MEDCOLCANNA ORGANICS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2020

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. Medcolcanna's common shares are listed on the Neo Exchange Inc. ("NEO") under the symbol "MCCN". The common shares are also listed on the Frankfurt Stock Exchange ("FSE") under the symbol "MO2".

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, 2020. This MD&A should be read in conjunction with Medcolcanna's condensed interim consolidated financial statements for the three and nine months ended September 30, 2020, as well as the annual audited consolidated financial statements for the year ended December 31, 2019 (collectively, 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 16, 2020. 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 February 2020, Medcolcanna signed a Letter of Intent ("LOI") with Dona Blanca Limited, an unlisted Australian corporation with operations in Colombia ("Dona Blanca"). Pursuant to the LOI, Dona Blanca will invest $1,500,000 USD ($2,040,000 CAD) for a 15% ownership stake in Extralia Labs SAS ("Extralia"), Medcolcanna's wholly-owned subsidiary. As at September 30, 2020, Dona Blanca provided a non-refundable deposit of $47,500 USD ($64,908 CAD) for the 15% ownership stake in Extralia, which is recorded as an advance received on transactions within these financial statements. The deadline for Dona Blanca to provide the remaining minimum investment has been extended by Medcolcanna to December 15, 2020.

- In March 2020, the Company signed a definitive agreement with Dona Blanca for the sale of up to 70% working interest in the economic rights of two hectares of land. Dona Blanca must provide funds over stages to earn the full 70%: stage 1 where Dona Blanca invested $516,678 USD ($719,075 CAD), to earn a 35% working interest or 0.7 net hectares; stage 2 where Dona Blanca invested $290,000 USD ($404,055 CAD) to earn an additional 20% working interest or an aggregated 55% working interest, or 1.1 net hectares; and stage 3 where Dona Blanca invested an additional $193,000 USD ($268,600 CAD) to earn an additional 15% working interest for a total working interest percentage of 70% and total proceeds received by Medcolcanna of $1,000,000 USD ($1,391,730 CAD). As at September 30, 2020, Medcolcanna had received $902,508 USD ($1,261,505 CAD), with the remaining $97,492 USD ($130,225 CAD) recorded within accounts receivable, which was received subsequent to September 30, 2020

- In April 2020, Medcolcanna received final approval for commercial production of certain strains of cannabis from its Colombian operations. This allows the Company to execute on its plan to begin generating revenue from its cannabis farms in Colombia. As at September 30, 2020, Medcolcanna had 9,180 kilograms of dried cannabis equivalent on hand.

- In July, 2020, the Company entered into a distribution agreement with Greenstein Capital Ltd. ("Greenstein" or "GC"), a private Maltese company. This agreement, which includes the distribution of a minimum quantity of 1,000 kg of active cannabinoid ingredients per year, will see Medcolcanna products commercialized in Europe. The distribution agreement entered into with Greenstein Trading Ltd. ("GT"), a subsidiary of Greenstein, consists of transferring cannabinoid ingredients to GT on a COGS basis for Active Pharmaceutical Ingredients ("APIs") and bulk products, and a COGS plus 25% price on all finished products. The agreement includes a profit-sharing mechanism stating that the final sale price minus the transfer price from Medcolcanna to GT will generate profit to be shared equally between the parties. The agreement also provides a minimum purchase of 1,000 kilograms of product per year (subject to EUGMP conformity) or a penalty of 50% of average cost of production to be paid by GT to Medcolcanna for quantities unsold. Medcolcanna and GC have also committed to continue ongoing discussions towards a corporate transaction in the future.

- In July 2020, Medcolcanna issued 10,000,000 common shares at a value of $0.08 per share to Greenstein for total proceeds of $800,000.

- In July and August 2020, the Company completed a non-brokered private placement of senior secured convertible debenture units. Proceeds from the July issuances equated to $800,000, while proceeds from the August issuance equate to $996,915, for $1,796,915 proceeds received in total. The debentures mature two years from the date of issuance and are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date, at a price of $0.20 per share. For the debentures issued in July, interest is payable on the maturity date at a rate of fourteen percent (14%) per annum (simple not compounded), payable in cash or shares. Interest for the August issued debentures is payable semi-annually, at the end of June and December, at a rate of fourteen percent (14%) per annum (simple not compounded), payable in cash or shares. The debentures will be subject to earlier redemption by the Company in the event the common shares are trading at a volume weighted average trading price at or above $0.40 per share for a period of not less than ten (10) consecutive trading days. The debentures include five common share purchase warrants for every one dollar of principal amount of debentures subscribed for, with each warrant exercisable at a price of $0.20 to purchase one common share for a period of 24 months from the date of issuance.

- In September 2020, the Company entered into a joint venture agreement for the development and commercialization of cannabis-based pharmaceutical products with Grupo Curativa SAS ("Curativa"), an interdisciplinary group of physicians and scientists, internationally recognized for their development and commercialization of various carefully researched products with varying ratios of THC, CBD and other cannabinoids across human and veterinary populations. This agreement between Medcolcanna and Curativa is expected to leverage Medcolcanna's wholly-owned subsidiary Extralia Labs' extraction capacity to manufacture all of Curativa's products to augment its capacity to reach its fast-growing patient network.

- In September 2020, the Company announced that it has received final approval to have the common shares of the Company listed on the Neo Exchange Inc. ("NEO"). The Company's common shares will begin trading on the NEO on October 14, 2020. Consequently, the Company has received approval to voluntarily delist its common shares from the TSXV, effective at the close of business on October 13, 2020.

IMPACT OF COVID-19 PANDEMIC

During the nine months ended September 30, 2020, the global outbreak of coronavirus disease ("COVID-19"), was declared a pandemic by the World Health Organization. Governments worldwide, including those in Canada, Colombia, Switzerland, and the Netherlands have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruptions to businesses globally resulting in an economic downturn. As a result of COVID-19 Medcolcanna experienced some disruptions in its own business activities including temporarily shutting down its Swiss operations and delays in receiving imported capital equipment.

Medcolcanna continues to be proactive and closely monitor the ongoing COVID-19 situation. As the global situation continues to change rapidly, ensuring the well-being of our employees remains one of our top priorities. Our facilities in Colombia remain open and operational with safety measures in place to protect the health and safety of employees, vendors, partners, and their families. The Company is committed to providing safety measures and implementing other practices to provide for the wellbeing of all personnel that visit the facilities.

COVID-19 has increased the Company's risk profile significantly, notably due to the following:

- a potential curtailment or total shut down of operations by government
- potential loss of manpower at its facilities
- potential of a Medcolcanna employee falling ill and causing a disruption to the operations
- the ability to procure and transport critical supplies and parts to the facilities and
- the ability of the Colombian operations to transport finished products to clients to generate revenues.

If any of these events were triggered, the result could be a complete shutdown of the Colombian operations for an undetermined period.

To minimize this risk, the following actions have been taken: a policy has been instituted supporting employees to work from home where practical; preliminary screenings at facilities, any employees or contractors showing potential signs of COVID-19 will be placed into self-isolation; special arrangements at the facilities have been implemented to maximize social distancing.

The Company is treating the threat of a COVID-19 outbreak very seriously. A care-and-maintenance plan has been prepared and would be executed in the event of an outbreak at one of the facilities. The Company is preserving as much cash as possible; all non-critical expenditures have been deferred for the foreseeable future. Should the COVID-19 cause a prolonged interruption of operations, this could impact the Company's ability to secure financing required to progress its strategic initiatives and/or could result in an impairment of asset values

COMPANY OVERVIEW AND OUTLOOK

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") 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.

Through the Medcolcanna's subsidiary, Medcolcanna S.A.S, ("MCCN SAS"), the Company is licensed by the Colombian Ministry of Social Health and Protection and the Colombian Ministry of Justice and Law to use seeds for sowing, cultivate both psychoactive and non-psychoactive cannabis plants, and manufacture cannabis derivatives in Colombia.

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. This is the last license needed for MCCN to have all licenses required for commercial cultivation and for the export of CBD.

MCCN SAS registered 50 different varieties of cannabis seeds with the Instituto Colombiano Agropecuario ("ICA") in 2018. The Company has 16 different varieties of cannabis seeds under Agronomical evaluation with ICA. Medcolcanna finalized the first agronomical evaluation in December 2019, registering commercially 8 of those strains with the National Cultivar Registry - ICA. In June 2020, Medcolcanna started the agronomical evaluation of 5 non-psychoactive varieties at two different Colombian regions (Valles Internaninos and Andina region). Moreover, the Company finished the agronomical evaluation of 10 additional varieties and obtained the National Cultivation Registry for 2 non-psychoactive and 2 psychoactive varieties.

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 obtained GACP certification in June 2020 and expects to be GMP EU compliant by Q2 2021. 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.

The Company has been working towards the launch of finished products including, cosmetics, over the counter formulations, nutraceuticals, and oils. The Company expects to launch these brands before the end of the year. Medcolcanna has received approval for domestic sales from the Instituto Nacional de Vigilancia de Medicamentos y Alimentos (Colombian National Food and Drug Surveillance Institute or "INVIMA"). This gives Medcolcanna the ability to sell its line of cosmetic products and magistral preparations in the local Colombian market (Magistral preparations are similar to compound pharmacies and will be sold through medical prescriptions).

Medcolcanna's proprietary formulations are expected to be distributed Curativa's network of doctors to benefit the growing patient base they have created since 2014. Medcolcanna's product portfolio of 12 base formulations are expected to be augmented by Curativa's recognized 17 formulations allowing Medcolcanna to offer science-backed products to its own network of patient clinics in Colombia as well as its other medical cannabis distribution channels in Spain and Germany. Along with its 17 formulations for humans, Curativa has also developed 7 formulations for pets. Medcolcanna will collaborate with the Curativa technical teams for reformulations and the development of new formulations.

Medcolcanna currently has 5.7 hectares under greenhouse and has expanded its cultivation to include 2 additional hectares outdoors, for a total cultivation of 7.7 hectares. Of this total 7.7 hectares, the economic benefits of 1.4 hectares are owned by Dona Blanca per the earn-in agreement previously discussed, leaving Medcolcanna with a net beneficial interest of 6.3 hectares. Furthermore, Medcolcanna started the construction of its extraction and post-extraction laboratory in September 2020 which was completed subsequent to quarter end.

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 and expects to process all of the Dona Blanca biomass through Extralia Labs.

Medcolcanna has also established a breeding laboratory, which enables the Company to select specific varities and cross them to improve and create proprietary genetics. To date, Medcolcanna has characterized 30 different genotypes. Based on the characterization, the Company has implemented the first crosses among genotypes in order to evaluate progeny with new characteristics adapted to local conditions. Moreover, the protocol to obtain viable

pollen from feminized plants has been established. The Company started to implement the protocol to propagate in vitro material which allows the Company to produce disease free plants and maintain germoplasm in vitro.

To date, Medcolcanna has entered into 27 contracts to supply genetics (seeds or cuttings) to third parties. This is also expected to provide an additional revenue stream for the Company.

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.

Medcolcanna is also involved in the cannabis vaping industry in Europe. Under the brand name Cannav™, Medcolcanna develops its own vaping liquids which it sells along with vaping devices and equipment through retail and wholesale distribution chains. In September 2020, the Company began selling dry flower it had purchased to customers in Europe. The Company had sales online through its website, in-shop at its Swiss location, and through the use of commissioned salespersons during the period ended September 30, 2020. Medcolcanna plans to continue expansion and development of its vape brand with the intent of making this a sustainable source of revenue for the Company.

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 position Colombia as a global leader in cannabis production. Foreign corporations have entered the Colombian market as a result of Colombia's regulatory regime, creating the prospect of Colombia becoming a hub for future industry development. Medcolcanna is optimally structured and positioned to capitalize on this movement to exploit the growing global cannabis industry.

KEY FINANCIAL RESULTS

The following table summarizes results of operations of the Company for the three and nine months ended September 30, 2020:

	Three months ended		Nine months ended	
	2020	**2019**	**2020**	**2019**
Revenue	256,636	-	1,476,513	-
Cost of goods sold	111,524	-	143,386	-
Gross profit before fair value adjustments	145,112	-	1,333,127	-
Unrealized gain on changes in fair value of biological assets	114,718	-	188,077	-
Gross profit	259,830	-	1,521,204	-
Net income (loss)	(1,219,461)	(1,223,530)	(2,687,233)	(5,606,053)
Net loss attributable to Medcolcanna Organics Inc.	(1,191,593)	(1,223,530)	(2,637,418)	(5,606,053)
Basic loss per share	(0.01)	(0.01)	(0.03)	(0.09)
Diluted loss per share	(0.01)	(0.01)	(0.03)	(0.09)

The following table summarizes key financial information about the Company as at September 30, 2020 and December 31, 2019.

	2020	**2019**
Working capital	1,392,752	2,554,463
Total assets	7,543,026	6,567,588
Total non-current liaiblities	2,354,920	403,633
Shareholders' equity	3,700,745	5,497,874

SELECTED QUARTERLY INFORMATION

The following table sets out selected quarterly financial information of Medcolcanna from December 31, 2018 to September 30, 2020.

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Revenues	256,636	1,192,920	26,957	1,582
Cost of goods sold	111,524	12,273	19,589	636
Gross profit before fair value adjustments	145,112	1,180,647	7,368	946
Unrealized gain on changes in fair value of biological assets	114,718	73,359	-	-
Gross profit	259,830	1,254,006	7,368	946
Net loss	(1,219,461)	(55,208)	(1,485,923)	(1,608,415)
Net loss attributable to Medcolcanna	(1,191,593)	(42,077)	(1,477,107)	(1,608,415)
Loss per share	(0.01)	0.00	(0.02)	(0.02)
Diluted loss per share	(0.01)	0.00	(0.02)	(0.02)

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenues	-	-	-	-
Cost of goods sold	-	-	-	-
Gross profit before fair value adjustments	-	-	-	-
Unrealized gain on changes in fair value of biological assets	-	-	-	-
Gross profit	-	-	-	-
Net loss	(1,223,530)	(3,778,682)	(603,841)	(523,363)
Net loss attributable to Medcolcanna	(1,223,530)	(3,778,682)	(603,841)	(523,363)
Loss per share	(0.01)	(0.06)	(0.01)	(0.01)
Diluted loss per share	(0.01)	(0.06)	(0.01)	(0.01)

DISCUSSION OF OPERATIONS

Adjusted EBITDA

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

The following is a reconciliation of the Company's net income (loss) to Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019.

	Three months ended		Nine months ended	
	2020	**2019**	**2020**	**2019**
Net income (loss)	(1,219,461)	(1,223,530)	(2,687,233)	(5,606,053)
Add back:				
Depreciation expense	33,451	44,179	132,604	98,819
Interest expense on leases	30,710	17,370	78,368	34,150
Accrued interest on convertible debentures	35,809	-	35,809	-
Accretion expense on convertible debentures	16,281	-	16,281	-
EBITDA	(1,103,210)	(1,161,981)	(2,424,171)	(5,473,084)
Adjustments:				
Non-recurring earn-in revenue	(204,644)	-	(1,391,730)	-
Listing expense	-	-	-	2,232,149
Transaction costs relating to the RTO	-	-	-	202,874
Share-based compensation	55,749	176,443	354,730	676,644
Fair value of biological assets	(114,718)	-	(188,077)	-
Adjusted EBITDA[(1)]	**(1,366,823)**	**(985,538)**	**(3,649,248)**	**(2,361,417)**

(1) Non-GAAP measure

During the three and nine months ended September 30, 2020, the Company generated an Adjusted EBITDA loss of $1,366,823 (September 30, 2019 - $985,538) and $3,649,248 (September 30, 2019 - $2,361,417) respectively.

Revenue and Cost of Sales

A table of the items included in revenue for the three and nine months ended September 30, 2020 has been presented below. As there was no revenue in the three and nine months ended September 30, 2019, no comparative data has been presented.

Three months ended September 30, 2020:

	Vape products	Dry Flower	CBD Isolate	Earn-in Revenue	Total
Total revenue	4,715	25,778	21,499	204,644	256,636
Total costs of sales	(2,423)	(14,554)	(24,083)	(70,464)	(111,524)
Gross profit before fair value adjustments	**2,292**	**11,224**	**(2,584)**	**134,180**	**145,112**

Nine months ended September 30, 2020:

	Vape products	Dry Flower	CBD Isolate	Earn-in Revenue	Total
Total revenue	14,961	25,778	44,044	1,391,730	1,476,513
Total costs of sales	(6,997)	(14,554)	(51,371)	(70,464)	(143,386)
Gross profit before fair value adjustments	**7,964**	**11,224**	**(7,327)**	**1,321,266**	**1,333,127**

During the three and nine months ended September 30, 2020, Medcolcanna sold vape products and dry flower from its Swiss operations, and CBD isolate and working interest percentage in certain hectares of land to customers. Although Medcolcanna is still considered to be in the early phases of development, the Company has been able to realize sales on products it has developed such as the vape products, and by through items it has purchased and subsequently resold to customers such as the dry flower and CBD isolate.

The Company recognized $144,992 USD ($204,644 CAD) and $1,000,000 USD ($1,391,730 CAD) respectively as revenue for funds received as part of an earn-in agreement with Dona Blanca. The Company signed this definitive agreement with Dona Blanca for the sale of 70% working interest in the economic rights of two hectares of land. Dona Blanca was required to provide funds over stages to earn the full 70%: stage 1 where Dona Blanca invested $516,678 USD ($719,075 CAD), to earn a 35% working interest or 0.7 net hectares; stage 2 where Dona Blanca invested $290,000 USD ($404,055 CAD) to earn an additional 20% working interest or an aggregated 55% working interest, or 1.1 net hectares; and stage 3 where Dona Blanca invested an additional $193,000 USD ($268,600 CAD) to earn an additional 15% working interest for a total working interest percentage of 70% and total proceeds received by Medcolcanna of $1,000,000 USD ($1,391,730 CAD). As stipulated in the agreement, Medcolcanna had only one performance obligation, which was to make available properly licensed hectares of land, which it has fulfilled by September 30, 2020.

Unrealized gain on changes in fair value of biological assets

The Company recorded a fair value gain on harvested and growing plants during the three and nine months ended September 30, 2020 of $114,718 and $188,077 respectively. Since April 2020, the Company has been able to recognize biological assets, as this is the date it first received final commercial approvals to sell its cannabis products from its Colombian farm. Significant estimates and assumptions on the value of the biological assets are disclosed in Note 8 of the condensed interim consolidated financial statements for the periods ended September 30, 2020 and 2019.

Operating expenses

Included in operating expenses are costs associated with pre-operational agricultural activities, costs incurred for the development of 2 hectares of land relating to the earn-in agreement with Dona Blanca, pre-operational extraction and processing costs, and vape operational expenses in Switzerland. A summary of these activities is presented below.

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	**2020**	2019
Agricultural[(1)]	**409**	275,159	**314,430**	402,944
Dona Blanca agreement	**12,121**	-	**48,890**	-
Extraction and processing	**144,164**	-	**205,345**	-
Vaping	**-**	1,353	**1,631**	1,353
Total	**156,694**	276,512	**570,296**	404,297

(1) Agricultural operating costs include cultivation and production activities prior to receiving final approval for commercial cultivation of biological assets.

During the three months ended September 30, 2020, operating expenses decreased by $119,818 compared to the three months ended September 30, 2019. This is as a result of the Company receiving final approvals to produce commercial products, which results in the majority of production costs being included in biological assets. During the nine months ended September 30, 2020, operating expenses increased by $165,999 compared to nine months ended September 30, 2019. The increase in operating expenditures is mainly related to pre-operational extraction

and processing costs incurred as a result of establishing Extralia Labs SAS and testing new extraction processes which have not yet been put into full effect. In 2020, non-capital operational costs relating to the Dona Blanca earn-in agreement were incurred for $48,890, further contributing to the increased change in operating expenses. Agricultural pre-operational costs decreased by $88,514 during the nine months ended September 30, 2020 compared to September 30, 2019 as a result of the majority of production costs being included within biological assets starting in April 2020.

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 $1,073,154 for the three months ended September 30, 2020 (September 30, 2019 - $544,554) and $2,817,823 for the nine months ended September 30, 2020 (Septmeber 30, 2019 - $1,697,932). The nature of the G&A expenses are as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	**2020**	2019
Salary, wages, and benefits	**475,547**	231,079	**1,389,944**	489,619
Professional fees	**258,066**	131,112	**632,878**	426,180
Legal fees	**75,247**	56,389	**191,436**	278,553
Investor relations	**122,083**	40,277	**168,113**	138,357
Director fees	**25,310**	18,486	**78,119**	25,233
Insurance	**20,850**	12,723	**73,390**	12,723
Transfer agent and filing fees	**38,624**	17,839	**66,781**	114,055
General office[(1)]	**14,554**	3,814	**55,368**	92,556
Travel	**994**	26,421	**36,516**	82,742
Business registration and license fees	**17,237**	-	**28,352**	-
Software and IT expenses	**9,889**	-	**28,022**	-
Other	**14,753**	6,414	**68,904**	37,914
Total	**1,073,154**	544,554	**2,817,823**	1,697,932

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

G&A expense increased by $528,600 from the three months ended Septmeber 30, 2020 compared to the three months ended September 30, 2019. G&A expense increased by $1,119,891 for the nine months ended September 30, 2020 compared to September 30, 2019. The increase is attributable to an increased number of employees working for the Company. In Q3 2019, the Company had just barely started operations, resulting in a minimal number of employees needed. As the Company continued to grow and expand more personnel were required to maintain the Company's operations. Due to the growth and international expansion efforts, Medcolcanna also increased its use of consultants and other professionals during the three and nine months ended September 30, 2020 to help advance product development in international jurisdictions. Beginning in Q2 2020, the Company entered into strategic investor relations agreements with various vendors to help promote and expand the Company's activities. As a result, investor relations expenditures increased during the three and nine months ended September 30, 2020 compared to the same period in 2019. Insurance costs increased significantly during the period ended September 30, 2020 compared to 2019. In 2019, the Company was just beginning operations and had just finalized director and officer insurance, resulting in only a small amount recognized in expenses in the prior year. In 2020, with increased operations, Medcolcanna has added risk insurance policies to protect its assets and provide security for unseen events. Travel costs of the company also decreased significantly when looking at the three and nine months ended

September 30, 2020 compared to the same periods in 2019. This was mainly due to decreased travel as a result of ongoing travel restrictions enacted by governments throughout the world as a result of the COVID-19 pandemic.

Selling, marketing, and promotion expense

During the three and nine months ended September 30, 2020, the Company incurred selling, marketing, and promotional expenses of $21,687 and $49,650 respectively compared to a three and nine months ended September 2019 expense of $5,337. The increase is due to directed marketing and advertising campaigns in both Colombia and Switzerland to help grow the business and generate sustainable revenue for the Company. The Company is still considered to be in its infancy, and the selling, marketing, and promotional campaigns are anticipated to help find new customers and revenue generating opportunities.

Research and development ("R&D") expense

R&D 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 three and nine months ended September 30, 2020, Medcolcanna incurred R&D costs of $80,742 and $195,388 respectively compared to $153,804 amount in 2019 for the same periods.

A summary of the nature of R&D activities is provided below

	For the three months ended September 30		**For the nine months ended September30**	
	2020	2019	**2020**	2019
Agricultural product and process development	**49,558**	-	**118,927**	-
Medicinal cannabinoid formulations	**31,756**	153,804	**70,446**	153,804
Vape product development	**(572)**	-	**6,015**	-
Total	**80,742**	153,804	**195,388**	153,804

As Medcolcanna begins to sell its internally grown and produced cannabis products to customers, the Company has increased its R&D activities to test and develop new products, extraction processes, and growing conditions. As a result, R&D expenditures at the Colombian farm increased from nil to $118,927 during the nine months ended September 30, 2020. Medicinal cannabinoid formulations R&D costs decreased from $153,804 in 2019 to $31,756 during the three months ended September 30, 2020 and $70,446 during the nine months ended September 30, 2020. In 2019, the Company incurred an initial, one-time R&D cost to the University Medical Center Groningen to begin testing and development of medicinal cannabinoid formulations acquired through the acquisition of Innovative CBD Products B.V. R&D activities on the formulations have continued into 2020 through the use an external consultant contracted by the Company to assist in product development and testing.

Finance expense

The components of finance expenses (income) are as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	**2020**	2019
Interest income	**(381)**	(1,832)	**(2,698)**	(16,941)
Bank charges	**7,752**	11,724	**21,961**	20,755
Lease interest expense (Note 10)	**30,712**	17,369	**78,368**	34,150
Accrued interest on convertible debentures (Note 13)	**35,809**	-	**35,809**	-
Accretion on convertible debentures (Note 13)	**16,281**	-	**16,281**	-
Total	**90,173**	27,261	**149,721**	37,964

Finance expense of $90,173 was recorded during the three months ended September 30, 2020 compared to finance expense of $27,261 for the three months ended September 30, 2019. During the nine months ended September 30, 2020, finance expense of $149,721 was recorded compared to $37,964 for the same period in 2019. The change in finance expense is mainly attributed to an increase in lease interest expense as a result of an additional four hectares of land leased on the Medcolcanna Colombian farm. Additionally, in July and August 2020, the Company issued convertible debentures. The interest expense and accretion expense have been recorded within finance expense for $35,809 and $16,281 respectively.

GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in the growth, cultivation, and development of medicinal cannabis and medicinal cannabis products through its Colombian and Netherland subsidiaries. The Company is also engaged in the cannabis vaping industry through its Swiss subsidiary. Management has defined the operating segments of the Company based on geographical areas, identifying operations held in Colombia, Switzerland, and the Netherlands as separate reporting segments. The Corporate segment reflects balances and expenses related to all Company operations outside of Colombia, Switzerland, and the Netherlands which collectively represent the corporate operations of the Company.

The following tables show information regarding the Company's segments for the three and nine months ended September 30, 2020 and 2019.

For the three months ended September 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	21,499	30,493	-	-	51,992
Revenue from earn-in agreement	204,644	-	-	-	204,644
Total revenue	**226,143**	**30,493**	**-**	**-**	**256,636**
Cost of sales	94,547	16,977	-	-	111,524
Gross profit before fair value adjustments	**131,596**	**13,516**	**-**	**-**	**145,112**
Unrealized gain on changes in fair value of biological assets	114,718	-	-	-	114,718
Gross profit	**246,314**	**13,516**	**-**	**-**	**259,830**
Expenses:					
Operating expenses	156,694	-	-	-	156,694
General and administrative	541,248	16,865	-	515,041	1,073,154
Selling, marketing and promotion	14,204	5,486	-	1,997	21,687
Research and development	11,368	(1,072)	-	70,446	80,742
Depreciation and amortization	68,011	4,130	-	(38,690)	33,451
Share-based compensation	-	-	-	55,749	55,749
Finance expense (income)	37,590	203	-	52,380	90,173
Other expenses (income)	(14,000)	-	-	-	(14,000)
Foreign exchange loss (gain)	(875)	257	-	(17,741)	(18,359)
Net loss (Income)	**567,926**	**12,353**	**-**	**639,182**	**1,219,461**

For the nine months ended September 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	44,044	40,739	-	-	84,783
Revenue from earn-in agreement	1,391,730	-	-	-	1,391,730
Total revenue	**1,435,774**	**40,739**	**-**	**-**	**1,476,513**
Cost of sales	121,835	21,551	-	-	143,386
Gross profit before fair value adjustments	**1,313,939**	**19,188**	**-**	**-**	**1,333,127**
Unrealized gain on changes in fair value of biological assets	188,077	-	-	-	188,077
Gross profit	**1,502,016**	**19,188**	**-**	**-**	**1,521,204**
Expenses:					
Operating expenses	568,665	1,631	-	-	570,296
General and administrative	1,439,008	82,846	-	1,295,969	2,817,823
Selling, marketing and promotion	31,081	12,512	-	6,057	49,650
Research and development	118,927	6,015		70,446	195,388
Depreciation and amortization	121,886	10,718	-	-	132,604
Share-based compensation	-	-	-	354,730	354,730
Finance expense (income)	95,210	794	156	53,561	149,721
Other expenses (income)	(14,000)	-	-	-	(14,000)
Foreign exchange loss (gain)	(1,946)	(258)	-	(45,571)	(47,775)
Net loss	**856,815**	**95,070**	**156**	**1,735,192**	**2,687,233**
Assets at September 30, 2020	**5,356,546**	**179,560**	**1,001,943**	**1,004,977**	**7,543,026**
Liabilities at September 30, 2020	**1,843,578**	**55,609**	**160**	**1,942,934**	**3,842,281**

For the three months ended September 30, 2019	Colombia	Switzerland	Netherlands	Corporate	Total
Expenses:					
Operating expenses	275,159	1,353	-	-	276,512
General and administrative	187,185	11,372	39,622	306,375	544,554
Selling, marketing and promotion	-	5,337	-	-	5,337
Business development	-	-	-	16,448	16,448
Research and development	-	-	-	153,804	153,804
Depreciation and amortization	43,621	558	-	-	44,179
Share based compensation	-	-	-	176,443	176,443
Finance expense (income)	26,227	654	-	380	27,261
Foreign exchange loss (gain)	(82)	347	-	(21,273)	(21,008)
Net Loss	**532,110**	**19,621**	**39,622**	**632,177**	**1,223,530**

For the nine months ended September 30, 2019	Colombia	Switzerland	Netherlands	Corporate	Total
Expenses:					
Operating expenses	402,944	1,353	-	-	404,297
General and administrative	677,793	11,372	39,622	969,145	1,697,932
Selling, marketing and promotion	-	5,337	-	-	5,337
Listing expense	-	-	-	2,232,149	2,232,149
Transaction costs relating to the RTO	-	-	-	202,874	202,874
Business development	-	-	-	59,347	59,347
Research and development	-	-	-	153,804	153,804
Depreciation and amortization	98,261	558	-	-	98,819
Share based compensation	-	-	-	676,644	676,644
Finance expense (income)	50,765	654	-	(13,455)	37,964
Foreign exchange loss (gain)	(276)	347	-	36,815	36,886
Net Loss	**1,229,487**	**19,621**	**39,622**	**4,317,323**	**5,606,053**
Assets at December 31, 2019	**2,108,017**	**88,438**	**1,001,943**	**3,369,190**	**6,567,588**
Liabilities at December 31, 2019	**791,125**	**32,631**	**150**	**245,808**	**1,069,714**

CAPITAL ADDITIONS

For the nine months ended September 30, 2020, the Company had capital additions of $1,203,074. The additions to property, plant, and equipment were categorized as follows:

- $287,544 related to Agricultural and extraction facilities which includes completed greenhouses, laboratory buildings, and construction of post-harvest amenities
- $487,115 related to the purchase of production and medical equipment
- $82,577 for computer and office equipment
- $297,995 of leasehold improvements on the leased farm property in Colombia.
- $47,843 relating to construction in progress

GOING CONCERN, 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 Swiss segment. Medcolcanna has limited revenues and cash inflows for the period ended September 30, 2020. As such the Company's business activities are financed through debt and equity offerings issued by the Company.

During the nine months ended September 30, 2020, Medcolcanna incurred a net loss of $2,687,233 and used $2,707,024 in operating activities. The negative cash flows from operations was driven by the fact that the Colombian cannabis business is in the development phase with no significant ongoing sustainable revenue to positively and consistently affect cash flows. As at September 30, 2020, the Company's accounts payable and accrued liabilities were valued at $1,348,770. This balance was classified as a current liability as all amounts are due within 12 months. Additionally, the Company had a working capital of $1,392,752 which indicates the Company has the ability to meet is current obligations as they come due. The available working capital is also sufficient to meet current contractual capital construction and lease commitments entered into by the Company.

Net cash used in investing activities was $1,368,731 for the nine months ended September 30, 2020. This was mainly attributed to the purchase and construction of property, plant, and equipment assets of $1,203,074. Medcolcanna also made cash advances towards property, plant, and equipment of $230,565. The advances, purchases, and constructions of property, plant, and equipment was partially offset by contributions received of $64,908 from Dona Blanca in regard to the Extralia Labs LOI previously mentioned.

The Company generated cash from financing activities for the nine months ended September 30, 2020 of $2,490,095. This was due to the issuance of 10,000,000 common shares which provided proceeds net of issuance costs of $794,167. Additionally, Medcolcanna issued convertible debentures in July and August 2020, which resulted in total proceeds net of issuance and transactions costs of $1,772,636, $181,414 of which was allocated to warrants which were included as part of the convertible debentures issued. The financing activities cash inflows were partially offset by principal portion of lease payments made during the period of $76,708.

The Company currently does not have consistent revenue generating assets. Until the Company has sustaining revenue streams, it will continue to exhaust its remaining financial resources to fund existing operations. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

The Financial Statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future. Management believes that the going concern assumption is appropriate for the Financial Statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. Medcolcanna continues to enter into strategic agreements, joint ventures, and relationships to source funds and maintain its operations.

As previously stated, in April 2020, the Company received final approvals from the Instituto Colombiano Agropecuario ("ICA") for commercial production of certain strains of cannabis from its Colombian cannabis farm. This enables Medcolcanna to begin generating revenue from its Colombian segment to sustain operations. However, there is no certainty as to the timing and likelihood of realizing sufficient revenues to fully sustain the Company's activities. Additionally, as previously stated, subsequent to September 30, 2020 the Company completed the sale of 70% of two hectares of land to Dona Blanca, which has provided a significant amount one-time revenue and cash inflows to the Company.

The Company may need to seek further financing in the future to maintain its current level of activity. To date, Medcolcanna has been successful in raising funds to sustain operations. However, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company.

Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, the Financial Statements would require adjustments to the amounts and classifications of assets and liabilities.

CONVERTIBLE DEBENTURES

In July and August 2020, the Company completed a non-brokered private placement of senior secured convertible debenture units. Proceeds from the July issuances equated to $800,000, while proceeds from the August issuance equate to $996,915, for $1,796,915 proceeds received in total. The debentures mature two years from the date of issuance and are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date, at a price of $0.20 per share. For the debentures issued in July, interest is payable on the maturity date at a rate of fourteen percent (14%) per annum (simple not compounded), payable in cash or shares. Interest

for the August issued debentures is payable semi-annually, at the end of June and December, at a rate of fourteen percent (14%) per annum (simple not compounded), payable in cash or shares. The debentures will be subject to earlier redemption by the Company in the event the common shares are trading at a volume weighted average trading price at or above $0.40 per share for a period of not less than ten (10) consecutive trading days.

The debentures include five common share purchase warrants for every one dollar of principal amount of debentures subscribed for, with each warrant exercisable at a price of $0.20 to purchase one common share for a period of 24 months from the date of issuance. Further details regarding the warrants can be found in Note 15.

As the debenture units contain purchase warrants and a conversion feature, the equity and debt components of the debenture are required to be bifurcated to record the value of the debt and equity separately. The fair value of the liability was determined using a discounted cash flow model with an estimated market interest rate of equivalent debt without a conversion feature and purchase warrants of 23%. At initial recognition, the fair value of the debentures was calculated to be $1,531,000 with $183,840 allocated to the purchase warrants (Note 15) using the Black-Scholes pricing model valuation technique and the residual amount of $82,075 allocated to the conversion feature recorded as the equity component of the convertible debenture. Transaction costs totalled $24,279, of which $20,734 was allocated to the convertible debenture liability, $2,426 to the purchase warrants, and $1,119 to the equity component of the convertible debenture. Subsequent to initial recognition, the convertible debenture liability is measured using the effective interest method, with the charge recorded as accretion expense in finance expense (income) in the consolidated statement of loss on the financial statements of the Company.

A summary of the Company's convertible debentures as at September 30, 2020 is presented in the table below:

	July 2020	August 2020	Total
Balance at December 31, 2019	-	-	-
Proceeds received	800,000	996,915	1,796,915
Value allocated to warrants	(87,575)	(96,265)	(183,840)
Equity component of convertible debenture	(35,579)	(46,496)	(82,075)
Transaction costs	(5,336)	(15,398)	(20,734)
Accrued interest	23,022	12,787	35,809
Accretion	10,561	5,720	16,281
Balance at September 30, 2020	705,093	857,263	1,562,356
Current accrued interest payable included in accounts payable and accrued liabilities	-	(12,787)	(12,787)
Non-current convertible debenture liability	**705,093**	**844,476**	**1,549,569**

EQUITY

Common shares

As at September 30, 2020, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared.

Common shares issued and outstanding are as follows:

	Common shares	Amount ($)
Balance at December 31, 2018	41,362,659	1,102,584
Shares issued for subscription in March 2019[(1)]	400,000	36,000
Share issuance costs		(3,187)
Share pursuant to the RTO Transaction	12,899,968	2,708,993
Fair value of units attributed to common shares[(2)]	30,986,800	6,770,990
Share issuance costs of units attributed to common shares		(739,509)
Shares issued to acquire ICP	4,701,240	987,260
Balance at December 31, 2019	90,350,667	10,863,131
Shares issued to employee[(3)]	720,000	54,000
Shares issued for subscription in July 2020[(4)]	10,000,000	800,000
Share issuance costs		(5,833)
Balance at September 30, 2020	**101,070,667**	**11,711,298**

(1) In March 2019, Medcolcanna completed a non-brokered private placement of 400,000 common shares at a price of $0.09 per share for gross proceeds of $36,000. Issuance costs totaling $3,187 has been recognized in share capital in connection with this placement.

(2) Upon completion of the RTO Transaction, the subscription units issued by the Company were allocated to common shares and warrants based on the assessed fair value using the Black-Scholes valuation model. As at the RTO date, the subscription receipts had a gross value of $7,746,700 and a net value of $6,900,627 after issuance costs. The $6,900,627 was held as restricted cash at the RTO date and only became available for the Company to use at the completion of the RTO Transaction. As a result of the RTO, 30,986,800 shares were issued to unit holders for a total gross value of $6,770,990 and 15,493,400 warrants issued for a gross value of $975,710. Issuance costs of $739,509 were allocated to the shares, while $106,564 issuance costs were allocated to the warrants for a net value of $6,031,481 and $869,146 respectively.

(3) In November 2019, the Company hired a new executive officer of the Company and agreed to issue 720,000 shares up front as part of his employment contract. The shares were valued at $54,000 on the grant date and were officially issued to the officer in April 2020.

(4) In July 2020, the Company completed a non-brokered private placement of 10,00,000 common shares at a price of $0.08 per share for gross proceeds of $800,000. Issuance costs totaling $5,833 has been recognized in share capital in connection with the placement.

Shares to be issued

Included in equity is $30,000 of shares to be issued relating to the value of services provided by an external consultant in the year 2019. It was agreed that payment would be issued in the form of shares of the Company. As at September 30, 2020, the shares have not officially been issued.

Warrants

The following tables summarizes changes in the number of warrants:

	Purchase warrants	Amount ($)
Balance at December 31, 2018	4,681,330	79,729
Warrants issued pursuant to RTO[(1)]	6,450,000	405,450
Warrant issuance costs		(881)
Warrants issued from subscription units[(1)]	15,493,400	975,710
Warrant issuance costs		(106,564)
Warrants expired	(3,681,330)	(18,457)
Balance at December 31, 2019	22,943,400	1,334,987
Warrants issued with convertible debentures[(2)]	8,984,575	183,840
Warrant issuance costs		(2,426)
Balance at September 30, 2020	**31,927,975**	**1,516,401**

(1) In May 2019, Pursuant to the RTO Transaction, 6,450,000 settlement warrants in IES were converted to 6,450,000 purchase warrants in Medcolcanna. Additionally, the 30,986,800 subscription units were converted into 30,986,800 common shares and 15,493,400 purchase warrants. The warrants issued are exercisable immediately at a price of $0.40 per common share until May 2021.

(2) As previously explained above, Medcolcanna completed a non-brokered private placement of senior secured convertible debentures. The debentures include five common share purchase warrants for every one dollar of principal amount of debentures subscribed for, with each warrant exercisable at a price of $0.20 to purchase one common share for a period of 24 months from the date of issuance. In total 8,984,575 warrants were issued with the convertible debentures. The warrants have a forced conversion feature whereby the Company will have the option to force the conversion of warrants upon the common shares trading at a volume weighted average price at or above $0.40 per share for a period of not less than ten (10) consecutive trading days.

The following table summarizes information about the warrants outstanding as at September 30, 2020:

Exercise price ($)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.34	31,927,975	0.96	31,927,975

Compensation Options

Pursuant to the closing of subscription receipts, compensation options were awarded to agents of the subscription offering accumulating to 6% of the number of subscription units sold pursuant to the agency agreement under the offering.

Each compensation option entitles the holder thereof to acquire one Unit (a “Compensation Option Unit”) at the offering price of $0.25 for a period of 24 months following the date of issuance. Each compensation option unit is comprised of one common share and one-half of one warrant (each whole Warrant, a “Compensation Option Warrant”). Each compensation option warrant shall entitle the holder thereof to purchase one common share at a price of $0.40 for a period of 24 months following the closing of the RTO Transaction.

The following tables summarizes changes in the number of compensation options as at September 30, 2020:

	Compensation options	Amount ($)
Balance at December 31, 2018	348,960	30,554
Compensation options issued pursuant to the RTO	267,656	23,680
Compensation options issued	1,510,248	134,805
Balance at December 31, 2019 & September 30, 2020	**2,126,864**	**189,039**

The following table summarizes information about the Compensation Options outstanding as at September 30, 2020:

Exercise price ($)	Number of compensation options outstanding	Weighted average term to expiry (years)	Number of compensation options exercisable
0.25	2,126,864	0.34	2,126,864

Stock options

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. 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, 2020, a total of 7,875,000 options were outstanding under this plan. The following table summarizes information about the changes in stock options as at September 30, 2020:

	Stock options	Exercise price ($)
Balance at December 31, 2018	-	-
Options issued	8,100,000	0.40
Options forfeited	(225,000)	0.40
Expired options	-	-
Balance at December 31, 2019 & September 30, 2020	**7,875,000**	**0.40**

The following summarizes information about stock options outstanding as at September 30, 2020:

Exercise price ($)	Number of stock outstanding	Weighted average term to expiry (years)	Number of stock options exercisable
0.40	7,875,000	3.66	5,250,000

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 $55,749 was recognized for the three months ended September 30, 2020 (September 30, 2019 - $176,443) while share-based compensation expense of $298,981 was recognized for the nine months ended September 30, 2020 (September 30, 2019 - $676,644).

SUMMARY OF OUTSTANDING SHARE DATA

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

Common shares	101,070,667
Shares to be issued	120,000
Stock options	7,875,000
Purchase warrants	31,927,975
Compensation option unit	2,126,864
Compensation option warrant	1,063,432
Convertible debentures	8,984,575
Total	**153,168,513**

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of September 30, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due to related parties, convertible debentures, 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, accounts payable and accrued liabilities, and due to related parties 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. The carrying amount of the convertibles debentures approximate its fair value as it is the present value calculated using a market rate that was determined during the three months ended September 30, 2020.

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, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, due to related parties, convertible debentures, and lease liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient cash resources in order to finance operations, funds capital expenditures, and to repay financial liabilities. The Company manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures. As at September 30, 2020, the Company had a working capital of $1,392,752.

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 and accounts receivables. All of the Company's cash and cash equivalents are held at reputable financial institutions. As of September 30, 2020, the majority of the Company's accounts receivable balance relates to the earn-in agreement between the Company and Dona Blanca. The receivable amount was collected subsequent to September 30, 2020.

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 foreign subsidiaries. As at September 30, 2020, 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, 2020 would not have had a significant impact on cash and cash equivalents. Furthermore, the Company is not currently exposed to interest rate risk on its interest-bearing debentures given these debt instruments are all subject to fixed interest rates.

Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing developmental activities. The Company is dependent upon funding these activities through a combination of available cash, debt, and equity, which it considers to be the components of its capital structure as outlined below.

	September 30, 2020	December 31, 2019
Convertible debentures - liability	**1,549,569**	-
Shareholders' equity	**3,700,745**	5,497,874
Cash	**1,034,530**	2,800,665
Working capital	**1,392,752**	2,554,463

RELATED PARTY TRANSACTIONS

Medcolcanna recorded the following related party transactions in the Financial Statements:

a) During the period ended September 30, 2020, certain expenses were paid by members of management. Periodically advances were 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 December 31, 2019, a net receivable of $9,324 existed as a result of these transactions. As at September 30, 2020, the balance switched to a net liability of $3,944.

b) During the three and nine months ended September 30, 2020, Medcolcanna incurred accounting consulting fees of $64,981 (September 30, 2019 - $45,000) and $173,540 (September 30, 2019 - $51,739) respectively to a firm affiliated with an officer of the Company. Fees are based on services rendered at prevailing market rates. The amounts have been recorded as professional fees within general and administrative expense.

c) As previously discussed, Medcolcanna issued convertible debentures in July and August 2020. Three of the convertible debenture holders are close family members of key management personnel and have provided a combined $115,000 in proceeds to Medcolcanna for the debentures and were issued 575,000 purchase warrants in conjunction with the convertible debenture offering. Additionally, a Director of the Company also participated in the convertible debenture offering, providing $10,000 in gross proceeds and received 50,000 purchase warrants.

COMMITMENTS

The Company has entered into various agreements with different vendors relating to the construction and improvement of its agricultural facilities. The remaining construction work is expected to be completed and paid within the year 2020. The Company also had property and office lease commitments outstanding which have been recorded as lease liabilities on the financial statements.

The following table summarizes the contractual commitments as at September 30, 2020:

Commitments	2020	2021	2022	2023 and thereafter	Total
Property Lease	39,631	158,524	158,524	343,468	700,147
Property leases not yet commenced	6,714	26,854	26,854	73,850	134,272
Office Leases	31,143	25,543	-	-	56,686
Capital constructions	280,560	-	-	-	280,560
Total	**358,048**	**210,921**	**185,378**	**417,318**	**1,171,665**

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, liabilities, revenue, expenses and equity. 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.

Biological assets

Biological assets are measured at fair value less cost to sell up to the point of harvest at each reporting period using the income approach. Certain assumptions, judgements, and estimates are required to be made by the Company in determining the fair value of these assets. These assumptions, judgements, and estimates include the expected selling price, number of plants harvested, expected yield, cost to harvest and convert to cannabis finished goods, and the stage of completion in the production process.

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.

Business combinations and assets acquisitions

Judgment is required in determining whether an acquisition is a business combination or an asset acquisition. The Company assesses if the assets acquired and liabilities assumed constitute a business following guidance in IFRS 3. In determining the fair value of consideration paid, assets acquired, and liabilities assumed, of a business combination and the relative fair value under an asset acquisition, management may be required to make certain assumptions and judgements. These judgements and assumptions include whether amounts paid on achievement of milestones represents contingent consideration, the classification of contingent consideration as equity or a liability, and the measurement of such consideration.

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.

Convertible debentures

Convertible debentures are compound financial instruments that contain a debt and equity component, which must be measured separately on the financial statements. The fair value of the liability component is determined using a discounted cash flow model with an estimated market interest rate of equivalent debt without a conversion feature. The Company estimates an appropriate interest rate to use through reviewing market data and performing internal calculations to arrive at an appropriate rate. The residual difference between the proceeds received from issuing convertible debentures and the calculated fair value on the debentures is allocated to the equity component of the convertible debentures.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

Medcolcanna is required to comply with National Instrument 52-109 Certification of Disclosure on Issuers' Annual and Interim Filings ("NI 52-109"). NI 52-109 requires that Medcolcanna disclose in its interim MD&A any material weaknesses in the Company's internal controls over financial reporting and/or any changes in its internal controls

over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, Medcolcanna's internal control over financial reporting. Medcolcanna confirms that no material weaknesses or such changes were identified in the Company's internal controls over financial reporting during the third quarter of 2020.

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 in the early stages of operations 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 and Europe in order to enhance its understanding of and appreciation for the local business culture and practices.

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, Switzerland, and the Netherlands. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices in these countries 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, pandemics, 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 or vape retail locations 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 and Europe, Medcolcanna incurs most of its operating expenses in Colombian pesos,

Euros, and Swiss Francs. 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.

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.

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.