

TIDAL ROYALTY CORP.

(formerly known as Tulloch Resources Ltd.)

MANAGEMENT DISCUSSION AND ANALYSIS

For the period ended January 31, 2018

April 3, 2018

*This management's discussion and analysis provides an analysis of our financial situation which will enable the reader to evaluate important variations in our financial situation for the period ended January 31, 2018, compared to the period ended January 31, 2017. This report prepared as at April 3, 2018 intends to complement and supplement our condensed interim financial statements (the "**financial statements**") as at January 31, 2018 which have been prepared in accordance with International Financial Reporting Standards, and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards board ("IASB"). and should be read in conjunction with the financial statements and the accompanying notes. Readers are also advised to read the Company's audited financial statements and accompanying notes for the year ended July 31, 2017, (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards.*

Our financial statements and the management's discussion and analysis are intended to provide a reasonable base for the investor to evaluate our financial situation.

All dollar amounts contained in this MD&A are expressed in Canadian dollars, unless otherwise specified.

Where we say "we", "us", "our", or the "Company", we mean Tidal Royalty Corp. (formerly Tulloch Resources Ltd.).

Business Description

The Company is an investment company with a focus on businesses that pertains in any way to cannabis, which is carried out in compliance with applicable U.S. state laws ("**legal cannabis industry**"). We anticipate entering into financing arrangements involving royalties, debt and other forms of investments in private and public companies, in the US legal cannabis industry.

The Company's business objective is to provide capital solutions to companies in the legal cannabis industry with large-scale potential and a highly-skilled and experienced management team, in exchange for a royalty. The Company's proposed royalty agreement with Desert Horizons (the "**Royalty Agreement**") will be its first such transaction (See Proposed Transactions), and it intends to pursue analogous transactions with other operators.

The Company is a reporting issuer in the provinces of British Columbia and Ontario and has made application to list on the Canadian Securities Exchange (CSE). The Company has received conditional approval to list on the CSE, subject to all outstanding securities of the Company becoming free trading. In that regard, the Company has filed a non-offering prospectus dated March 22, 2018 with the British Columbian Securities Commission ("BCSC") as principal regulator, to qualify shares issuable upon conversion of up to 180,000,000 special warrants.

Highlights and Overall Performance

With our shareholders' consent - received September 5, 2017 - the Company changed its business from mineral exploration to that of an Investment Company. The Company anticipates entering into financing arrangements involving royalties, debt and other forms of investments in private and public companies with a plan to focus its investments in the legal cannabis industry in the United States. While the Company has identified the legal cannabis industry to be of interest for investments, and while it is in discussions to make various investments, it should be noted that: (i) no definitive contracts have been entered into; and, as such (ii) there is no guarantee the Company will make any investments in cannabis-related businesses, or, if made, that any such investments will be profitable. There can be no assurance that the Company will be successful in its ventures, or that it will meet the conditions for listing on the CSE. (See: Risk Factors).

Highlights and Overall Performance (continued)

The Company is/has taken the following steps to develop and execute its new business:

1. Has retained new management with a track record in the legal cannabis industry;
2. Has changed the name of the Company to Tidal Royalty Corp;
3. Received shareholders' approval to a change of business from mineral exploration to cannabis financing;
4. Is raising up to \$9,000,000 pursuant to a non-brokered private placement Offering;
5. Is securing a Loan Facility in the amount of \$4,000,000; and,
6. Is in the process of closing the Royalty Agreement.

Significant Events

On July 26, 2017, the Company consolidated its share capital on a one-for-three basis. All share and per-share information have been restated to retroactively reflect this consolidation for all periods presented.

Results of Operations

The Company did not have any revenues from operations during the six-month period ended January 31, 2018 and the fiscal years ended July 31, 2017 and July 31, 2016. Please refer to the audited annual financial statements pertaining to those fiscal years for presentation of the significant operating costs.

During the six-month period ended January 31, 2018, the Company's net loss increased by \$273,025 from a net loss of \$2,179 for the six-month period ended January 31, 2017 to a net loss of \$275,204 for the period ended January 31, 2018. The following is a breakdown of the expenses incurred by the Company in each three-month and six-month period ending January 31, 2018 and 2017:

	Three-month period ended		Six-month period ended	
	January 31, 2018 \$	January 31, 2017 \$	January 31, 2018 \$	January 31, 2017 \$
Expenses				
Advertising and promotion	1,087	-	1,087	-
Consulting fees	33,000	-	61,935	-
Exchange gain	(336)	-	(336)	-
General and administration	319	1,267	1,881	2,179
Professional fees	138,329	-	152,439	-
Rent	5,000	-	5,000	-
Salaries and benefits	35,417	-	35,417	-
Transfer agent and filing fees	6,311	-	17,781	-
Net loss and comprehensive loss for the period	(219,127)	(1,267)	(275,204)	(2,179)
Loss per share, basic and diluted	(0.08)	(0.00)	(0.10)	(0.00)
Weighted average number of common shares outstanding	2,843,636	2,843,636	2,843,636	2,843,636

Most categories of expenses showed increases in 2018 compared with 2017, as the Company reorganized management and redirected its business. The increase in expenses relates to an increase in activity associated with the Company's reorganization of management and related duties.

Summary of Quarterly Results

The following table sets forth selected quarterly financial information for the eight most recently completed quarters.

Three Months Ended	Jan 31 2018 \$	Oct 31 2017 \$	Jul. 31 2017 \$	Apr 30 2017 \$	Jan 31 2017 \$	Oct 31 2016 \$	Jul. 31 2016 \$	Apr. 30 2016 \$
Total revenues	-	-	-	-	-	-	-	-
Net loss and comprehensive loss	(219,127)	(56,077)	(24,854)	(5,390)	(1,267)	(913)	(18,188)	(3,438)
Net loss per share – Basic and diluted	(0.08)	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)

During the three-month period ending January 31, 2018 the Company incurred a net loss of \$219,127 compared to a net loss of \$1,267 for the same period in the prior year. The increase in loss of \$217,860 is due to an increase in activity as can be seen, reflected by the \$138,329 professional fees and \$33,000 consulting fees. During the three-month period ending October 31, 2017, the Company incurred a net loss of \$56,077 compared to a net loss of \$913 for the same period in the prior year. The increase in loss of \$55,164 is due to an increase in activity as can be seen, reflected by the \$28,935 consulting fees increase in the quarter ending October 31, 2017. For the quarter ending July 31, 2017, the Company incurred a net loss of \$24,854, compared with a loss of \$18,188 in the three-month period ending July 31, 2016. Administration expenses made up the bulk of these expenses. The progressive increase in expenses reflects increased activity as the Company has been taken the significant steps to develop and execute its new business.

Liquidity

At January 31, 2018, the Company had cash of \$2,832,906 (compared to July 31, 2017 of \$20,265). In order to continue operations, and in particular, to fund ongoing expenditure commitments to pursue its business strategy & goals and service its obligations listed in the financial statements, the Company will need to raise additional capital. The Company expects to finance operating costs by private placement of common shares, exercise of warrants, exercise of options and debt financing. There is a risk that the Company will not be able to secure sufficient working capital to continue as a going concern because of an inability to obtain external financing or an inability to raise sufficient capital in order to meet its obligations as they become due.

Capital Resources

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents and equity comprised of issued share capital and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions and financial needs. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

Working Capital

At the quarter ended January 31, 2018, the Company had working capital of \$2,433,139 (July 31, 2017 – negative \$135,657). In the long term, the Company will be seeking to raise further funds from equity financings and/or debt financing in order to continue operations, in particular to fund ongoing expenditure commitments as they arise.

As at	January 31, 2018	July 31, 2017
Total Assets	\$ 2,842,588	\$ 22,334
Total Liabilities	391,449	157,991
Working Capital	2,433,139	(135,657)
Shareholder's Equity/(deficiency)	2,451,139	(135,657)

Cash Used in Operating Activities

Net cash used in operating activities during the six months ended January 31, 2018 was \$89,359 (2016 – 9,071) which mainly consisted of funds used in expenses during the six months.

Cash Used in Investing Activities

The Company used NIL cash in investing activities in the six-month periods ended January 31, 2018 and 2017.

Cash Generated by Financing Activities

Total net cash generated during the six-month period ended January 31, 2018 was \$40,000 (2017 - \$10,000) in loans received and \$2,862,000 from subscriptions received in advance (see proposed transactions) (2017 - \$Nil).

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

Key Management Personnel Compensation

For the six-month period ended	January 31, 2018	January 31, 2017
Consulting fees, salaries and rent paid to companies owned by directors and officers	\$ 91,935	\$ Nil
Total	\$ 91,935	\$ Nil

Key management personnel 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 personnel consist of members of the Company's Board of Directors (Brendan Purdy, Paul Rosen, Theo van der Linde and Stuart Wooldridge) and corporate officers (Paul Rosen - CEO, Theo van der Linde - CFO, Courtland Livesley-James – EVP Strategy, Kathryn Witter - Corporate Secretary. Formal management contracts are currently being reviewed.

As at January 31, 2018, the Company owed \$69,010 (July 31, 2017 - \$22,766) to related parties. A loan of \$Nil (2017 - \$10,000) is included in the amount due to related parties above and it was for working capital purposes. The amounts due to the related parties are unsecured, non-interest bearing and due on demand.

Proposed Transactions

The Company is in the process of raising up to \$9,000,000 in a non-brokered private placement by issuing up to 180 million special warrants at \$0.05 per special warrant, with each special warrant convertible at no additional cost into a unit comprising of one common share and one share purchase warrant. Each such share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.05 per common share expiring two years from closing.

Proposed Transactions (continued)

The Company proposes to execute the Royalty Agreement with Desert Horizons whereby the Company will advance funds to acquire a royalty interest in Desert Horizon’s First Palm Springs Development. Under the Royalty Agreement:

- the Company will advance \$7,500,000 USD to Desert Horizons in order to build out the first phase of Desert Horizons’ cultivation and manufacturing facility in Palm Springs, California, which will consist of indoor cultivation space and manufacturing space (the “**First Palm Springs Development**”);
- the Company will advance the \$7,500,000 USD to Desert Horizons in tranches, as development milestones are met in connection with the First Palm Springs Development;
- in consideration for the aggregate \$7,500,000 USD advanced, the Company will receive a 99-year royalty on all gross sales (less applicable sales or excises taxes and any allowances for returns) from the First Palm Springs Development;
- the Company will have certain protections with respect to the First Palm Springs Development, including but not limited to: the right to review and approve all construction budgets; being a named loss-payee under applicable insurance policies; and, being granted security over certain assets by Desert Horizons;
- the Company will have a right of first refusal to finance the second phase of Desert Horizons’ cultivation and manufacturing development in Palm Springs, California, and subsequent developments planned in Coachella, California, in exchange for a corresponding royalty on all gross sales from those projects. The aggregate amount of funds advanced to Desert Horizons if the Company finances all projects contemplated by Desert Horizons will be approximately \$50,000,000 USD;
- Desert Horizons may, upon a liquidation event (as such term is defined in the Royalty Agreement), buy out the remaining term of the royalty at a price utilizing an agreed-upon formula.

Desert Horizons

Desert Horizons is a California-based private company that will operate a business cultivating, processing, and manufacturing cannabis and cannabis-related products. Desert Horizons was founded by executives with expertise in real estate development, cannabis operations, finance, and legal and regulatory compliance. The founders have previously built, managed, and operated over 1,000,000 ft.² of cannabis operations, from cultivation to retail and distribution, in various facilities around California, including Coachella, Cathedral City, and Palm Springs. Desert Horizons will seek low-unit costs driven by scale, operational practices and attractive power rates. Products manufactured and produced from Desert Horizons will be distributed under existing brand names, including “Kings Garden” and Wiz Khalifa’s “Khalifa Kush”. These brands are currently carried across hundreds of dispensaries in California.

Outstanding Share Data

At April 3, 2018, the Company had only common shares outstanding:

Securities*	Number	Exercise Price	Expiry Date
Common shares	2,843,636	N/A	N/A
Special Warrants issued*	116,490,000	\$0.05	June 08, 2018 to July 01, 2018
Fully diluted share capital	119,333,636	N/A	N/A

*See also Proposed Transaction above

On June 26, 2017, the Company consolidated its share capital on a one-for-three basis. All share and per-share information have been restated to retroactively reflect this consolidation for all periods presented.

Risks Factors

Cannabis Industry and Operational Risks

The Company anticipates entering into financing arrangements involving royalties, debt and other forms of investments in private and public companies and anticipates seeking investment opportunities in the US, with a plan to focus its investments in the legal cannabis industry in the United States. There are certain risks involved with such business activities, including:

- although legalized for medical and adult use in a number of states, cannabis is illegal under US federal law;
- the activities of the Company would be subject to evolving regulation that is subject to changes by governmental authorities in Canada and the U.S.;
- third parties with which the Company does business, including banks and other financial entities, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities;
- the Company has no operating history in this sector;
- the operation of the Company can be impacted by adverse changes and developments affecting the Company's interests;
- the Company's ability to recruit and retain management, skilled labour and suppliers is crucial to the Company's success;
- the Company's ability to repatriate returns generated from investments in the U.S. may be limited by anti-money laundering and other laws;
- the Company has a history of net losses, may incur significant losses in the future and may not achieve or maintain profitability;
- 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 favourable to the Company;
- 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 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 the 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;
- the companies that the Company finances face an inherent risk of product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury, which could have a material adverse effect on the business, results of operations and financial condition of the companies that the Company finances, and correspondingly the Company;
- any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company;
- the Company is largely reliant on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the legal cannabis industry in the United States. A failure in the demand for its products to materialize because of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the companies that the Company finances, and correspondingly the Company;

Risks Factors

Cannabis Industry and Operational Risks (continued)

- the Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems of controls;
- the Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption;
- the Company could fail to integrate subsidiaries and other interests into the business of the Company;
- completed acquisitions, strategic transactions, or investments could fail to increase shareholder value;
- 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;
- the Company, or its 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 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;
- there can be no assurance that an active liquid market for the shares will be maintained and an investor may find it difficult to resell any securities of the Company;
- the Company does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings; and
- 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.

Price Volatility of Public Stock

In recent years, securities markets have experienced extremes in price and volume volatility. The market price of securities of many early-stage companies, among others, have experienced fluctuations in price which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any market for the Company's shares will be subject to market trends generally and the value of the Company's shares on a stock exchange may be affected by such volatility.

Economic Conditions

Unfavorable economic conditions may negatively impact the Company's financial viability as a result of increased financing costs and limited access to capital markets.

Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Conflicts of Interest

The Company's directors and officers may serve as directors and officers, or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act, British Columbia ("**Corporations Act**") in dealing with conflicts of interest. These provisions state, where a director/officer has such a conflict, that the director/officer must, at a meeting of the board, disclose his interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

Risks Factors (continued)

Disclosure Regarding the Company's Proposed Investments in Entities Carrying on Business in the United States Cannabis Industry

The following disclosure is intended to comply with the Canadian Securities Administrators Staff Notice 51-352 – *Issuers with U.S. Marijuana-Related Activities*.

Regulatory Risks

The U.S. legal cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may impact on actual results.

Participants in the U.S. legal cannabis industry will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the participant and, thereby, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The U.S. legal cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the participant and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's investments' earnings and could make future investments uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company expects to derive its revenues from the U.S. legal cannabis industry, which industry is illegal under U.S. federal law. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation.

The Company's investments are expected to be focused in those U.S. states that have legalized the medical and/or adult-use of cannabis. Almost half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the U.S. *Controlled Substances Act* of 1970 ("CSA"). The federal government of the U.S. has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use use cannabis, even if state law sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened by the revocation of the Cole Memorandum (defined below) in January 2018.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's investments in such businesses would be materially and adversely affected notwithstanding that the Company may not be directly engaged in the sale or distribution of cannabis. U.S. federal actions against any

Risks Factors

Disclosure Regarding the Company's Proposed Investments in Entities Carrying on Business in the United States Cannabis Industry (continued)

individual or entity engaged in the marijuana industry or a substantial repeal of marijuana-related legislation could adversely affect the Company, its business and its investments. The Company's funding of businesses involved in the medical and adult-use cannabis industry may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

Nature of the Company's Involvement in the U.S. Cannabis Industry

Through its financing activities, the Company will have a material ancillary involvement in the cannabis industry in the United States. Currently, the Company is not directly or indirectly engaged in the cultivation, manufacture, importation, possession, use, sale or distribution of cannabis in the medical or adult-use cannabis marketplace in any jurisdiction within the United States.

Illegality under U.S. Federal Law

More than half of the U.S. states have enacted legislation to regulate the sale and use of cannabis on either a medical or adult-use level. However, notwithstanding the permissive regulatory environment of cannabis at the state-level, cannabis continues to be categorized as a controlled substance under the CSA in the U.S. and, as such, activities within the cannabis industry are illegal under U.S. federal law.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis-related businesses in the U.S. are subject to a higher degree of uncertainty and risk. Unless and until the U.S. federal government amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendment there can be no assurance), there can be no assurance that it will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Such potential proceedings could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens; or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

The inconsistent regulation of cannabis at the federal and state levels was addressed in 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "**Cole Memorandum**") acknowledging that although cannabis is a controlled substance at the federal level, several U.S. states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. However, the Department of Justice ("**DOJ**") has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. However, on January 4, 2018 the Cole Memorandum was revoked by Attorney General Jeff Sessions. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Sessions also issued a one-page memorandum (the "**Sessions Memorandum**"). This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

Risks Factors

Disclosure Regarding the Company's Proposed Investments in Entities Carrying on Business in the United States Cannabis Industry (continued)

While the Sessions Memorandum does emphasize that marijuana is a Schedule I controlled substance, and states the statutory view that it is a “dangerous drug and that marijuana activity is a serious crime,” it does not otherwise guide U.S. Attorneys that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum’s guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. In California, at least one U.S. Attorney has made comments indicating a desire to enforce the CSA. Adam Braverman, Interim U.S. Attorney for the Southern District of California, has stated that the rescission of the Cole Memorandum “returns trust and local control to federal prosecutors” to enforce the CSA. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity; and his office published a statement that cannabis remains illegal under federal law, and that his office would “evaluate violations of those laws in accordance with our district’s federal law enforcement priorities and resources.”

As previously stated, the U.S. Congress has passed appropriations bills (currently in the form of the Rohrabacher-Farr Amendment) each of the last three years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Rohrabacher-Farr Amendment is still in effect as of today’s date, but this may not be the case in the future.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business, even those that have fully complied with state law, could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Rohrabacher-Farr Amendment in future budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations, and provide no protection against businesses operating in compliance with a state’s adult-use cannabis laws.

As previously stated, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on any stock exchange, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. The approach to the enforcement of laws related to cannabis may be subject to change, or may not proceed as previously outlined.

The Company’s investments in entities involved in the U.S. cannabis industry will be made: (i) only in those states that have enacted laws legalizing cannabis in an appropriate manner; and (ii) only in those entities that have fully complied with such state (and local) laws and regulations and have the licenses, permits or authorizations to properly carry on each element of their business.

Risks Factors

Disclosure Regarding the Company's Proposed Investments in Entities Carrying on Business in the United States Cannabis Industry (continued)

The Company will continue to monitor, evaluate and re-assess the regulatory framework in each state in which it may hold an investment, and the federal laws applicable thereto, on an ongoing basis; and will update its continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the U.S.

Anti-Money Laundering Laws and Regulations

The Company is subject to a variety of laws and regulations in Canada and the U.S. that involve money laundering, financial record-keeping and proceeds of crime, including the U.S. *Currency and Foreign Transactions Reporting Act* of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act* of 2001 (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, the FinCEN issued the FinCEN Memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance in a DOJ memorandum issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA (the “**2014 Cole Memo**”). The 2014 Cole Memo was rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

Overall, since the production and possession of cannabis is illegal under U.S. federal law, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. As the Company will have a material ancillary involvement in the U.S. legal cannabis industry, the Company may find that it is unable to open bank accounts with certain Canadian financial institutions, which in turn may make it difficult to operate the Company's business.

The Company's future investments, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Risks Factors

Disclosure Regarding the Company's Proposed Investments in Entities Carrying on Business in the United States Cannabis Industry (continued)

Ability to Access Private and Public Capital

The Company has historically relied entirely on access to both public and private capital in order to support its continuing operations, and the Company expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, Canadian-based issuers involved in the U.S. legal cannabis industry have been successful in raising substantial amounts of private and public financing. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

Canadian Securities Regulatory Matters

The Company's involvement in the U.S. cannabis industry may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the U.S. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S., despite media reports to the contrary, and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid and, until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange, should the Common Shares have become listed on a stock exchange.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Common Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to affect a trade of the Common Shares through the facilities of the applicable stock exchange.

Heightened Scrutiny

For the reasons set forth above, the Company's future investments in the U.S. may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the U.S. or any other jurisdiction, in addition to those described herein.

Risks Factors

Disclosure Regarding the Company's Proposed Investments in Entities Carrying on Business in the United States Cannabis Industry (continued)

Change in Laws, Regulations and Guidelines

The Company's proposed business operations will indirectly be affected by a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also including laws and regulations relating to consumable products health and safety, the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations, which could require participants to incur substantial costs associated with compliance or alter certain aspects of its business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plans and result in a material adverse effect on certain aspects of its planned operations.

Unfavorable Publicity or Consumer Perception

The legal cannabis industry in the United States is at an early stage of its development. Cannabis has been, and will continue to be, a controlled substance for the foreseeable future. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception 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 cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Public opinion and support for medical and adult-use cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). The Company's ability to gain and increase market acceptance of its proposed investment business may require substantial expenditures on investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful and their failure may have an adverse effect on the Company.

Additional Disclosure for Venture Issuers without significant revenue

Additional disclosure concerning the Company's general and administrative expenses and other expenditures is provided in the Company's statement of loss and note disclosures contained in its condensed interim financial statements for the period ended January 31, 2018. These statements are available on SEDAR - Site accessed through www.sedar.com.

Ability to Access Private and Public Capital and Nature of Securities

The Company has historically relied entirely on access to both public and private capital in order to support its continuing operations, and the Company expects to continue to rely almost exclusively on the capital markets to finance its investments in the US legal cannabis industry. Although such investments carry a higher degree of risk, and despite the treatment of cannabis under U.S. federal laws, Canadian-based issuers involved in making U.S. cannabis-related investments have been successful in raising substantial amounts of private and public financing. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate US federal laws. The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not

be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

Additional Disclosure for Venture Issuers without significant revenue (continued)

Dividends

The Company has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for investment into the US legal cannabis industry. Any future determination to pay dividends will be at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the board of directors deem relevant.

Management's Responsibility for Financial Statements

The information provided in this report, including the condensed interim financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. In contrast to the certificate required under National Instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109, in particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of the Company has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Forward-looking-information

Statements included in this document that do not relate to present or historical conditions are "forward-looking statements". Forward-looking statements are projections in respect of future events or the Company's future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "intend", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", or "continue", or the negative of these terms or other comparable terminology. Forward-looking statements in this MD&A include statements with respect to: the success of the concurrent financing, concluding royalty agreement with Desert Horizon and statements regarding estimated capital requirements. These statements are only predictions and involve known and unknown risks and uncertainties, including the risks in the section entitled "Risk Factors", and other

factors which may cause the Company's actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

Additional Disclosure for Venture Issuers without significant revenue (continued)

Forward-looking information

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity or performance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of such factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Additional information, including interim and annual financial statements, the management information circulars and other disclosure documents, may also be examined and/or obtained by accessing the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.