

**PharmaCan Capital Corp.**  
**(formerly Searchtech Ventures Inc.)**

**Management's Discussion & Analysis**

For the Year Ended December 31, 2014

## Introduction

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This Management Discussion and Analysis ("MD&A") provides relevant information on the consolidated results of operations and financial condition of PharmaCan Capital Corp. (the "Company") for the year ended December 31, 2014. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014.

This discussion contains forward looking information that is qualified by reference to, and should be read in conjunction with the Caution Regarding Forward Looking Statements below.

This MD&A provides information that the management of the Company believes is important to assess and understand the consolidated results of operations and financial condition of the Company. Our objective is to present readers with a view of the Company from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. All monetary amounts herein are expressed in Canadian dollars unless otherwise specified.

This MD&A is current as of April 30, 2015.

The Company's consolidated audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information relating to the Company can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Caution Regarding Forward-Looking Statements

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Certain information in this MD&A contains or incorporates comments that constitute "forward-looking" statements within the meaning of applicable securities legislation. Forward-looking statements are not historical facts and involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "**Risk and Uncertainties**".

Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "continue", "anticipates" or "does not anticipate", or "believes" or variation of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". All forward looking statements are based on our beliefs and assumptions based on information available at the time the assumption was made. While the Company considers its assumptions to be reasonable and appropriate based on the current information available, there is a risk that they may not be accurate.

All forward-looking information is provided as of the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

## **Overall Performance**

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The Company's efforts have been focused on identifying prospective investees, entering into investment agreements with investees (and related and collateral agreements) and raising funds to make investments in investees.

During the year ended December 31, 2014 the Company's level of activity significantly increased over the year ended December 31, 2013. This is attributable to management's efforts and the increased development and acceptance of the medical cannabis business in Canada.

During the year ended December 31, 2014, the Company raised \$11,502,000 (before issuance costs of \$1,521,409 and a share repurchase of \$122,500) (2013 - \$1,407,656 ) and invested \$6,181,980 (2013 - \$1,407,111) in licensed medical marihuana producers and distributors and entities seeking licenses, made loans of \$1,339,750 (before repayments of \$650,000) to investees and made deposits on investment acquisitions of \$25,000. Of these investments, \$1,321,730 was paid to acquire all issued and outstanding shares of In The Zone Produce Ltd. ("In the Zone"). See section entitled "**Acquisition of In The Zone**".

During the year the Company incurred \$1,113,904 of capital expenditures, the majority of which related to land and building structures in a property in British Columbia, used in the production of medical marihuana.

## **Business of the Company**

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### Company Overview

PharmaCan Capital Corp. was incorporated under the Business Corporations Act (Ontario) on August 21, 2012 as 2339498 Ontario Inc., changed its name on October 18, 2012 to Searchtech Ventures Inc. and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange. During the year, the shareholders of Hortican Inc. ("Hortican") completed a reverse takeover of PharmaCan Capital Corp. (formerly Searchtech Ventures Inc.) For purposes of accounting for the Transaction, Hortican is considered the acquirer, and thus, the consolidated financial statements are a continuation of the financial statements of Hortican. See section entitled "**Reverse Acquisition**".

The Company is in the business of investing in companies either licensed, or actively seeking a license, to produce medical marihuana pursuant to the Marihuana for Medical Purposes Regulations ("MMPR"). The Company is also in the business of producing medical marihuana in accordance with the regulations of the MMPR through its wholly-owned subsidiary, In the Zone. The MMPR came into force in October 2013. The Company has made investments in several companies that are either licensed or in the process of seeking a license (collectively, the "Company Investees"). In the case of the Company Investees that have not yet acquired a license, additional investment is conditional upon receipt of an MMPR license being obtained.

## Marihuana for Medical Purposes

MMPR came into force as the Government of Canada was concerned that the predecessor regime Marihuana Medical Access Regulations (“MMAR”) was open to abuse. The MMPR regulations aim to treat marihuana like any other narcotic used for medical purposes by creating conditions for a new, commercial industry that is responsible for its production and distribution. MMPR will provide access to quality-controlled marihuana for medical purposes, produced under secure and sanitary conditions, to those Canadians who need it, while strengthening the safety of Canadian communities. In addition, MMPR also provides more choices of marihuana strains and commercial suppliers.

Health Canada estimates that within a decade, the medical marihuana marketplace will grow to at least 400,000 registered patients, generating annual sales of approximately \$1.3 billion. As of April 30, 2015, seventeen companies are listed on the Health Canada website as fully licensed to produce and sell medical marihuana, with an additional seven companies licensed for cultivation only.

## Investments

The Company has invested in and made loans to:

- (a) *The Peace Naturals Project Inc. (“Peace”)* (\$1,167,110 equity, and \$50,000 loans receivable outstanding as of the year end). Peace is a corporation incorporated under the laws of Canada. Peace is a licensed producer and seller of medical marihuana with operations in Ontario.
- (b) *Whistler Medical Marijuana Corporation (“Whistler”)* (\$2,607,910 equity). Whistler is a corporation incorporated under the laws of British Columbia, and is a licensed producer and seller of medical marihuana with operations in Whistler, British Columbia.
- (c) *Vert/Green Medical Inc. (“Vert”)* (\$450,000 equity, and \$375,000 loans receivable outstanding as of the year end). Vert is a corporation incorporated under the laws of Canada, and is in the final stages of seeking its license to produce medical marihuana with facility and operations in Drummondville, Quebec.
- (d) *Evergreen Medicinal Supply Inc. (“Evergreen”)* (\$300,000 equity, and \$264,500 loans receivable as of the year end). Evergreen a corporation incorporated under the laws of British Columbia and is in the final stages of seeking its license to produce medical marihuana with facility and operations in Victoria, British Columbia.
- (e) *AbCann Medicinals Inc. (“AbCann”)* (\$1,500,090 equity). AbCann is a privately-held corporation incorporated under the laws of Ontario which has obtained a license for cultivation of medical cannabis from Health Canada, and has applied for a license to distribute from its facility in Ontario.
- (f) *CannMart Inc. (“CannMart”)* (\$25,000 deposit on investment as at December 31, 2014). CannMart is a privately-held corporation incorporated under the laws of Ontario. CannMart has applied for a license to distribute medical cannabis from its facility in Ontario.
- (g) *The Hydropothecary Corporation (“Hydropothecary”)* (\$250,000 equity). Hydropothecary is a privately-held corporation incorporated under the laws of Canada which has obtained a license for cultivation of medical cannabis from Health Canada, and has applied for a license to distribute.

## Acquisition of In The Zone

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On November 5, 2014, the Company acquired all issued and outstanding shares of In the Zone, a company headquartered in Armstrong, British Columbia and incorporated under the laws of British Columbia. In the Zone is a licensed producer and seller of medical marihuana from its facility in British Columbia. Consideration for the acquisition included 200,000 common shares of the Company. The purchase price allocation for this acquisition is shown below:

| <b>Fair value of consideration transferred:</b> |                  |
|-------------------------------------------------|------------------|
| Cash                                            | \$ 1,321,730     |
| Share issuance                                  | 490,000          |
|                                                 | <b>1,811,730</b> |
| <b>Fair value of net assets acquired:</b>       |                  |
| Cash                                            | 553              |
| Inventory                                       | 1,066            |
| Biological assets                               | 20,000           |
| Property and equipment                          | 96,590           |
| Leasehold improvements                          | 125,883          |
| License                                         | 1,611,226        |
| Intercompany receivable                         | 335,293          |
| Accounts payable and accrued liabilities        | (48,434)         |
| Loans payable                                   | (330,447)        |
|                                                 | <b>1,811,730</b> |
|                                                 | <b>\$ -</b>      |

## Reverse Acquisition

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On December 10, 2014, PharmaCan Capital Corp. closed its Qualifying Transaction, (the "Transaction") with Hortican, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven basis. Pursuant to the transaction, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican's shares. The following represents management's estimate of fair value of share-based consideration paid and net assets acquired as a result of the Transaction:

| <b>Fair value of consideration transferred:</b> |                     |
|-------------------------------------------------|---------------------|
| Fair value of 1,686,209 PharmaCan shares        | \$ 1,830,050        |
| Fair value of 38,571 PharmaCan options          | 24,000              |
| Fair value of 78,251 PharmaCan warrants         | 54,000              |
|                                                 | <b>1,908,050</b>    |
| <b>Fair value of net assets acquired:</b>       |                     |
| Cash                                            | 653,089             |
| Prepaid expenses                                | 6,234               |
| Accounts payable                                | (84,685)            |
|                                                 | <b>574,638</b>      |
| <b>Listing expense</b>                          | <b>\$ 1,333,412</b> |

## Select Financial Information

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The following table provides a summary of the consolidated results of the Company for the year ended December 31, 2014, and the comparative period from January 17, 2013 (incorporation) to December 31, 2013:

| <b>Consolidated Statements of Comprehensive Loss</b>             | <b>Year ended<br/>December 31, 2014</b> | <b>Period from January<br/>17, 2013 to<br/>December 31, 2013</b> |
|------------------------------------------------------------------|-----------------------------------------|------------------------------------------------------------------|
| Share of loss from equity accounted investments <sup>1</sup>     | \$ 724,564                              | \$ 195,611                                                       |
| Total Expenses                                                   | 2,619,701                               | 423,864                                                          |
| Net Loss                                                         | 4,818,189                               | 619,475                                                          |
| Weighted average number of outstanding shares, basic and diluted | 32,236,211                              | 12,749,481                                                       |
| Net loss per share (basic & diluted)                             | \$ 0.15                                 | \$ 0.05                                                          |

The Company commenced business operations during the calendar year 2013. Prior to that time, the Company had no operating activities or costs, as a result, the comparative figures are presented for the period from incorporation (January 17, 2013) to December 31, 2013.

<sup>1</sup>Share of loss from equity accounted investments is due to 21.5% ownership in Whistler and 27.3% ownership in Peace.

The following table provides a summary of the consolidated financial position of the Company as at December 31, 2014 and as at December 31, 2013:

| <b>Consolidated Statements of Financial Position</b> | <b>As at<br/>December 31, 2014</b> | <b>As at<br/>December 31, 2013</b> |
|------------------------------------------------------|------------------------------------|------------------------------------|
| Total assets                                         | \$ 9,950,460                       | \$ 1,287,537                       |
| Total liabilities                                    | 704,695                            | 382,124                            |
| Working capital (deficiency)                         | 873,357                            | (344,836)                          |
| Share capital                                        | 13,637,279                         | 1,346,638                          |
| Accumulated deficit                                  | \$ 5,437,664                       | \$ 619,475                         |

## Share capital – Outstanding Share Data

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As of the date of this MD&A, the Company had 34,839,907 issued and outstanding common shares. The Company also had 1,648,574 stock options, \$115,000 convertible debt (convertible at \$0.05 per share into 2,300,000 common shares) and 8,016,358 warrants outstanding.

## Liquidity

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The Company will seek to raise additional funds to make additional investments and support existing investments. The amount and timing of raising additional funds will depend on variables such as, the state of the capital markets, investor interest in medical cannabis companies, and investment opportunities available.

The Company relies upon equity financing to generate cash to invest in medical marijuana businesses. Management expects both investment opportunities and access to equity financing to continue in the near term. The Company does not expect to rely upon cash distributions from investees to fund operations. Annual expenses are expected to be approximately \$2.7 million (or \$225,000 per month), the major components of which include payroll (approximately \$1.3 million annually or \$110,000 per month), professional fees (approximately \$700,000 per year or \$60,000 per month), and travel (\$120,000 per year or \$10,000 per month).

## Capital Resources

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The Company has agreed to make equity investments between \$2 million and \$2.8 million subject to investees obtaining licenses to produce and distribute medical marijuana. The Company will need to raise additional equity financing to fund ongoing operations and investments.

## Transactions between Related Parties

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The Company's key management received compensation (\$471,140 cash and \$614,800 share-based compensation for the year ended December 31, 2014) for providing planning, directing and controlling activities to the Company.

## Additional Disclosure for Venture Issuers without Significant Revenue

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### General and Administrative and Other Expenses

| <b>Consolidated Statements of Comprehensive Loss</b> | <b>Year ended December 31, 2014</b> | <b>Period from January 17, 2013 to December 31, 2013</b> |
|------------------------------------------------------|-------------------------------------|----------------------------------------------------------|
| Salary and benefits                                  | \$ 1,241,347                        | \$ 35,650                                                |
| Advertising and promotion                            | 25,875                              | 59,734                                                   |
| Consulting fees                                      | 74,400                              | 268,800                                                  |
| Professional fees                                    | 709,635                             | 10,000                                                   |
| Office expenses                                      | 270,202                             | 469                                                      |
| Travel                                               | 121,136                             | 44,535                                                   |
| Other                                                | 177,106                             | 4,676                                                    |
|                                                      | <b>\$ 2,619,701</b>                 | <b>\$ 423,864</b>                                        |

### Equity Accounted Investments

| <b>Consolidated Statements of Financial Position</b> | <b>As at<br/>December 31, 2014</b> | <b>As at<br/>December 31, 2013</b> |
|------------------------------------------------------|------------------------------------|------------------------------------|
| (a) Peace Naturals Project Inc.                      | \$ 515,993                         | \$ 1,002,499                       |
| (b) Whistler Medical Marijuana Company               | 2,416,352                          | -                                  |
|                                                      | <b>\$ 2,932,345</b>                | <b>\$ 1,002,499</b>                |

The Company owns approximately 27.3% and 21.5% of Peace Naturals Project Inc. and Whistler Medical Marijuana Company, respectively.

### **New Accounting Pronouncements**

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The International Accounting Standards Board has not issued any new standards, amendments to standards, or interpretations that impact the Company during the year ended December 31, 2014. The Company's evaluations of previously issued new standards, amendments to standards, and interpretations are consistent with those disclosed in note 4 of the Company's December 31, 2014 consolidated audited financial statements. New accounting pronouncements not yet mandatorily effective, have not been applied in preparing these consolidated audited financial statements.

### **Estimates and critical judgments by management**

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The preparation of these consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

#### Warrants and options

In calculating the value of the warrants and options, key estimates such as the volatility of the Company's share price are used. Due to the lack of sufficient data to estimate expected volatility based on historical volatility of the Company's share price, the expected volatility is estimated at 100%, which is based on the management's knowledge of the medical marijuana industry.

#### Useful lives of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through exercise of judgement. 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.

## **Biological assets**

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less cost to sell up to the point of harvest. Determination of the fair values of the biological assets and the agricultural produce requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, sales price, risk and expected future yields for the cannabis plant.

## **Risks and Uncertainties**

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Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors:

### **Strategic Risks**

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#### **(a) Management of Growth**

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurances that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and operational results.

The Company Investees are all currently in early development stages. The Company's growth strategy contemplates outfitting Investee facilities with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors.

#### **(b) Competition**

There is potential that the Company and the Company Investees 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 Investees or the Company.

### **Industry Risks**

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#### **(c) Risks Inherent in an Agricultural Business**

The business of the Company Investees involves the growing of medical cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural industry.

#### **(d) Political Risks**

A change in government could result in meaningful changes to the regulatory regime under which the Company operates, which could negatively impact its operations.

(e) Vulnerability to Rising Energy Costs

The Company Investees' medical cannabis growing operations consume considerable energy, making the Company vulnerable to rising energy costs.

(f) Transportation Disruptions and Costs

Due to the perishable and premium nature of the Company Investee products, fast and efficient courier services will be necessary to distribute product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company Investees.

(g) Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company Investees face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury.

(h) 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 labeling disclosure with adverse impact on the Company Investees and the Company.

(i) Unfavourable Publicity or Consumer Perception

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

*Operational Risks*

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(j) Limited Operating History

The Company began carrying on business in 2013 and the Investees are also newly operational. They are therefore subject to many of the risks common to early-stage enterprises.

(k) Reliance on Key Inputs

The Company Investees' businesses are dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, access to skilled labour, equipment, parts, and components, as well as electricity, water and other local utilities.

(l) Compliance with Regulations of MMPR and Health Canada

The activities of the Company Investees are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon Investee compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals. If any of the Company Investees becomes a producer, it would need to comply with the MMPR, and in particular any Canadian based project would need to meet stringent requirements as outlined by Health Canada. Under the MMPR, any entity applying for a license from Health Canada would need to be an indoor facility equipped with physical barriers which prevent unauthorized entry in to the facility and further physical barriers to all growing areas are required. The cost of security measures will be considerable and the readiness of each facility will factor into any the Company investment decision. Failure to comply with the requirements of the license or any failure to maintain this license could have a material adverse impact on the business, financial condition and operating results of the Company.

(m) Environmental and Employee Health and Safety Regulations

The Company Investees' operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

(n) Reliance on Investees

Many of the Company Investees' activities and resources are focused on a single facility and the Company does not exercise control over their operations.

(o) Reliance on Management

Both the success of the Company and the success of the Company Investees are dependent upon the ability, expertise, judgment, discretion and good faith of their respective senior management. Certain of the 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.

(p) Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.

*Financial Risks*

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(q) No History of Profits

The Company has not earned profits to date and there is no assurance that the Company will earn profits in the future, or that profitability, if achieved, will be sustained. The success of the Company ultimately depends upon its abilities to generate significant revenues to finance operations as opposed to external funding. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding. If the Company does not have sufficient capital to fund its operations, it may be required to forego certain business opportunities.

(r) Future Capital Requirements

The Company will require additional financing in order to grow and expand its operations. Additional financing could include the incurrence of debt and the issuance of additional equity securities, which could result in substantial dilution to existing shareholders. It is possible that required future financing will not be available, or if available, will not be available on favourable terms. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures and remain in business. There can be no assurances that the Company will be able to raise additional capital if its capital resources are exhausted.

(s) Market Risks

The market price of the Company's shares may be subject to wide fluctuations in response to various factors. There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

(t) Dividends

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the common shares in the foreseeable future.