sublicensees, Canopy, which holds the exclusive sublicense for certain cannabis based products in Canada and in the United States, excluding the dispensary market. The Company's second sublicensee is Lighthouse, which holds the exclusive license for the United States for licensed dispensaries. Canopy also has certain rights of first refusal to license products for other worldwide markets. On April 16, 2019, the Company announced that it and Canopy had mutually elected to terminate their license agreement, eliminating any restrictions preventing the Company from dealing with other licensed producers in Canada and terminating the right of first refusal held by Canopy.

Under the Company's business model, it earns revenue from a number of sources including, licensing fees, product development fees, product royalties, and polymer sales to its sublicensees.

Since incorporation on July 18, 2017, the Company's activities have focused on developing product lines and entering sublicensing agreements, including the Canopy License Agreement and the Lighthouse License Agreement. The Company intends to continue sublicensing with other government licensed companies engaged in the sale of cannabinoid and/or hemp oil containing products worldwide. On April 16, 2019 the Company and Canopy Growth Partners have mutually elected to terminate their license agreement, eliminating the restrictions preventing the Company from dealing with other licensed producers in Canada.

The Company develops skin care lines containing hemp seed oil and cannabis, and licenses rights to hemp seed oil and cannabis products. The Company has the exclusive world-wide rights to all hemp seed oil and cannabis products (hemp and marijuana) developed with Invisicare®, which enhances the delivery of drugs and other ingredients to and through the skin. The Company, through the Invisicare® Agreement has the right to use Invisicare® , a skin delivery technology covered by patents in eleven (11) countries including the USA and Canada. The Company has developed topical and transdermal creams and lotions made with CBD, THC and combinations thereof plus hemp seed oil. All formulations are formulated with Invisicare® and go through a rigorous pharmaceutical testing process to ensure the formulations are validated throughout the process. The Company does not handle product formulas containing marijuana and the production and testing of marijuana containing products is done at the licensed premises of its sublicensees. As previously discussed, the Company's business model is also to sublicense the Invisicare® enhanced products to licensed businesses engaged in the production of cannabis or hemp products for certain markets and/or geographic areas.

<u>2018 Farm Bill</u>

On December 20, 2018 the 2018 Farm Bill became law in the United States. Under the 2018 Farm Bill, industrial and commercial hemp will no longer be classified as a Schedule I controlled substance in the United States. Under the 2018 Farm Bill, hemp includes the plant Cannabis sativa L. and any part of that plant, including seeds, derivatives, extracts, cannabinoids and isomers. To qualify under the 2018 Farm Bill, hemp must contain no more than 0.3 percent of delta-9-tetrahydrocannabinol (THC).

The 2018 Farm Bill explicitly allows interstate commerce of hemp which will enable the transportation and shipment of hemp. Ovation expects the removal of hemp as a controlled substance will positively impact the public perception of hemp and sales of its topical and transdermal products containing CBD should increase. In addition, Ovation expects that now that industrial and commercial hemp is federally authorized, the barriers to national distribution have been eliminated and therefore the trend should be product sales expanding nationally in the United States for Ovation and its licensees.

<u>Health Canada</u>

On December 22, 2018, Health Canada published in the Canada Gazette, Part I, draft regulations for edible cannabis, cannabis extracts and cannabis topicals. These regulations cover the production and sale of cannabis topicals and permitting their legal sale by October 17, 2019.

This is positive news for Ovation as following legalization of topical CBD and THC products, Ovation can expand its business into Canada.

<u>Recreation transdermal creams</u>

On February 19, 2019, the Company announced the creation of a new product category for the cannabis market: recreational transdermal creams. This first-to-market recreational cannabis product has been formulated to quickly deliver a high-dose of THC into the blood stream (transdermal).

This new product is marketed and distributed in the USA by Cannabiniers under the name BASKiN GLOW. BASKiN GLOW contains 500 milligrams of THC and 50 milligrams of CBD in each 59 ml jar. This product will be a game-changer in the cannabis industry and the Company is the leader in this new category.

The recreational transdermal cream has been developed using Ovation's drug delivery technology and has the following unique distinctions; Proprietary polymer delivery system delivers high-dose THC to the blood stream; bypassing first-pass through the liver; Patent-protection means no other cream can deliver like Ovation's; The unique formula delivers THC transdermally without the use of a patch; it's invisible; significant demand has been established with multiple pre-orders; Third-party testing verifies potency of each product; available in Nevada dispensaries and coming soon to California and other states where legalized.

With over twenty years of topical drug delivery experience, Ovation's management and science team has created a unique pipeline of over twenty-five topical and transdermal cannabis products including CBD, THC and combination products along with a line of anti-aging / beauty products made with CBD.

OVERALL PERFORMANCE

During the year ended December 31, 2018:

As at December 31, 2018, the Company had $468,969 (2017 - $277,956) in cash. For the year ended December 31, 2018, the Company generated revenue of $96,408 (2017 - $12,545); and a gross profit of $82,491 (2017 - $12,545).

On April 10, 2018, the Company granted 1,150,000 stock options to directors, officers and employees of the Company. The options entitle the holders to acquire common shares of the Company at $0.30 per share and expire on April 10, 2020. In the year ended December 31, 2018, the Company recorded share-based payment expense of $22,559 for these options. The stock options were valued using the Black Scholes pricing model using the following assumptions: share price: $0.10, expected life: one year, expected volatility: 100%, dividend yield: 0%, and risk-free interest rate: 1.81%.

On June 28, 2018 and June 29, 2018, the Company issued unsecured convertible notes for proceeds of $50,000 and $100,000, respectively. The convertible notes are unsecured, bear interest at 10% per annum and are due on August 28, 2019 and August 29, 2019, respectively. The $100,000 convertible note was issued to a director of the Company. At any time after issuance, the holders are entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a value of $0.30 principal per share. These convertible notes include both a liability component for the contractual cash flows and an equity component for the conversion feature. The liability component was valued first based on the present value of contractual cash flows using a discount rate of 12% which is the estimated rate that would have been charged for a similar instrument without a conversion feature. The equity component of $3,245 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

On August 14, 2018, the Company issued a promissory note to an arm’s length party for a principal amount of CAD$130,870 US$100,000. The note is denominated in U.S. dollars, bears interest at 10% per annum, is unsecured and due October 14, 2019.

On November 15, 2018, the Company closed a private placement consisting of 8,050,000 units at $0.30 per unit for gross proceeds of $2,415,000. Each unit consisted of one common share of the Company and one half non-transferable share purchase warrant with each whole warrant entitling the holder to purchase one additional common share of the Company at a price of $0.45 per share for a period of two years. $718,157 was allocated to the private placement warrants, which were valued using the Black Scholes pricing model using the following assumptions: share price: $0.10, expected life: two years, expected volatility: 134.44%, dividend yield: 0%, and risk-free interest rate: 2.21%. In connection with the private placement, the Company incurred $333,359 in cash transaction costs and $114,905 in transaction costs related to the issuance of 644,000 broker warrants. The broker warrants entitle the holder to purchase one common share of the Company at a price of $0.45 per share for a period of two years and were valued using the Black Scholes pricing model using the following assumptions: share price: $0.10, expected life: two years, expected volatility: 134%, dividend yield: 0%, and risk-free interest rate: 2.21%.

On November 23, 2018 the Company purchased a guaranteed investment certificate in the amount of $1,500,000, with a one-year maturity, bearing interest at 2.05% per annum. As at December 31, 2018, the Company earned $3,025 in interest income.

During the year ended December 31, 2017:

The Company incorporated on July 18, 2017.

On July 18, 2017, the Company issued one Common Share at a price of $0.005 per share.

On September 26, 2017, the Company issued 5,000,000 common shares at a price of $0.005 per share for proceeds of $25,000.

As a consideration for an assignment agreement with Skinvisible on September 29, 2017, the Company issued a promissory note to Skinvisible for a principal amount of US$250,000. The note is denominated in U.S. dollars, non-interest bearing, unsecured and due upon the earlier of the Company completing an initial public offering or March 31, 2018, which was later amended to June 30, 2018 and September 15, 2018. As the promissory note is non-interest bearing, the initial fair value was estimated as $296,348 (US$236,228) using a market discount rate of 12% and the original maturity date of March 31, 2018. The promissory note is amortized over the original term using the effective interest rate method. As at December 31, 2018, the note was repaid in full.

On October 6, 2017, the Company issued 4,837,000 common shares at a price of $0.02 per share for cash proceeds of $96,740. 2,195,000 of these shares were issued to directors and companies controlled by directors.

On December 31, 2017, the Company issued 5,266,120 common shares at a price of $0.10 per share for cash proceeds of $526,612. In connection with the above share issuances the Company incurred a total of $21,400 in share issuance costs.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected financial information for the Company for the fiscal years ended December 31, 2018 and 2017 and should be read in conjunction with the Company's financial statements and related notes thereto for such periods.

The year-end financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are expressed in Canadian dollars.

December 31,		**2018**		**2017**
Total assets	$	2,725,280	$	899,317
Total non-current financial liabilities	$	-	$	-
Revenues	$	96,408	$	12,545
Loss and comprehensive loss	$	(508,404)	$	(61,541)
Loss per share – Basic and diluted	$	(0.03)	$	(0.03)
Weighted average number of common shares outstanding		16,117,642		2,454,745

Total assets as of December 31, 2018 were $2,725,280 (2017 - $899,317). The increase of $1,825,963 during 2018 is primarily a result of the private placement of 8,050,000 units on November 15, 2018 for gross proceeds of $2,415,000.

Revenues were $96,408 for the year ended December 31, 2018 compared to revenues of $12,545 for the year ended December 31, 2017. The Company primarily derived its revenue from its relationship with Lighthouse Strategies, LLC.

Loss and comprehensive loss for the year ended December 31, 2018 was $508,404 (2017 - $61,541). The overall increase of $446,863 was due to a full year of operations. The Company was incorporated in July 18, 2017, as such it was expected that operating expenses would increase during 2018, as it is the first year of full operations.

DISCUSSION OF OPERATIONS

The following table summarizes the results of operations for the years ended December 31, 2018 and December 31, 2017:

Revenues	$	96,408	$	12,545
Gross margin	$	82,491	$	-
Operating expenses	$	495,205	$	63,637
Loss from operations		(412,714)		(51,092)
Other items:		(95,690)		10,449
Loss and comprehensive loss	$	(508,404)	$	(61,541)

The Company was incorporated in July 18, 2017, as such it was expected that operating expenses would increase during 2018, as it is the first year of full operations.

Operating expenses

Management and director fees increased by $150,500 to $200,000 from $49,500 after a full year of operations.

The Company incurred advertising and promotions expense of $59,620 for the year ended December 31, 2018 due to the Company increasing operations.

An increase in office and general expenses of $89512 from a full year of operations, an increased product development of $63,876.

An increase in professional fees due to legal expenses incurred for $8,502 (2017- $526); the professional work done was related to the preparation of the corporate documents needed to close the private placement during the last quarter. Lastly, accounting fees incurred through the year were $38,525 (2017- $8,500)

The addition of product development expenses incurred during December 31, 2018 relates to the creation of a new product category for the cannabis market: recreational transdermal creams that will be available for sale during 2019.

Lastly the Company granted stock options to directors and officers. The options were fair valued using a Black Scholes model and the Company recorded an expense of $22,559 (2017-$nil) in share-based payments.

Other income (expenses)

The Company incurred $35,785 (2017-$8,639) of interest expense as a result of promissory notes and convertible notes issued in the year. The Company also incurred $7,275 in accretion expenses related to the amortization of the fair value component of the debt. The Company also recorded a net expense of $45,154 related to the change in fair value of derivative liability which arose from the issuance of convertible debt in a foreign currency (US dollars).

SUMMARY OF QUARTERLY RESULTS

Three months ended,	Dec. 31, 2018 $	Sept. 30, 2018 $	Jun. 30, 2018 $	Mar. 31, 2018 $
Total Revenue	49,505	28,924	17,979	-
Net Loss	(196,272)	(80,074)	(140,749)	(91,309)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.01)	(0.01)

Three months ended,	Dec. 31, 2017 $	Sept. 30, 2017 $	Jun. 30, 2017 $	Mar. 31, 2017 $
Total Revenue	12,545	-	-	-
Net Loss	(61,541)	(382)	-	-
Basic and diluted net loss per share	(0.03)	(0.00)	-	-

i) The Company incurred a larger loss in the three months ended December 31, 2018 as compared to the previous quarter. The Company incurred advertising promotion fees of $88,136 and increased office and general expenses of $36,383. Revenues increased by $20,581 due to increases in packaging fees earned.

ii) The Company's net loss decreased in the three months ended September 30, 2018 compared to the prior quarter. The Company did not incur any share based payments and had a decrease of $27,479 in professional fees. Revenues increased by $10,945 due to increases in packaging fees.

iii) The Company incurred a larger loss in the three months ended June 30, 2018 as compared to the previous quarter. The Company incurred increased professional fees of $48,703 and incurred product development expenses of $11,295.

iv) The Company incurred in increased loss during the three months ended March 31, 2018, compared to the three months ended December 31, 2017. The Company incurred a larger foreign exchange loss increase by $9,078 and increases in office and general expenses of $10,206.

v) The Company began operations in the three months ended December 31, 2017. The net loss increased by $61,159 and included management fees of $49,500 and professional fees of $9,026.

vi) From the period of Incorporation July 18, 2017 to September 30, 2017, incorporation occurred, but operations had yet to commence.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2018 Skinvisible Promissory Note had been fully paid off.

As at December 31, 2018 the Company had a working capital of $1,582,627 (December 31, 2017 - deficiency of $41,401) and cash of $468,969 (December 31,2017 - $277,956).

Operating activities

For the year ended December 31, 2018, operating activities used cash of $382,918. Cash flow from operations consisted primarily of loss for the period of $508,404, adjusted for non-cash items and changes in working capital items. Operating losses were offset by $105,687 in non-cash adjustments.

Investing activities

For the year ended December 31, 2018, cash used in investing activities was $1,500,000. This amount consisted entirely of the purchase of a guaranteed investment certificate which bears interest at 2.05% per annum and matures on November 22, 2019.

Financing activities

Cash flows from financing activities for the period were $2,061,675. The cash flows consisted primarily of a private placement in the year consisting of 8,050,000 units at $0.30 per unit for gross proceeds of $2,415,000. In connection with the private placement, the Company incurred $333,359 in cash transaction costs. During the year, the Company also issued convertible notes for $150,000, promissory notes for US$100,000 and related party promissory notes of US$80,000. These increases in cash were partially offset by repayments of the Skinvisible promissory note issued upon the completion of the assignment agreement, and the related party promissory notes, which were all fully repaid in the year.

OFF BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements during the period ended December 31, 2018.

RELATED PARTY TRANSACTIONS

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel for the year ended as follows:

		December 31, 2018		**December 31, 2017**
Management fees	$	150,000	$	49,500
Director fees		50,000		-
Share-based payments		19,618		-
	$	219,618	$	49,500

Related party payables

On July 5, 2018, the Company issued promissory notes to key management personnel for a total principal amount of US$80,000 (Note 9). As at December 31, 2018, the notes were repaid in full. During the year ended December 31, 2018, the Company recorded $5,280 in interest expense in relation to these promissory notes which is included in due to related parties at December 31, 2018.

As at December 31, 2018, due to related parties of $143,848 (2017 - $nil) consists of accrued interest and management fees due to related parties. These amounts are non-interest bearing, unsecured and due on demand.

DISCLOSURE OF OUTSTANDING SECURITY DATA

<u>As at December 31, 2018</u>

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2018, the Company had 23,153,121 common shares issued and outstanding.

On April 10, 2018 the Company issued 1,150,000 stock options to directors, officers and consultants of the Company with an exercise price of $0.30 per share. The stock options have a contractual life of two years, expiring on April 10, 2020.

On November 15, 2018 the Company issued 4,669,000 in warrants to the participants of the brokered private placement with an exercise price of $0.45 per share. The warrants have a contractual life of two years, expiring on November 15, 2020.

The total fully diluted as at December 31, 2018 is 28,972,121.

8,387,501 common shares (the "Escrowed Securities") are held by and are subject to the terms of an escrow agreement dated April 10, 2018 and the holders of the Escrowed Securities. The shares are subject to Escrow with the following release dates.

On the Listing Date	1/10 of the Escrowed Securities
6 months after the Listing Date	1/6 of the remaining Escrowed Securities
12 months after the Listing Date	1/5 of the remaining Escrowed Securities
18 months after the Listing Date	1/4 of the remaining Escrowed Securities
24 months after the Listing Date	1/3 of the remaining Escrowed Securities
30 months after the Listing Date	1/2 of the remaining Escrowed Securities
36 months after the Listing Date	the remaining Escrowed Securities

As at December 31, 2018 7,548,751 remained in escrow.

As at April 29, 2019

There have no been changes from the year ended December 31, 2018.

PROPOSED TRANSACTIONS

The Company did not have any proposed transactions.

FINANCIAL INSTRUMENTS

The Company has classified its short-term investments, trade and other receivables, accounts payable and other liabilities, due to related parties, promissory notes and convertible notes as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. The Company has classified its cash as a financial asset measured at fair value through profit and loss.

Financial assets and financial liabilities are offset, and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in the fair values of derivative financial instruments are reported in the consolidated statements of loss and comprehensive loss.

CHANGES IN ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are in Note 3 of the audited financial statements for the year ended December 31, 2018.

Initial adoption of new accounting standards

Adoption of new accounting standards have been disclosed in Note 2 of the Company's audited financial statements for the year ended December 31, 2018.

Future accounting standards issued but not yet in effect

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Pronouncements that may have a significant impact to the Company have been disclosed in Note 2 of the Company's audited financial statements for the year ended December 31, 2018.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

ADDITIONAL INFORMATION

Additional information and the documents filed with the Canadian securities regulatory authorities are available at the Company's profile on http://www.sedar.com and on the Company's website http://ovationscience.com/