



GNCC CAPITAL, INC.

MANAGEMENT DISCUSSION AND ANALYSIS INFORMATION REPORT

COLOMBIA CANNABIS INVESTOR REPORT – MARCH 2019

MARCH 12, 2019

The Directors of GNCC Capital, Inc. file this Report in respect of the Colombian Cannabis Industry strictly for informational purposes. This we believe will assist our shareholders in obtaining a better understanding of the Cannabis Industry in the Republic of Colombia; given GNCC's acquisition of BioCann Pharma S.A.S.

DATED: MARCH 12, 2019

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EXHIBIT:-

Colombia Cannabis Investor Report – March 2019

FEATURE ARTICLE

David, Goliath and the government

The creation of Cannabis Salud - a public company that promises to destigmatize and boost cannabis research and development - marks a step change for the industry. It also raises questions in an already complex market where smaller producers are already feeling the pinch.

Mat Youkee
Colombia Cannabis
Investor Editor



The regional government of Antioquia - the department in which Medellín is located - has earned a reputation for being one of the more dynamic entities in the Colombian public sphere. Over the last two decades Medellín has emerged from the darkest days of the drug wars to make huge improvements in health and education and to become a popular tourist destination. In 2013, it was named the world's most innovative city by the Urban Land Institute based, in part, on its impressive transport system that links the metro to cable cars and escalators to the poorer hillside districts. Now the Antioquia government wants to become a player in the medicinal marijuana sector.

In late February, Antioquia governor Luis Pérez Gutiérrez announced the creation of Cannabis Salud, a joint venture between the IDEA - the regional development bank - and the University



Antioquia lives up to its reputation for innovation by announcing it will enter the cannabis market with a joint venture called Cannabis Salud. Credit: Citiscopie

of Antioquia. "We are going to produce cannabis of high genetic quality," he told the regional assembly. "We are going to produce medicines, sell them and buy cannabis oil from producers to reprocess and make other types of medicines."

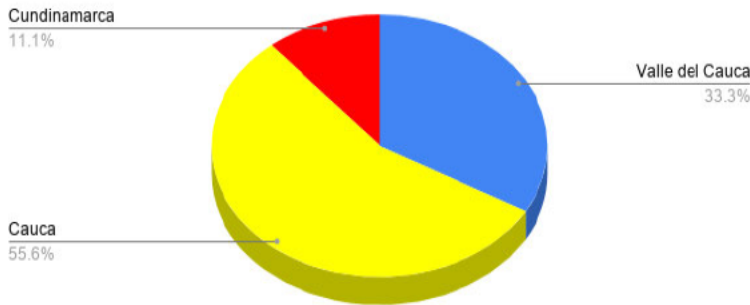
The entrance of a public company into the market adds a new level of complexity to an industry that, just a couple of years into its existence, is facing an existential crisis. Since the beginning of the year, tensions have increased between the half-a-dozen major players and the hundreds of small producers who have acquired or are in the process of acquiring licenses. Now state-owned companies offer another vision of how the industry could grow.



"We want to be the regional leader in growing, commercializing and financing cannabis projects in Antioquia."

- César Betancur,
University of
Antioquia

Geographic Distribution of Licensed Small Producers



Source: Nostramo Research

According to local regulations, licensed cannabis companies have to acquire 10% of their production from registered small and medium-sized cannabis producers. The registered small producers are currently located in three regions: Cundinamarca, Valle del Cauca and Cauca. None of the registered small producers hold fabrication licenses, but they do hold cultivation and seed licenses granted by the Ministry of Justice as follows: - CBD cultivation: 40% - THC cultivation: 50% - Seeds: 10%

“We want to be the regional leader in growing, commercializing and financing cannabis projects in Antioquia,” says César Betancur, a professor of financial engineering at the University of Antioquia, consulting on the project. There are many reasons to welcome the creation of Cannabis Salud. Open public support for the industry is important in a region that is the stronghold of the ruling Centro Democratico party that was behind the recent crackdown on micro-trafficking and possession of drugs. “There’s still a cultural stigma towards marijuana in Antioquia. The governor’s support and the establishment of the company will help draw a distinction between the medical industry and trafficking,” says Betancur. With skin in the game, the government would be more amenable to the industry in general.

R&D BOOST: In addition to changing outdated perceptions, Cannabis Salud could also have an important role in boosting human resources and domestic

research and development in the cannabis space. In the second semester of the year the University of Antioquia will introduce a diploma in cannabis cultivation, providing a new generation of growers for the local industry. University backed research programs are also far more likely to receive funding from ColSciencias, the government agency supporting scientific research.

Finally, the new project could open avenues for domestic investment in the industry and provide financing channels for the region’s smaller producers. Since it launched on the Colombian Stock Exchange (BVC) in 2007, the national oil company, Ecopetrol, has been a firm favorite with local investors. A future listing of Cannabis Salud on the BVC is a possibility, according to Betancur. “We want to make the industry more official, a key goal is for Colombians to be able to buy locally listed cannabis stocks,” he says. “IDEA would reinvest its profits into Antioquia and provide consultancy and financing to smaller growers.”

The project faces significant challenges,

however. The University of Antioquia is struggling to find teachers with

“Will “national interest” allow state-owned cannabis firms to jump to the head of the line for licenses, which currently take over a year to acquire?”

the necessary expertise to teach the cannabis cultivation course, according to Adrián Restrepo, who teaches politics at the institution. “The new company



has the potential to provide funds for the university and boost research, but it is starting very late," he says. "It's two steps behind in an industry where you need to be four steps ahead to succeed."

It seems highly probable that local governments in other prime cannabis regions could soon follow suit. Regional authorities may be slow to react to new opportunities, but they are eager to sniff out new money-making ventures and recent domestic media coverage has focused on anticipated outsized profits for investors, inflating expectations. Tolima department could be next. It is home to Khiron Life Sciences's cultivation sites, has organized regional cannabis events and is introducing university courses in the plant.

State-owned actors could add a new level of complexity to the market. Ecopetrol was allowed to grow into a dominant player in the oil sector before it was exposed to direct competition and even now preferential treatment of the firm at high-levels of government is assumed. Will "national interest" allow state-owned cannabis firms to jump to the head of the line for licenses, which currently take over a year to acquire? Will IDEA make good on its plans to fund small players, or will it greedily hoover-up land and licenses?

START-UP SQUEEZE: Colombia's small start-ups are already feeling the squeeze. In addition to the extended licensing delays, those with their licenses in place also complain that financing offers from abroad often come in the form of all-

share deals. "I don't need shares, I need cash to build out my greenhouses and fabrication plant," says one owner of a project in Antioquia. While the big firms have deployed capital to get ahead of the curve and register their seeds, delays at ICA, the government body in charge

“I don't need shares, I need cash to build out my greenhouses and fabrication plant.”

- Antioquia project owner


of seed registry, mean that smaller producers are stuck, with their funds dwindling.

With government institutions unable to cope with the rush for licenses, it seems inevitable that reform will come, sooner rather than later. CCI hears that government ministries are hiring heavily to deal with the backlog but it seems likely that the government of President Ivan Duque will tighten up on the industry. New barriers to entry can be expected, although the exact form is open to speculation. Licenses could become more expensive, more stringently scrutinized or tied

permanently to specific land titles. Financial and technical prerequisites could be increased.

That would mean a move towards a more consolidated market, with perhaps five or six big players, and would chime with the government's desire for a highly-specialized medicinal marijuana industry. But it would also contradict many of its previous promises to develop an industry that spreads its benefits widely in Colombia's neglected regions.

"From a medical perspective, a move towards a consolidated industry where the big players have the infrastructure, scientists and funds to ensure top quality products, is positive," says Paola Cubillos a Medellín-based doctor and medical cannabis advocate. "From a justice point of view, it's not good to see a few people becoming millionaires while small growers struggle to sell their crops and Colombians can be arrested for possessing a small quantity of weed."

While local cannabis association Asocolcanna has been an important voice to lobby the government for the benefit of the industry, the priorities of the large and small players look likely to diverge further. CCI hears that plans are afoot for the creation of a new association focused on smaller producers. Colombian cannabis politics, fast moving and increasingly complex and at times stressful to write about. If only there was a natural plant based remedy for that stress... 



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Bogotá, Colombia

INTERVIEW

Doctor's orders: An interview with Paola Cubillos, MD, ND



Nicolás Dormal

Paola Cubillos, M.D., N.D.

Paola Cubillos is an experienced physician and medicinal cannabis advocate. Colombian by birth, she studied and worked in Toronto for several years before returning to Medellín to work as an integrative physician at the Las Américas Hospital and to further medical cannabis research in the country.

CCI: Have you seen a change in the attitude of the country's health authorities towards cannabis under the new government?

PC: The previous Minister of Health, Alejandro Gaviria, began the Colombian discussion about medicinal cannabis that went beyond the usual focus on numbers and the sustainability of the system. He is a strong advocate for decriminalization. The new minister has been less vocal about cannabis but I don't think there will be any slowing of the medicinal cannabis industry. However, there is clearly a cognitive dissonance between the government's move to prosecute people carrying pot in their pockets while at the same time allowing corporations to benefit. The commercial push is taking priority at the moment.

CCI: How have medical professionals reacted to the growth of the industry?

PC: I think doctors are curious. Some of them have had experience using cannabis on their patients and are recommending it, without knowing exactly how it works and why. It's difficult to say what triggers a cannabis recommendation at the moment. Colombian pharmacies are interested in providing magistral formulas to begin with, whereby pharmacies prepare a certain ratio of CBD vs. THC oil for each individual patient. It brings in money and it's approved by INVIMA, the drug approval body, so why not?

CCI: What progress has been made regarding the approval process for cannabis treatments in Colombia?

PC: INVIMA are learning as they go and they are listening to the suggestions made by Asocolcanna so both the government and the industry are learning from one another. Asocolcanna successfully petitioned for cannabis to be included as a phytotherapeutic plant, which happened in December last year. This is a big change.

CCI: Does that mean that cannabis medicines must pass through the same stringent and lengthy approval systems that INVIMA applies to other medical drugs?

PC: The original intent of the legislation

was for R&D to happen in Colombia. However, the fastest and easiest route to market is to use evidence from other approved medicinal cannabis products available internationally. We'll see a lot of companies trying to replicate GW Pharmaceutical products in the form of sprays and sublingual oils. The other path is creating pharmaceutical compounds at different concentrations, but this will require going through phases 1, 2 and 3 of clinical trials, which is a very long pipeline.

“ There is a cognitive dissonance between the government's move to prosecute people carrying pot while at the same time allowing corporations to

CCI: What should the government and private sector do to educate patients about cannabis?

PC: We need demand-driven legislation. The National Academy of Scientists report outlined a few cases in which evidence was strong: in chronic pain cases, pain and spasticity related to MSE, fibromyalgia, and nausea related to chemotherapy. So, there's a lot of noise creating acceptance and enthusiasm for cannabis as medicine but the scientific rationale is not necessarily there. The main problem I see is, because we're a little more relaxed with ethical rules, there is no conscience. So nothing to try to separate the real benefits from what's not in commercial interest. You're going to find a lot of doctors interested in the industry just to benefit from the financial boom, it's easy for companies to buy them. 🌿

INDUSTRY EVENT

Colombia's New Leaf

Juliana Salazar
Colombia Cannabis Investor



Last month, CCI was invited to speak at Cannatech Panama 2019 to present key insights, risks and opportunities in *Colombia's New Leaf: the Colombian medicinal cannabis sector*.

International analysts, investors, executives and medical professionals from around the world got together for three days to dive into the most crucial issues surrounding the international cannabis industry. Cannatech's Panama 2019 edition officially began on Monday, February 11 with a welcome cocktail for attendees overseeing the colonial scenery at Panama City's Casco Viejo.



CCI Editor Mat Youkee tells Cannatech attendees about key issues in the Colombian cannabis industry.

“All in all, the hosts created a formidable environment for business transactions to blossom.”

There were plenty of booths for attendees to visit, as well as networking spaces and over 20 conferences on a diverse range of topics, from innovation to finance, regulatory policy and medical science. While former DEA agents pointed out the costs of illegality and importance of compliance protocols, service company executives focused on software customization for licensed producers and medical professionals analyzed the case for medicinal cannabis and cancer. With a host of different nationalities and market players, it was an open space that facilitated the exchange of knowledge

and experience in diverse areas. All in all, the hosts created a formidable environment for business transactions to blossom.

In the hyped atmosphere of this nascent and developing industry, CCI gave a political and legal analysis of the trends, risks and opportunities for the medicinal cannabis industry in Colombia. Beginning with the birth of the industry and the current state of play, CCI editor Mat Youkee presented industry data collected by CCI regarding market players, corporate acquisitions and potential consumers in the Latin American market. The following legal and regulatory analysis included corporate consequences and risks of market entry strategies, as well as introducing the main government stakeholders, and making some brief considerations on corporate establishment and land acquisition under Colombian legislation. Subsequent political risk analysis covered macro-politics, security and regulation. He finished by drawing parallels with the mining sector - an industry that had experienced a similar boom in Latin America - and looked at lessons that can be learned.

The prospect of new Latin American jurisdictions coming on board with medicinal cannabis legalization, together with promising returns for licensed producers, service companies and pharmaceutical players was certainly cause for excitement at Cannatech. However, excitement must be tempered by realistic expectations, in this case all players, whether newcomers or deal sealers, need to be aware of potential risks arising from corporate decisions, all the way from export purchase orders to mergers and acquisitions.

In the Colombian cannabis space, there is a legitimate concern about potential regulatory modifications in license requirements, especially given the amount of licenses requested in the past year. Ministries may find themselves facing a bottleneck after the National Development Plan is approved in the following weeks. Questions regarding the future of exports and cannabis medicine registration are still open, and currently in hands of supporting entities such as INVIMA and the Ministry of Commerce. [↴](#)

News roundup

Finance and acquisitions

Next Green Wave enters MoU with Colombian cannabis subsidiary

Next Green Wave Holdings (CSE:NGW) has entered a MoU to make a strategic investment in Organic Medical Growth. The Montreal company owns 100% of Colombian CBD producer Proymed SAS. Proymed is in the final stages of acquiring a THC cultivation license in Colombia and purchase contracts with Asomiravalle Norte Association, an association of 28 producers in the Valle del Cauca region. The agreement is still subject to CSE approval.

Pure Harvest signs Lol to establish large scale Colombian cannabis operation

Following a merger with Pure Harvest Cannabis Producers, The Pocket Shot Company (OTC:PCKK) has signed a letter of intent to establish a large scale cannabis company and joint venture in Colombia. Pure Harvest Colombian Partners Ltd, the newly formed subsidiary, will own 50% of the joint venture which covers a 200 ha site with the option to expand up to 1,800 ha.

GNCC Capital acquires Colombian BioCann Pharma

GNCC Capital (OTC:GNCP) has acquired a 100% interest in BioCann Pharma SAS for USD\$120 million. BioCann Pharma is a CBD pharmaceutical grade oils producer and distributor with offices in Colombia and Burlington, Ontario. BioCann sources cannabis from Cundinamarca, Valle del Cauca and Antioquia, and processes it at a licenced laboratory in Bogotá.

Itoco enters JV with Camedco

Mining company Itoco Inc (OTC PINK:IT-MC) has signed an Lol to form a joint venture with Colombian company Camedco,

CCI Matchmaker

CCI Matchmaker is a monthly space for companies to publish their offers and requirements when seeking investors, partners or deals in the medicinal cannabis sector:

“Our client is a Colombian cultivation project with a 10ha (possibility to expand to 60ha) project in San Miguel, Antioquia. The company is requesting licenses to cultivate and produce, and at this moment the company is putting together its business plan and requires a LETTER OF INTENT from a buyer interested in acquiring cannabis extract (estimated production of 20,000 kg a year).

Interested parties should email jsalazar@nostrono.com.co”

Do you have a business opportunity you'd like to let CCI readers know about? Send an email to jsalazar@nostrono.com.co to feature in CCI Matchmaker, it's free!

to be named Itoco Biomed. The project has a facility in the Cundinamarca region, which is 90% operational and has been approved by the Ministry of Health. Partnerships with small producers provide 18 ha of land which Itoco believe will offer significant annual cannabis flower production.

Licensing

PharmaCielo gets approval to list ten cannabis strains

PharmaCielo Colombia Holdings SAS, fully-owned Colombian subsidiary of PharmaCielo (TSXV:PCLO), has received approval from the national cultivar registry (ICA) to register ten unique CBD and THC strains. The company can now proceed with commercial registration in order to produce and sell its strains in Colombia and export to international markets. PharmaCielo has 20 more strains in the final stages of the registration process, according to local CEO Federico Cock-Correa

Operations

Blueberries Medical acquires additional 15 hectares of prime land in Colombia

Colombia-based cannabis producer, Blueberries Medical Corp (CSE:BBM), has completed the acquisition of a 15 ha agricultural property in Zipaquirá, in the Bogotá savannah. The land, which cost USD\$1.5 million is 24 km away from the company's cannabis greenhouse. Blueberries is finalizing plans to build a 12 ha cannabis greenhouse facility in the Zipaquirá property, which is expected to yield 79 tons of cannabis per year once its completed.

Pideka announces partnership with Lifford Cannabis Solutions CEO Lisa Campbell

Colombian licensed producer Pideka SAS entered a strategic partnership with Canadian innovator Lisa Campbell, CEO of Lifford Cannabis Solutions, to export medicinal cannabis to the Canadian market in the near future. 🇺🇸



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