MEDCOLCANNA ORGANICS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

INTRODUCTION

Medcolcanna Organics Inc. ("Medcolcanna" or "MCCN" or the "Company") was initially incorporated in the province of Alberta on May 31, 2010 under the Business Corporations Act (Alberta). Pursuant to a transaction with Medcolcanna (BVI), Inc., the Company was continued into the province of British Columbia under the Business Corporations Act (British Columbia). Medcolcanna is a publicly traded corporation with its corporate office located at Suite 800, 400 – 5th Avenue SW, Calgary, AB, T2P 0L6. The common shares of the Company are listed on the TSX Venture Exchange ("TSXV") under the symbol "MCCN".

The following Management's Discussion and Analysis (the "MD&A") of Medcolcanna constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2019. This MD&A should be read in conjunction with Medcolcanna's condensed interim consolidated financial statements for the three and three months ended September 30, 2019 (the "Financial Statements"). The Financial Statements and notes thereof are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102") of the Canadian Securities Administrators. The MD&A and the Financial Statements have been filed on SEDAR and are available at www.sedar.com. Additional information can also be found on the Company's website at www.medcolcanna.com.

This MD&A is prepared as of November 29, 2019. All dollar values are expressed in Canadian dollars, unless otherwise indicated.

KEY DEVELOPMENTS

Below is a summary of key developments up to the date of this MD&A.

- In May 2019, the Company (then being Integrated Energy Storage Corp. ("IES")) completed a transaction whereby IES acquired all of the outstanding shares of Medcolcanna (BVI), Inc. ("Medcolcanna BVI" or "MCCN BVI" or the "Private Company"), a private company incorporated under the laws of the British Virgin Islands. The transaction constituted a reverse asset acquisition in accordance with IFRS, whereby the shareholders of Medcolcanna BVI took control of IES (the "Reverse Takeover Transaction" or "RTO Transaction" or "RTO"). Pursuant to the RTO Transaction, IES changed its name to Medcolcanna Organics Inc.

- In May 2019, Medcolcanna entered into an agreement to purchase 100% of the issued and outstanding shares of Innovative CBD Products B.V. ("ICP"), a company registered and incorporated under the laws of the Netherlands. ICP is the owner of various medicinal cannabinoid formulations and related intellectual property with respect to the development of cannabis and cannabis by-products. In July 2019, Medcolcanna closed the transaction and issued 4,701,240 common shares to the seller at a deemed price of $0.25 per share. The Company has also granted a royalty to the seller of ICP of 10% of Medcolcanna's interest in products derived from the formulations that are subsequently produced, marketed, and sold. Additionally, should Medcolcanna license or sell any of the formulations to a third party, then the royalty entitles the seller of ICP to 10% of proceeds received by Medcolcanna for such license or sale. The royalty commenced in July 2019 and ends ten years thereafter.

- In May 2019, Medcolcanna entered into a Master Agreement with Greenstein Capital Ltd. ("GCL"), a Maltese Company. GCL's subsidiary ("RefineryCo") plans to construct and operate a refinery in Germany for cannabis oil derivatives. Pursuant to the agreement Medcolcanna will acquire a 20% stake in Refinery

Co. for a purchase price of US$1 million. Payment will be made by the issuance of a convertible debenture in the principal amount of US$1 million. The convertible debenture will bear interest at 0.5% per year and payment will be due after the refinery is completed and is operating to the Company's satisfaction, and the 20% shareholding in RefineryCo has been issued to the Company. After coming due, the convertible debenture will be redeemable at maturity in cash or common shares of the Company, at the option of GCL, at a conversion price of $0.285 per share. If redeemed in common shares, only the principal, and no interest, will be payable by the Company.

- In July 2019, Medcolcanna signed a Letter of Intent ("LOI") with the University Medical Center of Groningen ("UMCG") to collaborate and conduct research studies concerning the effects of different cannabinoid formulations on human diseases. UMCG is willing to transfer its potential rights on production, marketing, and distribution of the products to Medcolcanna under fair and reasonable conditions. In addition, Medcolcanna will provide UMCG all formulations (ingredients, dosing, and form) to be trialed. To date, clinical trials for 12 formulations have commenced. The 12 formulations include autism, rheumatoid arthritis, osteoarthritis, fibromyalgia, neuropathic pain, endometriosis, menstrual pain, psoriasis, eczema, Crohn's disease, insomnia and anxiety.

- In August 2019, the Company signed an agreement with Herbolea Biotech S.r.l. ("HBT") for a term of 7 years, with the possibility of extensions. Under the agreement, HBT will provide extraction equipment that will allow the Company to process 200 tonnes of dry or wet biomass per year, with a target of 100,000 kg of processed botanical raw material. This has allowed the Company to reduce its capital expenditure budget by $1,500,000, which was intended to purchase extraction equipment with a much smaller capacity. The equipment from HBT will be GMP and EU-GMP certified equipment to the specific requirements of Medcolcanna. The equipment will allow the Company to process wet material, which will allow the Company to reduce labor costs and permitting costs as well as eliminate the need for drying rooms. As there will be excess capacity over the expected production, Medcolcanna will also provide extraction services for third party companies, and the profit of this new revenue stream is expected to be a profit-share between Medcolcanna and HBT.

- In August 2019, the Company established MCCN SA, an entity incorporated in Switzerland, for the purposes of entering into the cannabis vaping industry in Europe. MCCN SA began selling and marketing its vaping products in October 2019 under the brand name of Cannav.

- During nine months ended September 30, 2019, the Company completed the construction of and commenced operations in its cultivation facilities in Cota, Colombia making significant progress toward the production of medical cannabis. The facility includes 2.2 hectares (236,800 square feet) of fully automatized greenhouse and has started construction of a 12,900 square foot Good Agriculture Collection Practice ("GACP") and Good Manufacturing Practice ("GMP") compliant post-harvest facility which includes extraction, post-extraction and vaulted areas.

- The Company has also completed the construction of administrative areas at the farm, greenhouses specialized for mother plants and cloning, and support infrastructure areas, with a capacity to attend up to 40 hectares. This will support Medcolcanna's operations and its ability to meet contracts signed to supply clones to third parties. The areas include 19,400 square feet for mother plants, 15,500 square feet for rooting of clones, and 8,600 square feet for research and development.

- The Company also established a tissue culture laboratory for invitro propagation of mother plants and received approval as a breeding laboratory, which allows the Company to cross breed and develop proprietary genetic strains of cannabis.

- The Company established a pilot extraction lab, with the objective of characterizing extracts by different extraction methods (bioherbolisis, rosin, ethanol and supercritical CO2 extraction). The lab is equipped to evaluate the extraction methods, develop new formulations, run stability tests, and compare different storage and drying methods.

COMPANY OVERVIEW AND OUTLOOK

Through the Company's wholly owned subsidiary, Medcolcanna S.A.S ("MCCN SAS"), Medcolcanna is a licensed producer and distributor of both THC (tetrahydrocannabinol) and CBD (cannabidiol) medicinal cannabis and cannabis derived products.

In June 2018, the Colombian Ministry of Health granted the production license authorizing the domestic and international distribution of high and low THC medicinal cannabis extracts which allows MCCN SAS to produce cannabis for domestic use and international export. In addition, in June 2018, the Ministry of Justice granted a low and high THC cultivation license which enables MCCN SAS to cultivate non-psychoactive and psychoactive medicinal cannabis for domestic consumption and production of seeds for cultivation, storage and disposal.

MCCN SAS registered 50 different varieties of cannabis seeds with the Instituto Colombiano Agropecuario ("ICA") in 2018. As well, the Company currently has 20 different varieties of cannabis seeds under evaluation with ICA. The Company expects to finalize the evaluation of the first ten by October 2019 and the remaining ten by December 2019. In parallel, Medcolcanna has been growing and establishing mother plants to secure the propagation plan of the Company once commercial cultivation is allowed by registering the agronomical evaluation with ICA.

Medcolcanna's manufacturing process follows GACP and GMP standards that regulate principles and practices of hygiene in the handling, preparation, processing, packaging, storage, transportation, and distribution of food and medicines for human consumption. Medcolcanna is committed to the development of final products that are consistent with medicinal cannabis industry standards and pharmaceutical procedures. The products will include a variety of THC and CBD compositions that will be designed to respond to specific medical conditions.

As previously mentioned, Medcolcanna currently has 2.2 hectares under greenhouse. Medcolcanna's contracted extraction capacity exceeds the Company's estimates for its own biomass production, which will allow the Company to exploit a tolling revenue stream. MCCN is actively developing its tolling revenue model with interested third parties.

Medcolcanna has also established a crossbreeding laboratory which enables the Company to improve propagation as well as select specific varieties and cross them to improve available genetics and create proprietary genetics. To date, Medcolcanna has entered into more than 20 contracts to supply genetics (seeds or cuttings) to third parties. This is also expected to provide an additional revenue stream for the Company.

Medcolcanna started the construction of its extraction and post-extraction laboratory in September 2019 and expects completion during first quarter of 2020.

Medcolcanna has implemented a scalable and comprehensive security plan that identifies and mitigates risks relating to Medcolcanna's assets and covering the production, distribution, logistics and operations chain. Medcolcanna's security protocol features range from electronic controlled access to ultra-high definition video surveillance and intrusion detection devices, among others. Medcolcanna's security protocol was prepared by a security company after an assessment performed to the leased land location and was presented and approved by the authorities at license application.

INDUSTRY INFORMATION

Medicinal cannabis refers to the use of cannabis and its constituent cannabinoids to treat disease or improve symptoms such as pain, muscle spasticity, nausea and other indications., autism, rheumatoid arthritis, osteoarthritis, fibromyalgia, neuropathic pain, endometriosis, menstrual pain, psoriasis, eczema, Crohn's disease, insomnia, anxiety, PTSD and other conditions. Cannabinoids is a blanket term covering a family of complex chemicals, both natural and man-made, that bind with cannabinoid receptors (protein molecules on the surface of cells) in the human body and effect a wide number of responses. Cannabinoid receptors in the human body are part of a system called the endocannabinoid system. This system produces chemicals called endocannabinoids, which also bind with cannabinoid receptors. Cannabinoid receptors are found in the brain and throughout the body. Scientists have found that cannabinoid receptors in the endocannabinoid system are involved in a vast array of functions in our bodies, including helping to modulate brain and nerve activity (including memory and pain), energy metabolism, heart function, the immune system and even reproduction.

While there are a large number of active cannabinoids found in cannabis, the two most common currently used for medical purposes are tetrahydrocannabinol (THC) and cannabidiol (CBD). Although no clinical trials have been completed in Canada to validate the effectiveness of tetrahydrocannabinol or cannabidiol in managing disease and improving symptoms, scientific studies have identified that they, alone and/or in combination, have potential to provide treatment benefits for a large number of medical conditions.

The global medicinal cannabis industry is a growing industry experiencing significant change as a result of legislative reform to legalize the production and consumption of cannabis for therapeutic and medicinal purposes. The evolving global framework yields opportunities for medicinal cannabis producers to cultivate, develop, and market cannabis and cannabis derived products in an environment of substantially increasing cannabis demand.

With the adoption of Law 1787 and Decree 613, the Colombian government has constructed an effective legal framework with appropriate mechanisms to introduce and regulate the use of cannabis for medicinal purposes. Law 1787 outlines the regulatory framework that allows for safe and informed use of medicinal cannabis and its derivatives, while Decree 613 elaborates on this concept and established a licensing regime to conduct related activities. Colombia's regulatory framework, climate conditions, and low-cost labour are positive factors that may result in the country becoming a leader in cannabis production in the world. It is possible that foreign corporations may enter the Colombian market as a result of Colombia's regulatory regime, creating the prospect of Colombia becoming a hub for future industry development.

DISCUSSION OF OPERATIONS

Selected Financial Information

The following table summarizes results of operations of the Company for the three and nine months ended September 30, 2019 and from the July 10, 2018 (date of incorporation) to September 30, 2018.

	Three months ended		Nine months ended	
	2019	2018	2019	2018
Revenues	-	32,750	-	32,750
Net loss	1,223,530	157,119	5,606,053	157,119
Loss per share	0.01	0.01	0.09	0.01
Diluted loss per share	0.01	0.01	0.09	0.01

The following table summarizes key financial information about the Company as at September 30, 2019 and December 31, 2018.

	September 30, 2019	December 31, 2018
Net working capital	4,705,021	3,563,851
Total assets	8,109,348	405,076
Total liabilities	941,654	286,973
Shareholders' equity	7,167,694	3,763,103

Revenues

The Company did not have revenues during the three and nine months ended September 30, 2019. In the prior period ended September 30, 2018, $32,750 was recognized as revenue as a result of an exclusivity fee payment received by Medcolcanna from Canada Coal Inc. ("CCK") as part of a Letter of Intent ("LOI"). The LOI was subsequently terminated in October 2018 after the agreement expired. Since the Company has no revenue for the period ended September 30, 2019, a breakdown and discussion of material costs has been presented below.

Pre-operating expenses

Pre-operating expenses of $276,512 and $404,297 were incurred for the three and nine months ended September 30, 2019 respectively (September 30, 2018 – nil). Pre-operating expenses are those expenses that would normally qualify as operating expenses that have been incurred before commercial cultivation, extraction, and production activities have commenced. These start-up activities incurred in relation to the commencement of business operations are classified as pre-operating expenses on account of their nature and timing.

Professional fees

Professional fees include expenditures incurred from professional services such as accounting/auditing, investor relations, legal services, and consulting fees. For the three and nine months ended September 30, 2019, Medcolcanna incurred a total of $227,728 and $843,090 of professional fees, respectively. The costs are predominately driven by legal and consulting fees incurred to help establish Medcolcanna's corporate functions and structure after the RTO Transaction. The nature of the professional fees are as follows:

	Three months ended		Nine months ended	
	2019	2018	2019	2018
Legal fees	56,389	104,553	278,553	104,553
Consulting services	84,917	27,794	252,528	27,794
Accounting/audit fees	46,195	-	173,652	-
Investor relations services	40,227	-	138,357	-
Total professional fees	**227,728**	**132,347**	**843,090**	**132,347**

General and administrative ("G&A") expenses

G&A expenses include expenditures relating to day-to-day operations of the business not directly tied to a specific function or department within the Company. Medcolcanna incurred total G&A expenses of $67,211 and $339,990 for the three and nine months ended September 30, 2019 respectively. The nature of the G&A expenses are as follows:

	Three months ended		Nine months ended	
	2019	**2018**	**2019**	**2018**
Transfer agent, filing and regulatory fees	17,839	-	114,055	-
General office (1)	3,814	642	92,556	642
Travel	26,421	-	82,742	-
Insurance	12,723	-	12,723	-
Utilities	2,756	-	8,897	-
Other	3,658	-	29,017	-
Total G&A expenses	**67,211**	**642**	**339,990**	**642**

1) General office expense includes rent on office equipment, communication costs, cleaning services, office supplies and stationery, etc.

Listing expense

The listing expense incurred by the Company was a one-time expense of $2,232,149. As detailed in the Financial Statements, in May 2019, MCCN BVI issued 12,899,968 shares to the shareholders of IES as part of the reverse takeover acquisition. These shares were assigned a fair value of $0.21 per share for total share consideration of $2,708,993. Additionally, as part of the RTO Transaction consideration, 6,450,000 IES warrants were converted to 6,450,000 Medcolcanna purchase warrants and were ascribed a total value of $404,569 net of issuance costs. 267,656 IES compensation options were converted to 267,656 compensation options of Medcolcanna and were ascribed a total value of $23,680. With the issuance of shares, purchase warrants, and compensation options, the total consideration paid on the RTO Transaction was $3,137,242. The consideration was allocated first to the fair value of the net assets of IES of $905,093 with the difference being recognized as a non-cash listing expense on the completion of the RTO Transaction.

Transaction costs relating to the RTO

During the nine months ended September 30, 2019, Medcolcanna incurred transaction costs relating to the RTO Transaction of $202,874. These costs relate to professional service fees charged to the Company to help facilitate the completion of the RTO Transaction. The majority of these professional service transaction costs relate to legal and administrative filing expenses that were required to adhere to all TSXV requirements for public listing. As these costs relate to the RTO Transaction, these expenses are considered a one-time cost and are not expected to be incurred in the future.

Research and development ("R&D") expenses

Research and development costs expenses are costs incurred to develop new products or processes that may or may not be commercially viable. Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset.

During the period ended September 30, 2019, Medcolcanna incurred R&D costs of $153,804 relating to clinical trials being performed by UMCG on the medicinal cannabinoid formulations which were acquired through the acquisition of Innovative CBD Products B.V. As these formulations were acquired in July 2019, no such costs were incurred in the prior period ended September 30, 2018.

Share-based compensation

Pursuant to the RTO Transaction, Medcolcanna adopted the Incentive Stock Option Plan (the "Plan") dated May 16, 2019. Per the Plan, the Board will establish vesting and other terms and conditions for options at the time that they are granted. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. The plan also indicates, subject to a minimum exercise price of $0.05 per common share, the exercise price per common share for an option shall not be less than the discounted market price for the Company's common shares at the grant date pursuant to TSXV policies. Options can have up to a maximum term of 10 years.

In May 2019, 7,400,000 options were granted with an exercise price of $0.40 per option. These options have 5-year term, expiring in May 2024. One-third of the options vested immediately on the grant date, one-third vests on the first anniversary of the grant date in May 2020, and one-third vests on the second anniversary of the grant date in May 2021.

In July 2019, 700,000 options were granted with an exercise price of $0.40 per option. These options have a 5-year term, expiring in July 2024. One-third of the options vested immediately on the grant date, one-third vests on the first anniversary of the grant date in July 2020, and one-third vests on the second anniversary of the grant date in July 2021.

As at September 30, 2019, the total 8,100,000 options remain outstanding, with 2,700,000 of these eligible to be exercised immediately. Using the Black-Scholes option pricing model, the stock options issued in May 2019 were assessed a fair value of approximately $0.18 per option, while the options issued in July were assessed a fair value of approximately $0.09 per option. Total share-based compensation expense of $176,443 and $676,644 was recognized in the statement of loss and comprehensive loss of the Company for the three and nine months ended September 30, 2019 respectively (September 30, 2018 – nil).

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below presents the quarterly financial results of Medcolcanna for the past four quarters. The comparative periods reflected in the table below are those of the Private Company, as the financials are a continuance of MCCN BVI.

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Net loss	1,223,530	3,778,682	603,841	381,963
Loss per share	0.01	0.06	0.01	0.01
Diluted loss per share	0.01	0.06	0.01	0.01

LIQUIDITY AND CAPITAL RESOURCES

Medcolcanna's primary business activities include the cultivation, production, and distribution of medicinal cannabis and cannabis derived products in Colombia. The Company is also involved in the cannabis vaping industry through its Switzerland subsidiary, MCCN SA. Medcolcanna has no revenues for the three and nine months ended September 30, 2019. As such the Company's business activities are financed through equity offerings of securities issued by the Company.

For the nine moths ended September 30, 2019, Medcolcanna had negative cash flow from operating activities of $2,071,491. This was primarily driven by the fact that the Company has no revenue as it is still in the early stages of cannabis development. The negative operating cash flows was slightly offset by a positive change in non-cash working capital classified as operating activities. As at September 30, 2019, Medcolcanna's accounts payable and accrued liabilities was valued at $635,364. This balance was classified as a current liability as all amounts are due within 12 months. The Company had positive working capital of $4,705,022 at the period end date, indicating the Company has sufficient current assets available to meet liabilities as they come due.

For the nine months ended September 30, 2019, the Company had net cash used from investing activities of $886,058. This was primarily attributed the purchase of property, plant, and equipment of $1,079,980 which was slightly offset by an increase in cash acquired from IES through the RTO Transaction of $208,604. Originally, the Company had a capital expenditure budget of $3.8 million for the last six months of 2019. However, the Company was able to reduce its 2019 extraction equipment capital budget from $2.1 million to $0.8 million due to the aforementioned transaction with HBT. As such, after capital expenditures realized in Q3 2019, and further cost cutting measures that were achieved in the third quarter and planned for the fourth quarter the Company now has a capital expenditure budget of $1.0M million remaining for the last three months of 2019. When including the reduction in capex required for extraction equipment, cost cutting that has been achieved and what is planned for the last quarter, the Company has achieved a reduction in it is planned capital expenditure by $2.3M. The transaction with HBT also resulted in a much larger extraction capacity than the Company was previously planning, giving the Company an additional potential revenue stream.

The Company generated cash from financing activities for the nine months ended September 30, 2019 of $7,045,012. This was driven by the conversion of subscription receipts into shares and warrants at the RTO Transaction date. For proceeds net of cash issuance costs of $7,102,583. This was partially offset by the principal portion of lease payments made of $75,571 on leased rural property and office space.

While at the present time Medcolcanna has no cash inflows from operations, management believes there is sufficient cash reserves to meet all obligations, commitments, and cannabis development plans as they come due. Although Medcolcanna has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company.

COMMITMENTS

Lease commitments

As at September 30, 2019, the Company had one property lease commitment and two office lease commitments outstanding which were recorded as lease liabilities on the financial statements.

Commitments	2019	2020	2021	2022 and thereafter	Total
Property Lease	18,464	73,855	73,855	123,091	289,265
Office Leases	3,526	68,265	52,586	-	124,377
Total	**21,990**	**142,120**	**126,441**	**123,091**	**413,642**

Property lease agreement

In 2018, Medcolcanna S.A.S. entered into a lease agreement for rural property in Colombia for utilization of its cultivation operations. The monthly lease payment is for $15,000,000 COP (approximately $6,155 CAD based on the average foreign exchange rate for the nine months ended September 30, 2019) and adjusted annually according to the Consumer Price Index. Lease payments began in November 2018 and the Company will pay annually an additional amount equal to 1% of the profits obtained from the sale of the products made with the cannabis grown on the leased property. The lease ends in August 2023.

Office lease agreements

During the nine months ended September 30, 2019, the Company entered into two new lease agreements for office space in Colombia and Switzerland. Per the terms of the Colombian agreement, the Company can pay a fixed fee of $11,000,000 COP monthly (approximately $4,513 CAD based on the average foreign exchange rate for the nine months ended September 30, 2019) or $66,000,000 COP ($27,080 CAD) in advance for six months' worth of rent. The lease began February 1, 2019 and ends January 31, 2022. Per the terms of the Swiss agreement, the Company pays a fixed 980 CHF monthly fee ($1,310 CAD based on the averaged foreign exchange rate for the nine months ended September 30, 2019). The lease commenced September 15, 2019 and ends March 15, 2021.

Other Commitments

During the period ended September 30, 2019, Medcolcanna entered into various agreements with different vendors relating to the construction and improvement of its agricultural facilities and irrigation systems. The total aggregate amount of the construction commitments arising from these agreements is $355,000. The construction work is expected to be completed and paid within the current year 2019.

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of September 30, 2019, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and accrued liabilities, and lease liabilities.
The Company characterizes its fair value measurements of financial instruments into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs other than quoted prices included within Level 1, that are observable for the assets or liabilities either directly or indirectly; and
- Level 3 - inputs are unobservable for the asset or liability

A financial instrument is classified to the lowest level hierarchy for which a significant input has been used in measuring fair value. The carrying amounts for cash and cash equivalents, accounts receivable, due from related parties, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturities of those instruments. The carrying amount of lease liabilities approximates its fair value as it is present valued using the discount rate implicit within the lease or the Company's incremental borrowing rate.

Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively.

The principal financial risks arising from financial instruments are liquidity risk, credit risk, and market risks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at September 30, 2019 the Company's financial liabilities consist of accounts payable and accrued liabilities and lease liabilities. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Management regards liquidity risk to be low due to the Company's positive working capital position as at September 30, 2019.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its contractual obligations. Financial instruments subject to credit risk include cash and cash equivalents, accounts receivables, and amounts due from related parties. All of the Company's cash and cash equivalents are held at reputable financial institutions.

As of September 30, 2019, the Company's accounts receivable balance consists mainly of sales tax receivables that the Company expects to receive from the Government of Canada. As such credit risk is deemed to be low.

Market Risk

Market risk is the risk or uncertainty that changes in price, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. Medcolcanna is exposed to two types of market risk, being foreign currency risk and interest rate risk as outlined below.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's functional and reporting currency is the Canadian dollar, but is exposed to foreign currency risk with respect to the expenditures incurred by its Colombian, Swiss, and Netherland subsidiaries. As at September 30, 2019, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk only on cash and cash equivalents. Fluctuations of interest rates for the period ending September 30, 2019 would not have had a significant impact on these condensed interim consolidated financial statements.

RELATED PARTY TRANSACTIONS

During the periods ended December 31, 2018 and September 30, 2019, there were separate related party transactions as follows:

a) On account of the acquisition of Medcolcanna S.A.S. in July 2018, a promissory note of US$50,000 was issued to the selling party (a Colombian company controlled by an officer of the Company), which was subsequently paid in full in September 2018. The selling party with whom the transaction was paid in cash and to whom payment of US$50,000 on the issued promissory note was a related party to the Company.

b) During the periods ended December 31, 2018 and September 30, 2019, certain expenses were paid by members of management. Periodically advances are made to management in anticipation of expenses that they will be paying on behalf of the Company. From time to time, the amount may result in a net receivable position. As at September 30, 2019, a net receivable of $201,716 existed as a result of these transactions (December 31, 2018 - $22,533). This was presented on the statement of financial position as an asset.

c) During the three and nine months ended September 30, 2019, Medcolcanna paid an accounting consulting fee of $45,000 and $51,739 respectively (September 30, 2018 – nil) to a firm affiliated with an officer of the Company. Fees are based on services rendered at prevailing market rates. The amount has been recorded within professional fees expense included on the statement of loss.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Impairment

Long-term, non-financial assets are tested for impairment when events or changes in circumstances indicate that the asset's carrying amount may exceed its recoverable amount. Indefinite life intangible assets are tested for impairment, at a minimum, on an annual basis regardless of whether or not events or circumstances exist indicating possibility of impairment. For the purpose of testing impairment, assets may be grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit or "CGU"). Professional judgement is used to assess and determine the Company's CGU groupings.

Useful lives of PP&E and intangible assets

Depreciation and amortization of PP&E and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of professional judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Valuation of deferred tax assets

The Company assesses the probability of taxable profits being available in the future based on its budget forecasts. These forecasts are adjusted to account for certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When a forecast shows a net profit, the Company considers that the use of deferred income taxes is probable and recognizes the benefit. When management believes that the benefits will not be realized, the deferred income tax asset is not recognized.

Warrants, compensation options and stock options

All warrants, compensation options, and stock options issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation and warrants, estimates have to be made regarding the expected volatility in share price, instrument life, dividend yield, risk-free rate, estimated life and estimated forfeitures at the initial grant date.

Lease liabilities and right-of-use assets

A lease liability and a corresponding right-of-use asset is recognized at the commencement date of a lease at the present value of the lease payments over the lease term. The Company uses the implicit rate within the lease, if readily available, or the incremental borrowing rate when the rate implicit is not known. The discount rate is based on judgements including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use asset, lease liability, and resulting interest expense and depreciation expense, may differ due to changes in the market conditions. The lease term is also subject to certain assumptions including, the Company's intent regarding extension and termination options of a lease.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the IASB issued IFRS 16 “Leases”, which provides guidance on accounting for leases. The new standard replaced IAS 17 “Leases” and related interpretations. IFRS 16 eliminates the distinction between operating leases and financing leases for lessees and generally requires balance sheet recognition for all leases. Certain short-term (less than 12 months) and low-value leases (as defined in the standard) are exempt from the requirements, and the Company continues to treat these leases as expenses.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach with no impact to opening retained earnings at the date of adoption. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption, the Company elected to use the following practical expedients permitted under IFRS 16:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- Account for lease payments as an expense and not recognize a right-of-use asset if the leased asset is of a low dollar value (less than US$5,000).

On adoption of IFRS 16, the Company recognized a lease liability in relation to rural property that is used for the cannabis operations. The lease has been measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at January 1, 2019. The Company’s incremental borrowing rate was estimated at approximately 15.0 percent. Total lease liabilities of $255,960 were recorded as at January 1, 2019.

The associated right-of-use asset was measured in an amount equal to the corresponding lease liability on the statement of financial position as at January 1, 2019.

The impact on adoption was as follows:

	Reported amount at December 31, 2018	IFRS 16 Adjustment	Balance as at January 1, 2019
Assets			
Right-of-use asset	-	255,960	255,960
Liabilities			
Lease liability	-	255,960	255,960

Effective January 1, 2019, the Company adopted the following accounting policy:

The Company assesses whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A lease liability is recognized at the commencement of the lease term at the present value of the lease payments. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. Payments are discounted using the implicit rate within the lease, when readily available, or the Company's incremental borrowing rate when the rate implicit is not known. The Company applies a single discount rate for a portfolio of leases with reasonably similar characteristics.

The lease liability is measured at amortized cost using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase, extension, or termination option that is within the Company's control.

Upon recognition of a lease liability at the lease commencement date, a corresponding right-of-use asset is recognized at the amount equal to the lease liability. Depreciation is recognized on the right-of-use asset on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term.

Leases with terms of less than twelve months and leases for which the underlying asset is of low value (US$5,000) are recognized as an expense in the financial statements on a straight-line basis over the lease term.

SUMMARY OF OUTSTANDING SHARE DATA

As at the date of this MD&A, Medcolcanna had the following number of common shares, stock options, purchase warrants, and compensation options issued and outstanding:

Common shares	90,350,667
Stock options	8,100,000
Purchase warrants	22,943,400
Compensation options	2,126,864

MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

In connection with National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the Financial Statements and the audited annual consolidated financial statements and respective accompanying MD&A. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined in NI 52-109.

OFF-BALANCE-SHEET-ARRANGEMENTS

As of the date of this MD&A, Medcolcanna does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

BUSINESS RISKS

Limited Operating History

Medcolcanna is an early stage company and as a result it has a limited operating history upon which its business and future prospects may be evaluated. Medcolcanna will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. In order for Medcolcanna to meet future operating requirements, Medcolcanna will need to be successful in its growing, marketing and sales efforts. Additionally, where Medcolcanna experiences increased sales, Medcolcanna's current operational infrastructure may require changes to scale Medcolcanna's business efficiently and effectively to keep pace with demand and achieve long-term profitability. If Medcolcanna's products and services are not accepted by new customers, Medcolcanna's operating results may be materially and adversely affected.

Managing Growth

In order to manage growth and change in strategy effectively, Medcolcanna must (i) maintain adequate systems to meet customer demand; (ii) expand sales and marketing, distribution capabilities and administrative functions; (iii) expand the skills and capabilities of its current management team; and (iv) attract and retain qualified employees. While it intends to focus on managing its costs and expenses over the long term, Medcolcanna expects to invest to support its growth and may have additional unexpected costs. It may not be able to expand quickly enough to exploit potential market opportunities.

Legal Proceedings

From time to time, Medcolcanna may be a party to legal and regulatory proceedings, including matters involving governmental agencies, entities with whom it does business and other proceedings arising in the ordinary course of business. Medcolcanna will evaluate its exposure to these legal and regulatory proceedings and establish reserves for the estimated liabilities in accordance with IFRS. Assessing and predicting the outcome of these matters involves substantial uncertainties. Unexpected outcomes in these legal proceedings, or changes in management's evaluations or predictions and accompanying changes in established reserves, could have an adverse impact on Medcolcanna's financial results.

Regulatory Compliance Risk

Achievement of Medcolcanna's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. Medcolcanna may not be able to obtain or maintain the necessary licenses, permits, quotas, authorizations or accreditations to operate its business, or may only be able to do so at great cost. Medcolcanna cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by local governmental authorities. To date, Medcolcanna has received licenses for cultivation of medicinal cannabis from the Colombian government. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of Medcolcanna.

The officers and directors of Medcolcanna must rely, to a great extent, on Medcolcanna's Colombian legal counsel and local consultants retained by Medcolcanna in order to keep informed of material legal, regulatory and governmental developments as they pertain to and affect Medcolcanna's business operations, and to assist Medcolcanna with its governmental relations. Medcolcanna must rely, to some extent, on those members of management and the board who have previous experience working and conducting business in Colombia in order to enhance its understanding of and appreciation for the local business culture and practices in Colombia.
Medcolcanna also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of banking, financing and tax matters in Colombia. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices in Colombia are beyond the control of Medcolcanna and may adversely affect its business.

Medcolcanna will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Medcolcanna may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Medcolcanna's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Medcolcanna.

Change in Cannabis Laws, Regulations and Guidelines

Cannabis laws and regulations are dynamic and subject to evolving interpretations which could require Medcolcanna to incur substantial costs associated with compliance or alter certain aspects of its business plan. It is also possible that regulations may be enacted in the future that will be directly applicable to certain aspects of Medcolcanna's businesses. Medcolcanna cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on Medcolcanna's business. Management expects that the legislative and regulatory environment in the cannabis industry in Colombia and internationally will continue to be dynamic and will require innovative solutions to try to comply with this changing legal landscape in the industry for the foreseeable future. Compliance with any such legislation may have a material adverse effect on Medcolcanna's business, financial condition and results of operations.

Public opinion can also exert a significant influence over the regulation of the cannabis industry. A negative shift in the public's perception of the cannabis industry could affect future legislation or regulation in different jurisdictions.

Reliance on Medcolcanna Licenses and Authorizations

Medcolcanna's ability to grow, store and sell cannabis in Colombia is dependent on Medcolcanna's ability to sustain and/or obtain the necessary licenses and authorizations by certain authorities in Colombia.

The licenses and authorizations are subject to ongoing compliance and reporting requirements and the ability of Medcolcanna to obtain, sustain or renew any such licenses and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Failure to comply with the requirements of the licenses or authorizations or any failure to maintain the licenses or authorizations would have a material adverse impact on the business, financial condition and operating results of Medcolcanna.

Although Medcolcanna believes that it will meet the requirements to obtain, sustain or renew the necessary licenses and authorizations, there can be no guarantee that the applicable authorities will issue these licenses or authorizations. Should the authorities fail to issue the necessary licenses or authorizations, Medcolcanna may be curtailed or prohibited from the production and/or distribution of cannabis or from proceeding with the development of its operations as currently proposed and the business, financial condition and results of the operation of Medcolcanna may be materially adversely affected.

Unexpected disruptions affecting operations

Medcolcanna's operations may be disrupted by a variety of risks and hazards that are beyond its control, including, but not limited to, fires, power outages, labour disruptions, supply disruptions, flooding, and the inability to obtain suitable or adequate machinery, equipment or labour as well as other risks involved in the cultivation and production of medicinal cannabis, and such disruptions could have a material adverse effect on the business of the Company.

Demand for Cannabis and Derivative Products

The legal cannabis industry in Colombia is at an early stage of its development. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of medicinal cannabis are mixed and evolving and can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medicinal cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medicinal cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for medicinal cannabis and on the business, results of operations, financial condition and cash flows of Medcolcanna. Further, adverse publicity reports or other media attention regarding cannabis in general or associating the consumption of medicinal cannabis with illness or other negative effects or events could have such a material adverse effect on the Company. Public opinion and support for medicinal cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medicinal cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization. Medcolcanna's ability to gain and increase market acceptance of its business may require substantial expenditures on investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful, and their failure may have an adverse effect on Medcolcanna.

Breaches of Security

Given the nature of Medcolcanna's products, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage, as well as theft. A security breach at one of Medcolcanna's facilities could expose Medcolcanna to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential consumers from choosing Medcolcanna's products. In addition, Medcolcanna collects and stores personal information about its consumers and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly consumer lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through a deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on Medcolcanna's business, financial condition and results of operations.

Product Liability

As a distributor of products designed to be ingested by humans, Medcolcanna faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused damages, loss or injury. In addition, the sale of Medcolcanna's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Adverse reactions resulting from human consumption of Medcolcanna's products alone or in combination with other medications or substances could occur. Medcolcanna may be subject to various product liability claims, including, among others, that Medcolcanna's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning health risks, possible side effects or interactions with other substances. A product liability claim or regulatory action against Medcolcanna could result in increased costs, could adversely affect Medcolcanna's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of Medcolcanna. There can be no assurances that Medcolcanna will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Medcolcanna's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of Medcolcanna's products are recalled due to an alleged product defect or for any other reason, Medcolcanna could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Medcolcanna may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Medcolcanna has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if Medcolcanna is subject to recall, the image of Medcolcanna could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Medcolcanna's products and could have a material adverse effect on the results of operations and financial condition of Medcolcanna. Additionally, product recalls may lead to increased scrutiny of Medcolcanna's operations by regulatory agencies, requiring further management attention, potential loss of applicable licences and potential legal fees and other expenses.

Negative Results from Clinical Trials

From time to time, studies or clinical trials on cannabis products may be conducted by academics or others, including government agencies. The publication of negative results of studies or clinical trials related to Medcolcanna's proposed products or the therapeutic areas in which the Company's proposed products will compete could have a material adverse effect on Medcolcanna's future sales.

Risks Inherent in an Agricultural Business

Medcolcanna's business involves the growing of cannabis, which is an agricultural product. The occurrence of severe adverse weather conditions, especially droughts, hail, floods or frost, is unpredictable and may have a potentially devastating impact on agricultural production and may otherwise adversely affect the supply of cannabis. Adverse weather conditions may be exacerbated by the effects of climate change and may result in the introduction and increased frequency of pests and diseases. The effects of severe adverse weather conditions may reduce Medcolcanna's yields or require Medcolcanna to increase its level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute to an increased presence of insects and pests, which could negatively affect cannabis crops. Future droughts could reduce the yield and quality of Medcolcanna's cannabis production, which could materially and adversely affect Medcolcanna's business, financial condition and results of operations.

The occurrence and effects of plant disease, insects and pests can be unpredictable and devastating to agricultural products, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Even when only a portion of the production is damaged, Medcolcanna's results of operations could be adversely affected because all or a substantial portion of the production costs may have been incurred. Although some plant diseases are treatable, the cost of treatment can be high and such events could adversely affect Medcolcanna's operating results and financial condition. Furthermore, if Medcolcanna fails to control a given plant disease and the production is threatened, Medcolcanna may be unable to supply its customers, which could adversely affect its business, financial condition and results of operations. There can be no assurance that natural elements will not have a material adverse effect on any such production.

Energy Supply and Prices

Medcolcanna requires substantial amounts of electric energy and other resources for its harvest activities and transport of cannabis. Medcolcanna relies upon third parties for its supply of energy resources used in its operations.

The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, imposition of restrictions on energy supply by government, worldwide price levels and market conditions. If energy supply is cut for an extended period of time and Medcolcanna is unable to find replacement sources at comparable prices, or at all, Medcolcanna's business, financial condition and results of operations would be materially and adversely affected.

Changes in Corporate Structure

Colombian cannabis licenses are granted on a non-transferable, non-exchangeable and non-assignable basis. Any breach of this restriction may give rise to unilateral termination of the license by the governmental authority.

Notwithstanding the above, Colombian laws do not provide for specific regulations or restrictions regarding the effects of a change in control, modification of the corporate structure, issuance of shares, or any changes in holders or final beneficiaries of cannabis licences.

Colombian legislation gives special attention to the identification and background of the legal representatives of licensees. Licensees must file a declaration of the legality of the proceeds of the legal representatives. Furthermore, Decree 613 of 2017 provides a set of resolutory conditions, which enable the Ministry of Health or the Ministry of Justice, as applicable, to terminate a license if the licensee fails to request the amendment of the licence within 30 calendar days following any changes in (i) the legal representation of the licensee; or (ii) the declaration that a legal representative is criminally liable for drug trafficking or related crimes, after having issued the respective license.

Foreign Transactions

Medcolcanna's functional currency is denominated in Canadian dollars. Medcolcanna currently expects that future sales will be denominated in currencies other than the Canadian dollar. In addition, due to the Company's operations being located in Colombia, Medcolcanna incurs most of its operating expenses in Colombian pesos. Any fluctuation in the exchange rates of foreign currencies may negatively impact Medcolcanna's business, financial condition and results of operations. Medcolcanna can look to engage in foreign currency hedging in the future. However, it may not be able to hedge effectively due to unreasonable costs or illiquid markets. In addition, hedging activities may be limited in the protection they provide the Company from foreign currency fluctuations and can themselves result in realized losses.

TSXV Restrictions on Business

As a condition to initially listing on the TSXV, the TSXV required that Medcolcanna deliver an undertaking (the "Undertaking") confirming that, while listed on the TSXV, Medcolcanna will only conduct the business of the production, sale and distribution of medicinal marijuana in Colombia pursuant to the licenses and in accordance with applicable law, unless prior approval is obtained from the TSXV. The Undertaking could have an adverse effect on Medcolcanna's ability to do business or operate outside of Colombia and on its ability to expand its business into other areas, including the provision of non-medical marijuana in the event that the laws were to change to permit such sales, if Medcolcanna is still listed on the TSXV and remains subject to the Undertaking at such time. The Undertaking may prevent Medcolcanna from expanding into new areas of business when Medcolcanna's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of Medcolcanna's operations.

RISKS RELATED TO INVESTMENT IN A COLOMBIAN COMPANY

Emerging Market Risks

Emerging market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

All of Medcolcanna's operations are in Colombia. Colombia has a history of economic instability or crises (such as inflation or recession). While there is no current political instability, and historically there has been no change in laws and regulations, this is subject to change in the future and could adversely affect Medcolcanna's business, financial condition and results of operations.

Fluctuations in the Colombian economy and actions adopted by the Government of Colombia have had and may continue to have a significant impact on companies operating in Colombia, including Medcolcanna. Specifically, Medcolcanna may be affected by inflation, foreign currency fluctuations, regulatory policies, business and tax regulations and in general, by the political, social and economic scenarios in Colombia and in other countries that may affect Colombia.

Global economic crises could negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Colombia. Such events could materially and adversely affect Medcolcanna's business, financial condition and results of operations.

Operational Risks

Operations in Colombia are subject to risk due to the potential for social, political, economic, legal and fiscal instability. The government in Colombia faces ongoing problems including but not limited to inflation, unemployment and inequitable income distribution. Colombia is also home to South America's largest and longest running insurgency and large swaths of the countryside are under guerrilla influence. In addition, Colombia experiences narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. Such instability may require Medcolcanna to suspend operations on its properties. Although Medcolcanna is not presently aware of any circumstances or facts which may cause the following to occur, other risks may involve matters arising out of the evolving laws and policies in Colombia, any future imposition of special taxes or similar charges, as well as foreign exchange fluctuations and currency convertibility and controls, the unenforceability of contractual rights or the taking or nationalization of property without fair compensation, restrictions on the use of expatriates in Medcolcanna's operations, or other matters. Medcolcanna also bears the risk that changes can occur in the government of Colombia and a new government may void or change the laws and regulations that Medcolcanna is relying upon.

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities and Colombia has never imposed such restrictions. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

Inflation in Colombia

Colombia has in the past experienced double-digit rates of inflation. If Colombia experiences substantial inflation in the future, Medcolcanna's costs in Colombian peso terms will increase significantly, subject to movements in applicable exchange rates. Inflationary pressures may also curtail Medcolcanna's ability to access global financial markets in the longer term and its ability to fund planned capital expenditures, and could materially adversely affect Medcolcanna's business, financial condition and results of operations. The Colombian government's response to inflation or other significant macro-economic pressures may include the introduction of policies or other measures that could increase Medcolcanna's costs, reduce operating margins and materially adversely affect its business, financial condition and results of operations.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements within this MD&A are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.