

**FINCANNA CAPITAL CORP.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE NINE MONTHS ENDED JANUARY 31, 2021**

## **Date and Note to Reader**

The following management's discussion and analysis ("MD&A"), prepared on March 30, 2021, should be read in conjunction with the audited consolidated financial statements for the year ended April 30, 2020 and the condensed interim consolidated financial statements for the nine months ended January 31, 2021 of FinCanna Capital Corp. ("FinCanna" or the "Company"), and accompanying notes thereto which have been prepared in accordance with International Financial Reporting Standards. All figures are in Canadian dollars unless stated otherwise.

## **Forward-Looking Statements**

Certain statements contained in the following 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.

## **Overview**

FinCanna Capital Corp. ("FinCanna" or the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on November 28, 2016, under the name 1098119 B.C. Ltd., and changed its name to Coachella Cannabis Corp. on the same date, and further to FinCanna Capital Corp. on May 12, 2017. The Company's head office address is at Suite 550 – 800 West Pender Street, Vancouver, BC V6C 2V6 and its registered and records office address is Suite 2500 - 700 West Georgia Street, Vancouver, British Columbia, Canada, V7Y 1B3. The Company's principal business activity has been seeking investment opportunities and making royalty financing investments in the licensed cannabis sector in the United States and managing these investments.

The common shares of FinCanna Capital Corp. are listed on the the Canadian Securities Exchange ("CSE") and began trading on December 29, 2017, under the symbol "CALP". In March 2018, FinCanna also received its listing on the OTCQB and trades under the symbol "FNNZF".

## **Nature of Business**

The Company's mission is to combine extensive investment expertise and industry experience, in funding best-in-class businesses in the U.S licensed cannabis industry with a focus on California.

The Company's vision is to be the capital partner of choice for high growth, rapidly emerging private companies operating in the licensed U.S cannabis industry and it's focused on delivering high impact returns to its shareholders by way of a strategically diversified investment portfolio.

The Company's primary objective in executing on its vision is to form part of a "whole capital" solution for businesses in the licensed cannabis sector. FinCanna seeks to invest in best-in-class businesses and align the business and financial interests of existing owners and operators with those of the Company.

Its capital solution is provided via royalty financing which involves providing capital investment for a percentage of the future revenues of an investee. With its royalty financing the Company seeks to deliver efficient long-term capital to facilitate the growth or other specific objectives of its investees. It also endeavors to provide funds in a timely way to ensure the business opportunity is optimized.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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FinCanna's royalty financing offering is an alternative or complement to debt and/or equity financing. It provides the advantage of allowing investees to maintain financial flexibility and control of their business as opposed to entering into arrangements that may include restrictive debt structures or giving up an ownership stake.

FinCanna is focusing initially on California since it is the fifth largest economy in the world and the largest legal cannabis market in North America. According to Seattle-based cannabis analytics firm Headset, in 2019 the California market saw just under \$3 billion in legal adult-use sales – nearly doubling legal marijuana sales in the state in 2018. In 2020, according to Marijuana Business Daily projections, California's legal adult-use market will grow by approximately 50%, eclipsing \$4 billion in sales. And, by 2023, the legal California market will hit over \$6 billion.

Entering 2021, there are numerous positive signals in the industry maybe most evidenced by a recent report from New Frontier Data, a leading cannabis industry research firm, that estimates total 2020 U.S. legal cannabis sales to exceed \$20 billion, with post-election expansion and existing state markets to combine for a projected compound annual growth rate (CAGR) of 21%, to reach \$41.5 billion by 2025. The California market which is FinCanna's focus represents 20% of the total market suggesting strong growth to \$8.5 billion by 2025.

On a macro level, the US Cannabis industry has also seen some very positive tailwinds. The outcome of the recent U.S. elections can pave the way for very positive ripple effects on the cannabis industry such as decriminalization, the removal of cannabis from Schedule 1 of the Controlled Substances Act and relaxation of banking restrictions, which would pave the way for larger investments into the sector.

## **Highlights & Recent Developments**

For more details on the following highlights, please refer to the news releases available on SEDAR: [www.sedar.com](http://www.sedar.com).

On June 23, 2020, the Company restructured its Royalty Agreement with QVI, Inc. ("QVI"). In exchange for providing an additional US\$1,500,000 FinCanna will receive an increase in the royalty rate to 20% of all revenue. In addition, it will receive a supplemental payment, that when coupled with the royalty, will ensure FinCanna receives a minimum of 70% of QVI's annual after-tax net income. In addition, sales proceeds from any future sale of QVI will be paid 70% to FinCanna and 30% to QVI shareholders.

On June 25, 2020, the Company announced it had received Debenture and Warrant Holder approval to amend the Convertible Debentures and Warrants as follows. The Maturity period for the Debentures and Warrants will be extended for an additional 24 months to January 10, 2023 and February 8, 2023 for the first and second tranches, respectively. The conversion price of the Debenture has also been decreased from \$0.20 to \$0.15.

On July 7, 2020, the Company announced the closing of its convertible debenture financing for \$2.5 million. The subscription price was \$1,000 per Unit. The Debentures will mature on February 8, 2023 and will bear interest at 12% per annum, payable quarterly in cash or, at the option of the Subscriber, in common shares of FinCanna subject to certain conditions. The Debenture is convertible into Common Shares at \$0.15 per share. Subscribers for Debentures received 5,000 common share purchase warrants for each Unit of principal amount of Debenture. Each Warrant entitles the holder to acquire one Common Share of FinCanna for \$0.30 at any time up to the maturity date.

On July 18, 2020, an agreement was executed between the Company and Refined Resin whereby Refined Resin assigned its assets to FinCanna. FinCanna is now in receipt of the assets and will look concurrently for partnership opportunities using them as its investment contribution, or to monetize the assets via a sale to a 3rd party.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

---

On August 31, 2020, the Company announced that it has acquired all the assets and economic interests of Green Compliance. The asset acquisition occurred because of FinCanna and Green Compliance being unable to reach a resolution regarding the restructuring of their royalty agreement. As a result, FinCanna and Green Compliance came to an agreement whereby Green Compliance would assign all of its assets to FinCanna in exchange for FinCanna foregoing its rights to recover its royalty investment from Green Compliance.

During the nine months January 31, 2021, 24,093,564 warrants expired unexercised.

On February 4, 2021, the Company reached an agreement with CTI related to the purchase of manufacturing equipment owned by FinCanna whereby the Company will receive the following: (a) the existing 10% royalty will apply on all revenues generated by CTI, including the additional revenues generated by this new system, with 5% paid in cash every month and 5% deferred until certain triggering events; and (b) an additional 10% royalty on all revenues generated by this new system, paid every month, until such time that CTI pays a total of US\$947,000 for total amounts owing to FinCanna plus future accrued interest during this repayment period.

On February 9, 2021, \$100,000 convertible debentures were converted to 666,666 common shares at \$0.15 per share.

On February 19, 2021, the Company announced its intention to raise \$1,500,000, by way of a non-brokered private placement of 12,000,000 units at a price of \$0.125 per unit. Each unit will consist of one common share of FinCanna and one-half of one common share purchase warrant. Each full warrant will be exercisable to acquire one common share of FinCanna at an exercise price of \$0.18 for 24 months from the date of the closing of the private placement. The Company's management team will subscribe for \$750,000 of this private placement.

On March 11, 2021, the Company announced that it has closed the private placement announced on February 19, 2021 and February 23, 2021. The Company has issued 17,279,648 units at a price of \$0.125 per unit for gross proceeds of \$2,159,956.

## **Royalty Investments**

### **QVI, Inc.**

QVI, Inc. ("QVI"), doing business as The Galley, is strategically located in Santa Rosa, California, between the famed Emerald Triangle and the greater San Francisco Bay Area. The Galley is an 8,300 square foot co-manufacturing facility that includes dedicated spaces for its large-scale commercial kitchen for baked goods, chocolate products and a hard candy and gummy line and a designated area for manufacturing additional products including topicals and tinctures, vapes, pre-rolls, flower assembly and packaging services.

The Galley is a state-of-the-art, fully automated food production facility unparalleled in the region designed to meet the highest Food and Drug Administration and California Dept. of Public Health standards. Focused on high demand areas of production – Edibles, Topicals, Tinctures, Chocolate, Hard Candies and Gummies., The Galley is differentiated from its peers by its automated capabilities to produce virtually all high value cannabis products under one roof. This one stop production expertise is attractive to top tier in-state and out-of-state brands. The premium equipment and operational design also allows The Galley to rapidly scale production as demand escalates.

In January 2019, the Company announced that it had signed a Royalty Agreement with QVI. According to the Royalty Agreement, FinCanna would fund US\$3,000,000 in tranches (fully funded), subject to certain milestones being met. In return FinCanna would receive a tiered corporate royalty, adjusted based on revenues levels, ranging from 15% to 6% of QVI's total revenues, with the top royalty rate of 15% on the first US\$20,000,000 of annual sales until cumulative royalties to FinCanna of US\$10,000,000.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

---

On April 15, 2020, the Company announced that QVI had completed the construction build out of its 8,300 square foot manufacturing facility. It also received its Manufacturing License Type N, from the California Department of Public Health, Office of Manufactured Cannabis Safety.

On April 23, 2020, the Company announced that QVI was issued its Distribution Type 11 license by the California Bureau of Cannabis Control.

Subsequent to the receipt of its City Of Santa Rosa “Occupancy Permit” in early June 2020, and the completion of full commissioning of its manufacturing equipment, QVI commenced commercial operations later in June 2020.

On June 23, 2020, the Company announced it had restructured its Royalty Agreement with QVI. Under this Royalty Agreement, FinCanna will provide an additional US\$1,500,000 to QVI. The Royalty rate will increase to a flat rate of 20% of QVI’s revenues, paid in cash monthly. In addition, QVI will also be required to make a Supplemental Payment annually, which when coupled with the royalty, will now ensure FinCanna receives a minimum of 70% of QVI’s annual after-tax net income. Sale Proceeds from any future sale of QVI will now be paid 70% to FinCanna and 30% to QVI shareholders. During the period ended January 31, 2021 FinCanna advanced \$2,272,186 (US\$1,650,000) to QVI.

On February 10, 2021, the Company announced growing demand for manufacturing services fully operational since July 2020. The company is experiencing accelerating demand for its services from a growing roster of over 30 in-state and out-of-state highly regarded consumer brands and is also experiencing a steady increase in re-orders from existing clients that is establishing an increasing base of recurring monthly revenues. The Galley’s operational design also positions the business to rapidly scale production as demand escalates towards its annual operating capacity of approximately US\$45 million.

**Cultivation Technologies Inc.**

Cultivation Technologies Inc. (“CTI”) is a multifaceted manufacturing and distribution company that provides state licensed, high quality concentrates for white label manufacturing, toll processing and packaging to hand-selected brands and cultivators in California. Doing business as Coachella Manufacturing, CTI is unique in its ability to develop proprietary processes that create new products that are being recognized as superior by the industry and consumers.

In September 2017, CTI began operations in Coachella, California with one of the state’s first permitted solvent extraction facilities for medical cannabis. The lab was established as an interim facility in accordance with CTI’s conditional land use permit in Coachella.

In March 2020, CTI completed its relocation and commenced operations at its new 5,200 sq. ft. state-of-the-art facility in Palm Desert CA. that has an estimated annual capacity of approximately US\$35 million. The facility has premium manufacturing and processing equipment deployed throughout, including high performance sub-zero freezer storage for up to 10,000 lbs of biomass, which serves to preserve the integrity of cannabis in the creation of the highest quality shatter, wax, crumble, sauce diamonds and terpenes.

CTI utilizes a BHO (butane hash oil) extraction method that allows for rapid and efficient extraction of cannabinoids. Over the past two years, it has built a reputation for having the ability to deliver quality products and is providing its products to numerous brands across the state, having won numerous awards and first place finishes from industry leading competitions including the prestigious Emerald Cup, High Times, Kushstock Festival and Weedcon Wonderland.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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On February 12, 2020 FinCanna signed a new royalty agreement with CTI (converting outstanding loans into a royalty investment) whereby effective January 1, 2020 FinCanna will be entitled to receive 10% of CTI's top line revenue in perpetuity, subject to certain buyback options, of which 5% is paid in cash monthly and 5% is deferred. The accrued deferred payment will be paid out upon certain triggering events, including a change of control, an initial public offering ("IPO") or certain other specified events of CTI. Additionally, FinCanna will be entitled to receive 25% to 50% of the gross sales proceeds of any change of control transaction of CTI with the final percentage to be determined according to certain predetermined parameters.

Also on February 12, 2020, FinCanna provided CTI with a bridge loan of US\$250,000 for a term of 6 months bearing an interest rate of 12% per annum and FinCanna will receive 5-year warrants to acquire 5% of CTI's fully-diluted capital at the time of exercise for US\$250,000. The purpose of the bridge loan was to support CTI in relocating its operations from the interim site in Coachella CA to its new permanent facility in Palm Desert CA. During the period ended July 31, 2020 FinCanna agreed to extend the loan maturity to February 29, 2021 and as consideration FinCanna received additional 5-year warrants to acquire 2% of CTI's fully diluted capital for no additional consideration. Currently, FinCanna and CTI are discussing the potential extension of the loan.

On February 4, 2021, the Company sold a portion of its unutilized extraction equipment to Cultivation Technologies Inc for an increased royalty stream. This state-of-the-art extraction system provides the flexibility to select either butane, propane, or ethanol manufacturing methods and delivers faster throughput, expanding CTI's potential to increase its volume of award-winning higher margin butane-based products as well as the ability to add lower cost, higher velocity and higher volume ethanol-based and propane-based offerings to its product mix.

FinCanna will receive the following: (a) the existing 10% royalty will apply on all revenues generated by CTI, including the additional revenues generated by this new system, with 5% paid in cash every month and 5% deferred until certain triggering events; and (b) an additional 10% royalty on all revenues generated by this new system, paid every month, until such time that CTI pays a total of US\$947,000 for total amounts owing to FinCanna plus future accrued interest during this repayment period.

### **Green Compliance**

Green Compliance LLC ("Green Compliance"), headquartered in Fort Lauderdale, Florida, offers a state-of-the-art enterprise compliance and point-of-sale software solution ("ezGreen") specifically designed for licensed cannabis dispensaries and licensed retailers. Green Compliance helps its customers comply with both the Health Insurance Portability and Accountability Act ("HIPAA") and State Laws by ensuring the confidential data of medical patients or recreational customers is being handled properly, helping to protect Green Compliances customers from possible security breaches and financial and criminal liability resulting from potential violations. Its proprietary Business Intelligence Dashboard substantially reduces the time and costs associated with managing product information and client data, in a fully compliant state-by-state environment.

Green Compliance developed its software (ezGreen) with Automated Healthcare Solutions ("AHCS"). AHCS is a leading point of care tracking and dispensing software solution in the U.S. pharmaceutical industry. By delivering a proven HIPAA compliant solution, AHCS supports thousands of active physician-owned dispensaries that dispense medication onsite and has tracked, monitored, reported, and protected patient information for the past 18+ years across thousands of physician practices, while maintaining HIPAA compliance and following Health and Human Services protocols in the United States. In December 2019 Green Compliance acquired the IP (intellectual property) associated with the ezGreen software from AHCS.

The target market for Green Compliance is every licensed operating dispensary and licensed retailer in the states that have passed laws legalizing cannabis - currently 36 states and Washington D.C. (District of Columbia). Green Compliance is currently focusing its marketing efforts on states that employ the METRC track and trace reporting

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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system, with a particular focus on California, home to approximately 600 licensed dispensaries and Maryland with over 100. Currently 14 states plus D.C. mandate the use of the METRC track and trace reporting system (Alaska, California, Colorado, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nevada, Ohio, Oklahoma, Oregon and Washington DC), with a combined total market of over 3,500 dispensaries. ezGreen is now fully integrated in all 13 METRC states plus Washington D.C.

In February 2018, FinCanna entered into a royalty agreement with Green Compliance. Under the royalty agreement, FinCanna will fund US\$3,000,000 in tranches (US\$1,750,000 funded to date). In return, FinCanna will receive a perpetual royalty equal to 10% of consolidated gross revenues of Green Compliance, subject to certain buy-back options.

During the period ended July 31, 2020, the Company provided Green Compliance with notice that it was in default of the royalty agreement. Subsequently on August 27, 2020, Green Compliance and FinCanna came to an agreement whereby Green Compliance would assign all of its assets to FinCanna in exchange for FinCanna foregoing its rights to recover its royalty investment from Green Compliance. The business remains a going concern and the Company expects there will be minimal interruption in the business as a result of it taking control of the assets.

On October 26, 2020, the Company incorporated FCC Ventures, Inc. (“FCC Ventures”), a wholly owned subsidiary, which now owns the software assets (“ezGreen”) that the Company is continuing to develop.

On Feb. 17, 2021 the Company provided a product and new feature update stating that it has launched an all-in-one bundled solution, fully integrated with Metrc, in conjunction with industry leaders, Cannveya, Llc and CannCurrent, Llc. that gives dispensary owners a robust, scalable home delivery solution for both in store fulfillment and dynamic delivery options including options with flexibility to integrate with any third-party software in a single, intuitive interface.

Green Compliance is currently focused on expanding its presence in California and Maryland and other states where it has established strong relationships with select dispensaries and leading distributors. ezGreen ultimately intends to expand to all legal states that have legalized cannabis.

**Refined Resin Technologies Inc.**

Refined Resin Technologies Inc. (“Refined Resin”) (formerly known as Gram Co Holdings LLC), has a cannabinoid research and refinement company focused on the licensed cannabis industry to provide B2B products and services to licensed medical dispensaries, infused product manufacturers and other businesses in the cannabis supply chain.

Refined Resin had leased a facility in Oakland, California in which they had planned to retrofit and operate a large, state-of-the-art licensed cannabis extraction laboratory to produce bulk quantities of THC distillate and various concentrates as part of a white label service for licensed brands and infused product manufacturers.

In July 2018, the Company executed a Royalty Agreement with Refined Resin. FinCanna was to fund US\$3,000,000 in tranches to complete the original Royalty Agreement transaction that was previously announced under a binding term sheet in February 2018. In return, FinCanna was to receive a tiered corporate royalty, ranging from 14% to 5.0% of Refined Resin’s annual revenues, based upon agreed upon benchmarks. FinCanna completed the final tranche of funding in December of 2018.

During the year ended April 30, 2020, it became apparent that Refined Resin would not become operational. Accordingly, the company wrote down the investment in Refined Resin to the amount of \$1,227,635 (US\$882,555) comprised of recently purchased equipment and a deposit with an equipment manufacturer.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

On July 18, 2020, an agreement was executed between the Company and Refined Resin whereby Refined Resin assigned its assets to FinCanna. FinCanna is now in receipt of the assets and will look concurrently for partnership opportunities using them as its investment contribution, or to monetize the assets via a sale to a 3rd party.

The value of this asset is approximately USD \$850,000 comprised of brand new, large scale extraction and distillation equipment that is in secure storage in California. The Company continues talks with several parties to monetize this asset by way of a direct sale, a business investment, a royalty agreement or a combination of these.

On February 4, 2021, the Company sold a portion of its unutilized extraction equipment to CTI for an increased royalty stream. Details of the transaction can be seen in the CTI section above.

### **Selected Annual Information**

The following table summarizes selected financial data for the three recent fiscal years, ended April 30, 2020, 2019 and 2018, and should be read in conjunction with such financial statements, prepared in accordance with International Financial Reporting Standards (“IFRS”) and the related notes thereon:

	Year ended April 30, 2020	Year ended April 30, 2019	Year ended April 30, 2018
Revenues	\$ 776,650	\$ 1,882,687	\$ 838,148
Income (loss) and comprehensive income (loss)	\$ (11,684,382)	\$ 210,179	\$ (12,695,539)
Basic and diluted income (loss) per common share	\$ (0.12)	\$ 0.00	\$ (0.31)
Total assets	\$ 13,362,180	\$ 24,409,269	\$ 13,132,730

### **Summary of Quarterly Results**

The following table summarizes selected financial data reported by the Company for the nine months ended January 31, 2021 and the previous seven quarters.

Quarter Ended	Revenues	Income (Loss) for the period	Income (Loss) per share	Weighted average outstanding shares
January 31, 2021	\$ 69,895	\$ (852,053)	\$ (0.01)	100,289,734
October 31, 2020	\$ 66,949	\$ (664,092)	\$ (0.01)	100,289,734
July 31, 2020	\$ 54,563	\$ (442,806)	\$ (0.004)	100,289,734
Apr 30, 2020	\$ (46,052)	\$ (6,837,968)	\$ (0.07)	99,750,408
Jan 31, 2020	\$ 244,725	\$ (3,592,221)	\$ (0.04)	99,289,734
Oct 31, 2019	\$ 288,448	\$ (574,188)	\$ (0.01)	99,026,813
July 31, 2019	\$ 289,529	\$ (680,005)	\$ (0.01)	98,689,734
Apr 30, 2019	\$ 475,919	\$ (202,295)	\$ (0.002)	98,624,529



## **Results of Operations**

### **For the nine months ended January 31, 2021 and 2020**

During the nine months ended January 31, 2021, the Company's net loss was \$1,958,951 (2020 - \$4,846,414).

The main contributors to the net loss for the nine months ended January 31, 2021 were interest expense, management and director fees, consulting fees, professional fees, marketing and investor relation fees, and other expenses as follows:

#### *Revenue:*

- Royalty revenue was \$151,190 (2020 – \$54,924) related to the corporate royalties earned from QVI and CTI.
- Accrued interest income was \$30,060 (2020 – \$767,778) pursuant to the Loan agreement with CTI.
- Transaction fees revenue was \$10,157 (2020 – \$nil) related to the fees earned from using a software in dispensing licensed cannabis.

#### *Expenses:*

- Interest expense was \$705,584 (2020 – \$643,314).
- Management and director fees was \$416,250 (2020 – \$416,250).
- Marketing and investor relations was \$428,251 (2020 – \$368,794). The increase was due to higher activities related to advertising and marketing campaign.
- Consulting fees was \$266,096 (2020 – \$392,003). The decrease was due to reduced levels of corporate activities.
- Professional fees was \$148,680 (2020 – \$109,203). The increase was due to legal fees incurred related to the convertible debentures.

#### *Other expenses:*

- Impairment loss was \$nil (2020 – \$3,081,260) as there are no indicators of impairment in any of the Company's royalty investments.

### **For the three months ended January 31, 2021 and 2020**

During the three months ended January 31, 2021, the Company's net loss was \$852,053 (2020 - \$3,592,221).

The main contributors to the net loss for the three months ended January 31, 2021 were interest expense, management and director fees, consulting fees, professional fees, marketing and investor relation fees, and other expenses as follows:

#### *Revenue:*

- Royalty revenue was \$50,011 (2020 – \$54,924) related to the corporate royalties earned from QVI and CTI.
- Accrued interest income was \$9,727 (2020 – \$189,801) pursuant to the Loan agreement with CTI.
- Transaction fees revenue was \$10,157 (2020 – \$nil) related to the fees earned from using a software in dispensing licensed cannabis.

#### *Expenses:*

- Interest expense was \$284,656 (2020 – \$216,781). The increase was due to interest expense related to the issuance of third tranche of convertible debenture.
- Management and director fees was \$138,750 (2020 – \$138,750).

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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- Professional fees was \$14,113 (2020 – \$74,905). The decrease was due to reduced legal consultation.
- Consulting fees was \$100,371 (2020 – \$139,052). The decrease was due to reduced levels of corporate activities.
- Marketing and investor relations was \$295,361 (2020 – \$29,523). The significant increase was due to higher activities related to advertising and marketing campaign.

*Other expenses:*

- Impairment loss was \$nil (2020 – \$3,081,260) as there are no indicators of impairment in any of the Company’s royalty investments.

## **Liquidity and Capital Resources**

The Company’s main sources of liquidity in the near term are proceeds from equity financings. The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

FinCanna’s ability to adequately track and legally transfer funds received from the sale of cannabis and cannabis related products may be significantly limited, see “*Overall Performance – Involvement in the U.S. Marijuana Industry.*”

The Company has enough capital to meet its working capital requirements for the next 12 months. However, the Company may require additional debt or equity financing to complete its funding rights in connection with its royalty agreements and facilitate the repayment of the convertible debentures maturing in January and February of 2023 if they are not converted prior to maturity.

The Company currently does not have any capital commitments.

### **Working Capital**

At January 31, 2021, the Company had positive working capital of \$220,283 (April 30, 2020 – working capital deficit of \$1,215,705).

### **Cash**

At January 31, 2021, the Company had cash of \$620,615 (April 30, 2020 - \$2,646,607).

### **Cash used in operating activities**

The Company used \$1,280,790 (2020 - \$1,521,961) for its operating activities during the nine months ended January 31, 2021. For details on the Company’s operating cash activities, refer to the Statements of Cash Flow in the condensed interim consolidated financial statements for the nine months ended January 31, 2021.

### **Cash used in investing activities**

The Company used \$2,512,526 (2020 - \$2,663,933) for its investing activities during the nine months ended January 31, 2021.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

**Cash generated in financing activities**

The Company generated \$1,767,324 (2020 - used \$80,162) for its financing activities during the nine months ended January 31, 2021, which represent issuance of third tranche of the convertible debt.

**LEASE RECEIVABLE, RIGHT-OF-USE ASSET AND LEASE LIABILITIES**

**a) Right-of-use asset**

	<b>January 31, 2021</b>	<b>April 30, 2020</b>
<b>Cost</b>		
Opening balance	\$ -	\$ -
Initial adoption of IFRS 16	-	197,210
De-recognition on sublease	-	(197,210)
<b>Ending balance</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Accumulated Amortization</b>		
Opening balance	\$ -	\$ -
Additions	-	(28,760)
De-recognition on sublease	-	28,760
<b>Ending balance</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net book value</b>	<b>\$ -</b>	<b>\$ -</b>

The right-of-use asset relates entirely to the Company's office space. During the year ended April 30, 2020, the Company subleased its office space and derecognized the right-of-use asset with a net book value of \$168,450. In connection with the sublease, the Company recorded a lease receivable of \$176,721 and a gain on sublease of \$8,271.

**b) Lease liability**

	<b>January 31, 2021</b>	<b>April 30, 2020</b>
Opening balance	\$ 160,956	\$ -
Initial adoption of IFRS 16	-	197,210
Interest expense	16,519	27,156
Lease payments	(48,956)	(63,410)
<b>Ending balance</b>	<b>\$ 128,519</b>	<b>\$ 160,956</b>
Current lease liability	50,766	44,080
Non-Current lease liability	\$ 77,753	\$ 116,876

The Company used 15% interest rate, its incremental borrowing rate to calculate the present value of the lease payments as well as to calculate the monthly accretion expense.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

Future minimum payments per the lease payable are as follows:

Fiscal 2021	\$	16,319
Fiscal 2022		67,140
Fiscal 2023		69,005
Total future minimum lease payments		152,464
Effects of discounting		(23,945)
Total lease liability		128,519
Current lease liability		(50,766)
Non-Current lease liability	\$	77,753

**c) Lease receivable**

	<b>January 31, 2021</b>	<b>April 30, 2020</b>
Opening balance	\$ 160,957	\$ -
Additions	-	176,721
Interest expense	16,519	10,656
Lease payments	(48,956)	(26,420)
<b>Ending balance</b>	<b>\$ 128,520</b>	<b>\$ 160,957</b>
Current lease receivable	50,766	44,080
Non-Current lease receivable	\$ 77,754	\$ 116,877

The Company used 15% interest rate, its incremental borrowing rate to calculate the present value of the lease payments as well as to calculate the monthly accretion expense.

Future minimum payments per the lease payable are as follows:

Fiscal 2021	\$	16,319
Fiscal 2022		67,140
Fiscal 2023		69,005
Total future minimum lease payments		152,464
Effects of discounting		(23,944)
Total lease receivable		128,520
Current lease receivable		(50,766)
Non-Current lease receivable	\$	77,754

During the nine months ended January 31, 2021, the Company did not incur any expenses with respect to short term or low value leases.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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## **Transactions with Related Parties**

Key management include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management consist of executive and non-executive members of the Company's Board of Directors and corporate officers and/or companies controlled by those individuals. Remuneration attributed to key management during the nine months ended January 31, 2021 and 2020, can be summarized as follows:

	<b>Nine months ended January 31, 2021</b>	<b>Nine months ended January 31, 2020</b>
Management fees	\$ 337,500	\$ 337,500
Director fees	78,750	78,750
Share-based payments – stock options	-	12,989
Share-based payments – limited recourse loans <sup>(1)</sup>	-	152,000
	<b>\$ 416,250</b>	<b>\$ 581,239</b>

(1) In June 2018, the Company issued 1,500,000 common shares at \$0.30 per share for a total fair value of \$450,000, to certain officers of the Company pursuant to limited recourse shareholder loans. The common shares vested 40% immediately, with the remainder vesting evenly on December 29, 2018, June 29, 2019, and December 29, 2019. \$152,000 represents the total amount of share-based payments vested during the nine months ended January 31, 2020.

### **Other related party transactions**

During the nine months ended January 31, 2021, the Company incurred a total of \$124,223 (2019 - \$145,715) in consulting (including accounting, corporate compliance and administration fees), office, and other expenses from a company owned by a close family member of the CFO. As at January 31, 2021, the balance payable to related party was \$933 (2020 - \$nil) and is included in accounts payable and accrued liabilities.

### **Due to/from related parties**

As at January 31, 2021, \$78,750 (April 30, 2020 - \$105,000) was owed to directors of the Company for director fees. This amount is included in accounts payable and accrued liabilities. Amounts due to related parties are unsecured, have no fixed repayments and are non-interest bearing. During the nine months ended January 31, 2021, there were \$1,050,000 (2020 - \$550,000) face value of convertible debentures held by key management.

During the nine months ended January 31, 2021, the management and directors of the Company earned interest income of \$100,719 (2019 - \$56,733) with respect to the convertible debentures.

## **Proposed transactions**

As of the date of this report, there are no proposed transactions.

## **Accounting Matters**

The accounting policies in these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended April 30, 2020.

## **Key sources of estimation uncertainty**

### **Share-based payments**

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

## **Financial Instruments**

### **Fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair values of cash, subscriptions receivable, accounts receivable, accounts payable and accrued liabilities, convertible debt, right-of-use asset and lease liability approximate their carrying values. The carrying value of the loan, loan receivable, convertible debt, right-of-use asset, and lease liability also approximates its fair value as these instruments bear a market rate of interest.

### **Financial risk factors**

The Company's risk exposures and the impact on the Company's financial statements are summarized below.

### **Credit risk**

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash, subscriptions receivable, accounts receivable, loans receivable, and loan. The Company limits its exposure to credit loss by placing its cash with major financial institutions. The Company believes its credit risk with respect to the goods and services tax (GST) receivable portion of its accounts receivable is minimal. However, there is a greater risk that the recoverable portions of the Company's loan to CTI may be different from that of their carrying values. The Company's credit risk exposure, with respect to the loan are equal to its carrying value. Repayments of the loan is dependent on CTI reaching targeted revenue generating activities, and the ability of the Company to receive funds from such activities in the United States which is currently limited due to Federal Banking restrictions in the United States.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2021, the Company had a working capital balance of \$220,283.

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and price risk.

a) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institution is subject to floating rates of interest. The interest rate risk on cash is not considered significant. The interest rate earned on the loan is fixed, as such the Company is not exposed to significant interest rate risk.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, Investment in Profit Sharing Arrangement, and loan, and accounts payable and accrued liabilities, denominated in United States dollars. A 10% fluctuation between the Canadian dollar against the United States dollar would impact profit or loss by approximately \$41,000.

c) Price risk

The Company has limited exposure to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

**Environmental risk**

In March 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on FinCanna as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or maybe put, in place by Canada and other countries to fight the virus.

**Risk Factors**

Investing in the common shares of the Company involves risk. Prospective investors should carefully consider the risks described below, together with all of the other information included in this MD&A before making an investment decision. If any of the following risks actually occurs, the business, financial condition or results of operations of the Company could be harmed. In such an event, the trading price of the common shares could decline, and prospective investors may lose part or all of their investment.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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*Regulatory Risks*

While marijuana is legal in many US state jurisdictions, it continues to be a controlled substance under the United States Federal Controlled Substances Act.

The companies in which the FinCanna has and will continue to invest are directly or indirectly engaged in the medical cannabis industry in Canada and the United States where, although local state law permits such activities, cannabis is federally illegal.

The Company's ability to recruit and retain management, skilled labor and suppliers is crucial to the Company's success.

*Limited Operating History and Competition*

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company.

The Company was incorporated on November 28, 2016 and has not commenced commercial operations. The Company has neither a history of earnings nor has it paid any dividends and it is unlikely to produce earnings or pay dividends in the immediate or foreseeable future.

*Banking and Financial Transactions*

The federal illegality of marijuana in the U.S. means that financial transactions involving proceeds generated by marijuana-related conduct can form the basis for prosecution under the money laundering statutes, the unlicensed money transmitter statute and the Bank Secrecy Act.

Third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities.

The Company's ability to repatriate returns generated from investments in the U.S. may be limited by anti-money laundering laws.

*Risks Inherent in FinCanna's Business*

Although the Company's business plan contemplates further investment in additional entities operating within the cannabis sector, the Company currently relies on the performance of a single investee.

Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

The Company has a history of net losses, may incur significant net losses in the future and may not achieve or maintain profitability.

The Canadian Depository for Securities Limited ("CDS") may be considering a policy change with respect to issuers with U.S. cannabis assets. A policy change, if implemented, could affect the Company's current operations and/or disqualify its ability to settle its securities with CDS.



**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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*Additional Financing*

Companies in which the Company has or will invest may require additional sources of financing other than from the Company. Financing for companies in the cannabis sector is more difficult than other sectors, particularly in the United States, due to the fact that cannabis is still classified as a Schedule I drug and illegal at a federal level. The changing regulatory environment at a state level further complicates financing for companies in this sector and as such there is no guarantee that investee companies will be able to obtain adequate financing to carry out their business objectives.

*Change in Laws, Regulations and Guidelines*

The current and proposed operations of the companies in which the Company have or will invest are subject to a variety of laws, regulations and guidelines that are broad in scope and subject to evolving interpretations, which could require the Company to incur substantial costs associated with compliance or alter certain aspects of its business plan.

Violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a Material Adverse Effect on certain aspects of its planned operations.

*Unfavorable Publicity or Consumer Perception*

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of 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 favorable to the medical cannabis market or any particular product, or consistent with earlier publicity.

*Currency Fluctuations*

The Company's revenues and expenses are expected to be primarily denominated in US dollars, and therefore may be exposed to significant currency exchange fluctuations.

*Research and Market Development*

Although the Company, itself and through its investments, is committed to researching and developing new markets and products and improving existing products, there can be no assurances that such research and market development activities will prove profitable or that the resulting markets and/or products, if any, will be commercially viable or successfully produced and marketed.

*Reliance on Management*

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. Any loss of the services of such individuals could have a Material Adverse Effect on the Company's business, operating results or financial condition.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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*Operation Permits and Authorizations*

The companies in which the Company has or will invest in may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses.

*Liability, Enforcement, Complaints etc.*

The Company, its subsidiaries, or other interests may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business.

The Company's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against these subsidiaries.

*Resale of Shares*

There can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company.

There can be no assurance that the publicly traded price of the Company's shares will be high enough to create a positive return for investors.

*Price Volatility of Publicly Traded Securities*

The market price for the common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control.

*Dividends*

The Company has not paid dividends in the past, and the Company does not anticipate paying any dividends in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

*Intellectual Property*

The success of the Company will depend, in part, on the ability of the companies in which the Company invests in to maintain and enhance trade secret protection over various existing and potential proprietary techniques and processes.

*Insurance Coverage*

The Company will require insurance coverage for a number of risks and there can be no assurance that the amount of coverage will be available or sufficient to cover claims to which the Company may become subject.

*Costs of Maintaining a Public Listing*

As a public company, there are costs associated with legal, accounting and other expenses related to regulatory compliance.

**FinCanna Capital Corp.**  
**Management Discussion and Analysis**  
**For the Nine Months Ended January 31, 2021**

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*Litigation*

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business.

*Operational Risks*

The Company and the companies in which it invests may be affected by a number of operational risks and may not be adequately insured for certain risks, including: labor disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements.

*Potential Conflicts*

Certain Directors and Officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

## **Outstanding Share Data**

The following table sets forth the Company's outstanding share data:

	<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Issued and outstanding common shares	118,236,048		
Stock options	2,250,000	\$ 0.30	July 6, 2022
	3,350,000	\$ 0.50	December 27, 2022
	450,000	\$ 0.30	August 29, 2023
	150,000	\$ 0.30	September 21, 2023
	400,000	\$ 0.25	April 30, 2024
	250,000	\$ 0.25	September 19, 2024
Warrants	11,875,000	\$0.30	January 10, 2023
	12,050,000	\$0.30	February 8, 2023
	12,500,000	\$0.30	February 8, 2023
	8,639,824	\$0.18	March 11, 2023
Shares issuable upon conversion of Debenture	14,500,000	\$0.15	January 10, 2023
	14,600,001	\$0.15	February 8, 2023
	16,666,667	\$0.15	February 8, 2023
Fully diluted at March 30, 2021	215,917,540		

## **APPROVAL**

The Board of Directors of FinCanna has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

## **ADDITIONAL INFORMATION**

Additional information related to FinCanna Capital Corp. is on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website <https://fincannacapital.com/>.