

**Canna-V-Cell Sciences Inc.**  
**(formerly Midnight Star Ventures Corp.)**  
**Management's Discussion and Analysis**  
**For the three months ended July 31, 2019**

## **INTRODUCTION**

The following Management Discussion and Analysis ("MD&A"), prepared as of September 26, 2019 has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's comparatives amounts in this MD&A have been presented in accordance with IFRS. All amounts are stated in U.S dollars in thousands unless otherwise indicated.

The following information should be read in conjunction with the condensed interim financial statements for the three months ended July 31, 2019 and the annual financial statements for the year ended April 30, 2019, and the related notes to those financial statements, all of which are available on the SEDAR website at **www.sedar.com**.

Statements in this report that are not historical facts are forward looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward looking statements.

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute "forward-looking statements". Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below and as detailed under **RISK AND UNCERTAINTIES** in this MD&A.

**CAUTION REGARDING FORWARD-LOOKING STATEMENTS** This MD&A contains certain information that may constitute forward-looking information and forward-looking statements within the meaning of applicable securities laws (collectively, "Forward-Looking Statements"), which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. All information contained herein that is not clearly historical in nature may constitute Forward-Looking Statements. In some cases, Forward-Looking Statements can be identified by the use of forward looking terminology such as "expect", "likely", "may", "will", "should", "intend", "anticipate", "potential", "proposed", "estimate" and other similar words, expressions and phrases, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-Looking Statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of historical fact.

Certain of the Forward-Looking Statements contained herein concerning the cannabis industry are based on estimates prepared by us using data from publicly available governmental sources, market research, industry analysis and on assumptions based on data and knowledge of this industry, which we believe to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While we are not aware of any misstatement regarding any industry or government data or other information presented herein that is based on such data, the cannabis industry involves risks and uncertainties that are subject to change based on various factors.

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**NATURE OF BUSINESS AND OVERVIEW OF OPERATIONS**

Canna-V-Cell Sciences Inc. (formerly Midnight Star Ventures Corp. ("Midnight Star") (the "Company" or "CannaVCell", or collectively with its subsidiaries, the "Group") was incorporated under the Business Corporations Act of British Columbia on April 19, 2013.

The Company is the exclusive cannabis worldwide licensee of the proprietary and patent protected BioHarvest technology. It is the first and only industrial large-scale plant cell growth technology is capable of directly and constantly producing the active plant ingredients without the necessity to grow the plant itself. By adopting this technology and building adequate cells production capacity, the Company's objective is to become the leading supplier of cannabis for both the medicinal and recreational legal use markets.

In October 2018, embarked on a 16 months program to prove the feasibility of applying its unique Biofarming technology to cannabis production. Biofarming cannabis represents a revolution in producing the cannabis active ingredients also known as cannabinoids without growing the plant itself.

On August 26, 2019, the Company announced it has reached a significant milestone of having cannabis trichomes at the suspension phase, which confirms that the progress made to-date towards the completion of the 16 months development program had exceeded expectations.

The Company we will now be able to start diverting more resources towards the manufacturing phase.

On September 26, 2019, the Company announced the first ever production of Cannabis cells in suspension, with a cannabinoid profile identical to that of the source plant - without the need to grow the plant itself.

This represents the successful completion of the development program that commenced in October of 2018 and aimed to prove the feasibility of BioHarvest's previously proven technology for the production of Cannabinoids and other Cannabis derived compounds.

The program was successfully completed four months ahead of schedule. The goals for this development stage have been exceeded, as CannaVcell went one step beyond production in liquid media (or suspension) at lab-scale, where it demonstrated fully grown trichomes, and stably produced Cannabis cells and cannabinoids in a small scale bioreactor.

BioHarvest expects to complete an initial scale-up process, and reach a commercial production capacity of 2 tons/year by year-end 2020. A significantly larger facility is expected to be completed by year-end 2021. The Bioharvest team has successfully developed industrial scale production processes for other (non-Cannabis) plant cells in the past, and has commercially produced and distributed such products.

**Reverse Take Over, Licensing and Service Agreement**

On September 27, 2018, the Company completed a qualifying transaction (the Transaction") with Bio Harvest Ltd. ("BioHarvest"), a company incorporated in Israel, and BioHarvest's 100% wholly owned subsidiary, Dolarin Ltd. ("Dolarin"), a corporation incorporated in the Israel ("Business Combination Agreement"). The Company issued 48,337,496 shares to BioHarvest in consideration for 100% of the issued share capital of Dolarin (1,000,000 shares). As a result of the Transaction, Dolarin became a wholly-owned subsidiary of the Company. Completion of the Transaction resulted in a Reverse Takeover and change of business for the Company (the "RTO"). BioHarvest is the ultimate parent of the Group.

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On April 19, 2018, BioHarvest and Dolarin entered into a license agreement (the License Agreement), which has an effective date of the closing of the Transaction. Pursuant to the license agreement Dolarin acquired certain worldwide, non-transferable, royalty bearing license in perpetuity from BioHarvest for the use of BioHarvest's biotechnology for the production and sale of cannabis products for the medical and recreational markets (the "License").

Dolarin acquired the licenses for the following consideration:

- a) The issuance of 900,000 common shares of Dolarin to BioHarvest.
- b) The payment of \$160 thousand in 16 equal monthly payments of \$10 thousand commencing on the effective date.
- c) The payment to BioHarvest of a milestone payment comprising \$840 thousands upon the commencement of construction of the first manufacturing facility for relevant licensed product.

On April 19, 2018, BioHarvest and Dolarin also entered into a services agreement with an effective date of the closing of the Transaction ("Service Agreement"). Pursuant to the Service Agreement, Dolarin contracted BioHarvest to perform certain limited research, development and commercialization of BioHarvest's technology in the field of cannabis including the equipment, materials, facilities and personnel.

The initial period of the agreement shall be for 16 months, from closing of the transaction at a budgeted cost of US\$1,538,000. Further expenditures may be required if the objectives of the research are not met during the initial period.

### **Financing**

On September 23, 2019 the Company has closed a private placement financing (the "Private Placement Financing") by issuing 6,666,667 units at a price of \$0.15 per unit for gross proceeds of \$1,000,000 (\$985,074 after payment of commissions and finder's fees). The securities issued under the private placement will be subject to a hold period expiring four months and one day from the date of issuance pursuant to applicable Canadian securities laws. Each unit consists of one common share of the Company and one non-transferable share purchase warrant. Each warrant will be exercisable to purchase an additional common share at a price of \$0.30 per share for a period of two years from closing of the Private Placement Financing.

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**SELECTED ANNUAL INFORMATION (US Dollars in Thousands)**

	Note	For the three months ended	
		July 31	
		<u>2019</u>	<u>2018</u>
		<u>(Unaudited)</u>	
<b>Operating expenses</b>			
Research and development	1	\$ 446	
General and administrative		<u>212</u>	<u>-</u>
<b>Total operating expenses</b>		<b>658</b>	<b>-</b>
<b>Loss from operations</b>		<b>(658)</b>	<b>-</b>
Finance income		<u>548</u>	<u>-</u>
<b>Net loss and comprehensive loss</b>		<b>\$ (110)</b>	<b>-</b>
<b>Basic loss per share</b>		<b>(0.00)</b>	<b>-</b>
<b>Weighted Average Number of Shares Outstanding</b>		<b>96,577,013</b>	<b>100,000</b>

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The Company incurred a comprehensive loss of \$110 thousand, for the three months ended July 31, 2019. The primary reasons for this loss is as follows:

1. We incurred expenses of \$446 thousand for the three months ended July 31, 2019 as compared to nil for the three months ended July 31, 2018, in respect of research and development expenses.
2. We incurred expenses of \$212 thousand for the three months ended July 31, 2019 as compared to nil for the three months ended July 31, 2018, in respect of general and administrative expenses.
3. We recorded income of \$548 thousand for the three months ended July 31, 2019 as compared to nil for the three months ended July 31, 2018, in respect of finance expenses. The primary reasons for the income is as a result of a decrease in the value of the warranty liabilities compared to April 30, 2019.

**Summary of Quarterly Results**

The following is a summary of the Company's quarterly results for the period from February 26, 2018 (inception) through to July 31, 2019 (US dollars in thousands, except per share data).

**QUARTER ENDED**

	<b>July 31, 2019</b>	<b>April 30 2019</b>	<b>January 31 2019</b>
Total revenue	\$ -	\$ 0	\$ -
Net loss before income taxes	\$ (110)	\$ (1,439)	\$ (1,177)
Net loss for the period	\$ (110)	\$ (1,439)	\$ (1,177)
Basic loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)

**QUARTER ENDED**

	<b>October 31, 2018</b>	<b>July 31, 2018</b>	<b>April 30 2018</b>
Total revenue	\$ -	\$ -	\$ -
Net loss before income taxes	\$ (2,519)	\$ -	\$ (5)
Net loss for the period	\$ (2,519)	\$ -	\$ (5)
Basic loss per share	\$ (0.07)	\$ -	\$ 0.00

Costs incurred prior to October 31, 2018 relate to the period prior to the Transaction. Costs incurred in the quarter ended October 31, 2018 comprised primarily of expenses relating the Transaction and our license and services agreement with BioHarvest. During the following quarters (April 30, 2019 and July 31, 2019) the costs relate primarily to advancing the license and services agreement with BioHarvest.

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**LIQUIDITY AND CAPITAL RESOURCES**

The Financial Statements have been prepared on a going concern basis whereby the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. The Financial Statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption was not appropriate for the Financial Statements, then adjustments of a material nature would be necessary in the carrying value of assets such as petroleum and natural gas licenses, liabilities, the reported expenses, and the balance sheet classifications used. Management continues to pursue financing opportunities for the Company to ensure that it will have sufficient cash to carry out its planned program beyond the next year.

At July 31, 2019 the Company held cash of \$147 thousand, (April 30, 2019 - \$532 thousand), amounts receivable and prepaid expenses of \$76 thousand (April 30, 2019 - \$336 thousand). At that date the Company had current liabilities of \$40 thousand (April 30, 2019 - \$27 thousand). At July 31, 2019, the Company's working capital was \$183 thousands (April 30, 2019 -\$841 thousand).

During the three months ended July 31, 2019, the Company's overall position of cash and cash equivalents decreased by \$385 thousand. This increase in cash can be attributed to the following:

The Company's net cash used in operating activities during the three months ended July 31, 2019 was \$385 thousand as compared to net cash used of nil for the three months ended July 31, 2018. The amount is primarily due to the commencement of operations following the completion of the Transaction.

Since the Company will not be able to generate cash from its operations in the foreseeable future, the Company will have to rely on the issuance of shares or the exercise of options, warrants and loans to fund ongoing operations and investment. The ability of the Company to raise capital will depend on market conditions and it may not be possible for the Company to issue shares on acceptable terms or at all.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations or arrangements with respect to any obligations under a variable interest equity arrangement.

**TRANSACTIONS WITH RELATED PARTIES**

The Company's key management personnel have the authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer. Compensation earned by key management for period ended July 31, 2019, 2019 was as follows:

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**RELATED PARTY TRANSACTIONS**

<b>For the three months ended July,</b>	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	
<b>Compensation of key management personnel of the Company:</b>		
Management fees for the CEO	10	-
Management fees for the CFO	2	-
Share base payment to CEO	27	-
<b>Other related party transactions:</b>		
Research and development	419	-
<b>Balances with related parties:</b>		
	<b>July 31, 2019</b>	<b>April 30, 2019</b>
Prepayments	60	325
Royalties Commitment	(616)	(590)

**NEWLY ADOPTED ACCOUNTING STANDARDS**

**A. New IFRSs adopted in the period:**

IFRS 16, Leases ("IFRS 16") was issued by the IASB in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. An entity applies IFRS 16 for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company expects the adoption of this standard to have no material impact on the financial statements.

**COMMON SHARE DATA**

As at the date of this MD&A, the Company had the following securities issued and outstanding:

Common Shares	96,577,013
Share options issued and outstanding	10,405,105
Warrants issued and outstanding	20,890,148
<b>Common shares outstanding on a fully diluted basis</b>	<b>127,872,266</b>



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**INVESTOR RELATIONS CONTRACTS**

There are no investor relations contacts outstanding

**CONTRACTUAL OBLIGATIONS**

The Company has no contractual obligations that have not been disclosed

**RISKS AND UNCERTAINTIES**

**Limited Operating History**

The Company is in the early stages of its business activities. As a result, it is difficult to evaluate the Company's prospects, and its future success is more uncertain than if it had a longer or more proven history of operations.

**History of Losses**

The Company has incurred net losses every period since inception and as of July 31, 2019, had an accumulated deficit of \$5,250 thousand.

**No History of Dividends**

Since incorporation, the Company has not paid any cash or other dividends on its common stock and does not expect to pay such dividends in the foreseeable future, as all available funds will be invested primarily to finance its mineral exploration programs. The Company will need to achieve profitability prior to any dividends being declared.

**Dilution**

The Company does not generate any revenues from operating and does not have sufficient financial resources to undertake by itself all of its planned activities. The Company has limited financial resources and has financed its operations primarily through the sale of securities such as common shares. The Company will need to continue its reliance on the sale of such securities for future financing, resulting in dilution to the Company's existing shareholders.

**Capital and Liquidity Risk**

The amount of financial resources available to invest for the enhancement of shareholder value is dependent upon the size of the treasury, profitable operations, and a willingness to utilize debt and issue equity.

Due to the size of the Company, financial resources are limited and if the Company exceeds growth expectations or finds investment opportunities it may require debt or equity financing. There is no assurance that the Company will be able to obtain additional financial resources that may be required to successfully finance transactions or compete in its markets on favourable commercial terms.

**Acquisition and Expansion Risk**

The Company intends to expand its operations through organic growth and depending on certain conditions, by identifying a proposed qualifying transaction. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional properties or businesses.

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**Dependence on Key Personnel**

Loss of certain members of the executive team or key operational leaders of the company could have a disruptive effect on the implementation of the Company's business strategy and the efficient running of day-to-day operations until their replacement is found. Recruiting personnel is time consuming and expensive and the competition for professionals is intense.

The Company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

**MD&A PREPARATION**

This MD&A is intended to assist the reader's understanding of Canna-V-Cell Sciences Inc. (formerly Midnight Star Ventures Corp) and its' operations, business, strategies, performance and future outlook from the perspective of management. The documents mentioned above, as well as news releases and other important information may be viewed through the SEDAR website at [www.SEDAR.com](http://www.SEDAR.com).