



**Management's Discussion and Analysis**

For the year ended July 31, 2018 and 2017

**TIDAL ROYALTY CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JULY 31, 2018 AND 2017**

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**Date: October 30, 2018**

This management's discussion and analysis ("MD&A") provides an analysis of our financial situation which will enable the reader to evaluate important variations in our financial situation for the year ended July 31, 2018, compared to the year ended July 31, 2017. This report prepared as at October 30, 2018 intends to complement and supplement our financial statements for the year ended July 31, 2018 (the "Financial Statements") and should be read in conjunction with the Financial Statements and the accompanying notes.

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.

Our Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts contained in this MD&A are expressed in Canadian dollars, unless otherwise specified.

Where we say "we", "us", "our", the "Company" or "Tidal Royalty", we mean Tidal Royalty Corp.

Additional information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website <https://www.tidalroyalty.com/>.

### **Business Description**

Tidal Royalty Corp. was incorporated under the laws of British Columbia as Tremenco Resources Ltd. on March 12, 1980. The name was changed to Elkhorn Gold Mining Corporation on February 8, 1999 and to Tulloch Resources Ltd. on October 12, 2011 and to Tidal Royalty Corp. on July 18, 2017. The Company is a life sciences company with a focus on financing businesses that pertain in any way to cannabis which is carried out in compliance with applicable U.S. state laws ("legal cannabis industry"). The Company anticipates 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 is a reporting issuer in the provinces of British Columbia and Ontario and on June 25, 2018, the Company's shares commenced trading on the CSE under the trading symbol "RLTY".

The head office and records office of the Company are located at Suite 810, 789 West Pender Street, Vancouver, British Columbia, V6C 1H2. The principal place of business of the Company is 161 Bay St., Suite 4010, Toronto ON, M5J 2S1.

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 is actively pursuing opportunities to provide expansion capital to licensed, qualified operators across multiple industry verticals, including cultivation, processing, and distribution. An investment in Tidal Royalty will allow shareholders to participate in the broader US cannabis market's growth while diversifying against specific operational risks.

While Tidal Royalty may customize its royalty financing product to meet the particular needs of exceptional operators, it anticipates that most royalty transactions will encompass one of the three following deal types:

**Facility Expansion:** capital used to build out existing operational assets. This would include opening additional flowering rooms to increase canopy, establishing a manufacturing and processing vertical, and opening additional dispensaries.

**Multi-State Expansion:** capital used to expand into new states and set up operations. Operators must demonstrate proven operational experience, the ability to obtain necessary licenses, and a business model that leverages their existing assets and operations.

**Market Rollup:** allows seasoned operators to expand their footprint by purchasing strategic or undervalued assets. The royalty attaches to existing operations and provides near-term cash flow.

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**Highlights and Overall Performance**

With our shareholders' consent - received September 5, 2017 - the Company changed its business from mineral exploration to that of a life sciences company with a focus on the legal cannabis industry in the United States.

The Company 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. The Company's shares commenced trading on the CSE;
5. Added several key industry advisors to its Advisory Board;
6. Raised gross proceeds of \$6,459,000 pursuant to a non-brokered private placement at \$0.05 per Special Warrant;
7. Raised gross proceeds of \$2,000,000 pursuant to preferred shares issued in a non-brokered private placement offering;
8. Raised gross proceeds of \$31,137,159 pursuant to a non-brokered private placement offering at \$0.33 per share;
9. On August 27, 2018, the Company entered into a binding letter of intent ("LOI") with CannaRoyalty Corp. ("CannaRoyalty") to acquire 1,500 units in Alternative Medical Enterprises, LLC ("AltMed") and a royalty on U.S. and international sales of the MüV™ product line for aggregate consideration of \$7,000,000 in cash and \$1,000,000 in common stock, respectively. The number of common shares to be issued is to be computed using the 20-day volume weighted average price of the Company's common shares on the trading day immediately prior to the closing date. The closing of the transaction is subject to, among other things, the satisfactory completion of due diligence and the receipt of all corporate and regulatory approvals; and
10. On August 31, 2018, the Company entered into a definitive agreement with Diem Cannabis ("Diem") to provide Diem with up to US\$12.5 million (the "Financing") over the next three years to develop and operate a large-scale cultivation and processing facility and up to four dispensaries ("Business Plan"). The Financing will be secured by all of Diem's assets and shares, membership interest and other equity interests in Diem. The Company will be entitled to the equivalent of 15% of all net sales generated by the financed operations in Massachusetts.

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**Significant Equity 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.

On February 2, 2018, the Company completed a non-brokered private placement, of 59,370,000 special warrants of the Company at a price of \$0.05 per special warrant for gross proceeds of \$2,968,500. Each special warrant entitled the holder to receive, without payment of any additional consideration or need for further action, one unit of the Company, each unit comprising one common share and one share purchase warrant; each warrant entitling the holder to acquire one additional share at \$0.05 for a period of 24 months. An additional 3,757,000 special warrants were issued as finders' fees with the same terms as the special warrants pursuant to the private placement. The fair value of \$187,850 was charged to warrant issue costs. On June 8, 2018, the Company converted the special warrants and special finders' warrants into an equivalent number of units in the capital of the Company.

On March 1, 2018, the Company completed a non-brokered private placement of 57,120,000 special warrants of the Company at a price of \$0.05 per special warrant for gross proceeds of \$2,856,000. Each special warrant entitled the holder to receive, without payment of any additional consideration or need for further action, one unit of the Company, each unit comprising one common share and one share purchase warrant; each warrant entitling the holder to acquire one additional share at \$0.05 for a period of 24 months. An additional 5,292,000 special warrants were issued as finders' fees with the same terms as the special warrants received pursuant to the private placement. The fair value of \$264,600 was charged to warrant issue costs. On July 1, 2018, the Company converted the special warrants and special finders' warrants into an equivalent number of units in the capital of the Company.

On April 30, 2018, the Company completed a non-brokered private placement of 12,690,000 special warrants of the Company at a price of \$0.05 per special warrant for gross proceeds of \$634,500. Each special warrant entitled the holder to receive, without payment of any additional consideration or need for further action, one unit of the Company, each unit comprising one common share and one share purchase warrant; each warrant entitling the holder to acquire one additional share at \$0.05 for a period of 24 months. An additional 61,000 special warrants were issued as finders' fees with the same terms as the special warrants received pursuant to the private placement. The fair value of \$61,000 was charged to warrant issue costs. On September 1, 2018, the Company will convert the special warrants and special finders' warrants into an equivalent number of units in the capital of the Company.

On May 25, 2018, the Company issued 40,000,000 units in the capital of the Company at a deemed price of \$0.05 per unit for gross proceeds of \$2,000,000. Each unit consists of one Series 1 Convertible Preferred share (a "Preferred Share") and one preferred share purchase warrant; each warrant (a "Warrant") is exercisable by the holder to acquire one additional Preferred Share in the capital of the Company at a price of \$0.05 for a period of 24 months following the issuance date. A total of 4,000,000 special finders' warrants as finder's fees were granted with a fair value of \$141,440; each special finder warrant entitling the holder to acquire one additional common share at \$0.05 for a period of 24 months. The fair value of the special finders' warrants was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - \$0.05; exercise price - \$0.05; expected life - 2 years; volatility - 147%; dividend yield - \$0; and risk-free rate - 1.96%.

On June 12, 2018, the Company issued 94,355,026 common shares at a price of \$0.33 per common share for gross proceeds of \$31,137,159. In consideration for their services, the underwriters received a cash commission of \$2,067,500 and the Company paid other legal and finder's fees of \$64,000. A total of 5,182,365 finder's warrants were granted with a fair value of \$1,209,136; each finder warrant entitling the holder to acquire one additional common share at \$0.33 for a period of 24 months. The fair value of the finders' warrants was determined using the Black Scholes Option Pricing Model with the following assumptions: stock price - \$0.33; exercise price - \$0.33; expected life - 2 years; volatility - 147%; dividend yield - \$0; and risk-free rate - 1.90%.

On July 28, 2018, the Company has the obligation to issue 40,000,000 Series 1 Convertible Preferred shares pursuant to the exercise of preferred share purchase warrants for \$2,000,000.

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Use of Proceeds

During the year ended July 31, 2018, the Company completed the Placements for net proceeds of approximately \$39,000,000. The Company intends to use the net proceeds to fund financing agreements, general working capital and to investigate other opportunities. The table below provides a breakdown of the intended use, the amounts used to date and any variances.

<b>Intended use of proceeds of Placements</b>		<b>Incurred as at July 31, 2018 (approximate)</b>	<b>Variances</b>
Fund Financing Agreements (60%)	\$23,400,000	(\$nil)	No financing agreements were completed during the year.
General Working Capital (20%)	\$7,800,000	(\$3,094,186)	No variances anticipated
Investigate other Opportunities (20%)	\$7,800,000	(\$1,933,500)	No variances anticipated <sup>1</sup>
<b>Total</b>	<b>\$39,000,000</b>	<b>(\$5,027,686)</b>	

1. Management decided not to proceed with the previously-disclosed proposed royalty agreement with Desert Horizons Ltd. ("**Royalty Agreement**"). The costs incurred are diligence costs payable to third parties in connection with negotiating the Royalty Agreement.

Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Company to achieve its objectives

**Selected Annual Information**

The following table sets forth selected audited financial information for the Company for the three most recently completed financial years ended July 31, 2018, July 31, 2017 and July 31, 2016. The financial information below has been prepared in accordance with IFRS.

<b>For the year ended (Expressed in Canadian dollars)</b>	<b>July 31, 2018</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	-	-	-
Gross loss	7,825,089	32,424	58,760
Net loss	7,825,089	32,424	58,760
Basic and diluted loss per share	(0.26)	(0.01)	(0.02)
Cash	33,905,759	20,265	1,585
Total assets	34,566,033	22,334	3,934
Total liabilities	340,042	157,991	107,167
Working capital (deficit)	34,225,991	(135,657)	(103,233)
Shareholders' equity (deficiency)	34,225,991	(135,657)	(103,233)
Dividends	-	-	-
Number of preferred shares outstanding at year end	40,000,000	-	-
Number of common shares outstanding at year end	227,787,662	2,843,636	2,843,636

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**Results of Operations**

The following is a breakdown of the expenses incurred by the Company for the year ended July 31, 2018 and 2017.

For the year ended July 31,	2018	2017
<b>Expenses</b>		
Advertising and promotion	\$ 1,164,458	\$ 1,508
Investor relations	31,851	-
Consulting fees	1,933,550	6,000
General and administration	93,861	1,285
Foreign exchange loss	377,265	-
Share based compensation	3,250,476	-
Salaries and benefits	244,526	-
Rent	84,670	-
Professional fees	461,195	14,717
Transfer agent and filing fees	76,869	5,919
Travel	106,368	2,995
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (7,825,089)</b>	<b>\$ (32,424)</b>
<b>Loss per share, basic and diluted for the year</b>	<b>\$ (0.26)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>30,039,081</b>	<b>2,843,636</b>

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, due diligence work performed for financing deals and related duties. Explanations of the nature of costs incurred, along with explanations for those significant changes in costs are discussed below:

- Advertising and promotion consists of marketing costs to promote the Company. The increase is a result of the Company's officers increasing their presence at several key industries related conferences throughout the year. Furthermore, the Company created brand awareness through programs in North America. This effort has led to several letters of intent and helps to establish the Company as a market leader in the legal cannabis industry.
- Investor relations fees increased as the Company published news releases throughout the year to the Company's investors.
- Consulting and management fees increased significantly as the Company continues to explore royalty opportunities with companies in the legal cannabis industry. The Company relies heavily on Consultants to help them achieve their goals on all facets of business and these consultants bring a wide range of expertise and connections to the Company. Consultants include Management, Advisors, Technical Support and other support roles.
- General and administration relates to general office expenditures and its increase is a result of the Company's activity level during the period along with other costs associated with operations in the Company's office in Toronto.
- Foreign exchange loss relates to fluctuations in foreign exchange rate.
- The Company granted 16,468,727 stock options to various consultants, directors and key management with an exercise price of \$0.33 with a 5-year term. The Company used the Black Scholes Pricing Model and determined the fair value was \$3,250,476.

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- Salaries and benefits increased as a result of the Company hiring additional employees to support the growth of business and its corporate finance department. Furthermore, the Company paid its CEO and President salaries for their services.
- The Company signed an office lease in Toronto and Vancouver. The Company offsets a portion of its lease by sub-leasing their office space.
- Professional fees increased due to accounting and legal fees associated with preparing the Company's filing with the CSE that was completed during the year, the preliminary prospectus and professional fees incurred on due diligence of the various royalty agreements the Company entered into.
- Transfer agent and filing fees increased as a result of listing fees to the CSE in respect to the Company's listing that was completed after the period end.
- Travel increased as a result of flights to various industry conferences and meetings in furtherance of financing opportunities.

**Summary of Quarterly Results**

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

	<b>July 31 2018 \$</b>	<b>Apr. 30 2018 \$</b>	<b>Jan. 31 2018 \$</b>	<b>Oct. 31 2017 \$</b>	<b>Jul. 31 2017 \$</b>	<b>Apr. 30 2017 \$</b>	<b>Jan. 31 2017 \$</b>	<b>Oct. 31 2016 \$</b>
<b>Total revenues</b>	-	-	-	-	-	-	-	-
<b>Total assets</b>	34,566,033	5,699,709	2,842,588	24,915	22,334	3,440	4,143	3,810
<b>Long term liabilities</b>	-	-	-	-	-	-	-	-
<b>Net loss and comprehensive loss</b>	(6,807,138)	(742,747)	(219,127)	(56,077)	(24,854)	(5,390)	(1,267)	(913)
<b>Net loss per share – Basic and diluted</b>	(0.06)	(0.26)	(0.08)	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)

The amount and timing of expenses and availability of capital resources vary substantially from quarter to quarter, depending on the level of activities being undertaken for royalty financing opportunities at any time and the availability of funding. Q2 2018 saw a large increase over prior quarters as a result of consulting and management fees for royalty financing opportunities and professional fees incurred in respect of the Royalty Agreement and listing costs with the CSE. Q4 2018 saw a large increase as the Company's operations ramped up and pursued several potential royalty agreements, incurring due diligence, accounting, consulting and legal expenses. The Company hired employees and pursued marketing programs and consultants to increase brand awareness and pursue new royalty opportunities. Furthermore, \$3,250,476 of Q4 2018 fees relates to non-cash share-based compensation.

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**Liquidity**

At July 31, 2018, the Company had cash of \$33,904,759, 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, preferred shares, exercise of warrants, exercise of options and debt financing. The Company raised further monies from warrant exercises subsequent to year end.

**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.

The Company entered into an office lease that expires on September 2, 2020. The Company is committed to the following estimated annual payments:

	\$
2019	257,441
2020	257,441
2021	42,907
	<u>557,789</u>

**Working Capital**

At the year ended July 31, 2018, the Company had working capital of \$34,681,876 (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	July 31, 2018	July 31, 2017
Total Assets	\$ 34,566,033	\$ 22,334
Total Liabilities	340,042	157,991
Working Capital (deficiency)	34,225,991	(135,657)
Shareholder's Equity (deficiency)	34,225,991	(135,657)

**Cash Used in Operating Activities**

Net cash used in (provided by) operating activities during the year ended July 31, 2018 was \$5,027,686 (2017 – (\$15,694)) which mainly consisted of cash spent for the initiation of the business, general working capital, consulting and professional fees for royalty financing opportunities, due diligence and the Company's listing with the CSE. The Company entered into several multi-month marketing contracts that is included in prepaid expenses of \$530,648 (2017 - \$1,211) and paid off trade and other payables of \$206,132 (2017 - \$47,838).

**Cash Used in Investing Activities**

The Company used NIL cash in investing activities for the year ended July 31, 2018 and 2017.



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**Cash Generated by Financing Activities**

Total net cash generated during the year ended July 31, 2018 was \$38,912,180 (2017 - \$2,986). The Company completed several financings, including non-brokered preferred share issuances, special warrant issuances and private placements.

**Off-Balance Sheet Arrangements**

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

**Transactions with Related Parties**

The Directors and Executive Officers of the Company for the year ended July 31, 2018 were as follows:

Paul Rosen	Chief Executive Officer and Director
Terry Taouss	President
Theo van der Linde	Chief Financial Officer and Director
Courtland Livesley-James	VP Strategy
Kathryn Witter	Secretary
Brendan Purdy	Director
Brian Penny	Director
Stuart Wooldridge	Director

Formal management and/or consulting contracts are currently being reviewed.

Key management personnel are persons responsible for planning, directing and controlling the activities of the Company, and include all directors and officers. Key management compensation for the year ended July 31, 2018 and 2017 are comprised of the following:

	July 31, 2018 \$	July 31, 2017 \$
Consulting and management fees paid to a private company controlled by Paul Rosen	225,000	-
Salary paid to Paul Rosen	78,795	-
Salary paid to Terry Taouss	82,097	-
Salary paid to the VP of corporate development	19,528	-
Consulting and management fees paid to a private company controlled by Stuart Wooldridge	7,500	-
Consulting and management fees paid to a private company controlled by Theo van der Linde	67,935	-
Consulting and management fees paid to a private company controlled by Kathryn Witter	46,500	6,000
Consulting and management fees paid to a private company controlled by Courtland Livesley-James	116,667	-
Rent paid to a private company controlled by Theo van der Linde	9,100	-
Share based compensation	1,651,395	
<b>Total</b>	<b>2,304,517</b>	<b>6,000</b>

As at July 31, 2018, the Company owed \$18,685 (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.

As at July 31, 2018, the Company had a loan payable of \$10,000 (2017 - \$30,000). The loan is unsecured, non-interest bearing and due on demand.

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**Proposed Transactions**

There are no proposed transactions at the date of this report that have not been disclosed.

Management decided not to proceed with the announced royalty letter of intent signed with the Illinois Cannabis Company and the Palm Desert Cannabis Company.

**Subsequent Events**

**CannaRoyalty Letter of Intent:**

On August 27, 2018, the Company entered into a binding letter of intent ("LOI") with CannaRoyalty Corp. ("CannaRoyalty") to acquire 1,500 units in Alternative Medical Enterprises, LLC ("AltMed") and a royalty on U.S. and international sales of the MüV™ product line for aggregate consideration of \$8,000,000 in a combination of cash and common stock. The closing of the transaction is subject to, among other things, the satisfactory completion of due diligence and the receipt of all corporate and regulatory approvals.

**Diem Definitive Agreement:**

On August 31, 2018, the Company entered into a definitive agreement with Diem Cannabis ("Diem") to provide Diem with up to US\$12.5 million (the "Financing") over the next three years to develop and operate a large-scale cultivation and processing facility and up to four dispensaries in Massachusetts ("Business Plan"). The Financing will be secured by all of Diem's assets and shares, membership interest and other equity interests in Diem. The Company will be entitled to the equivalent of 15% of all net sales generated by the financed operations in Massachusetts.

On September 26, 2018, the Company converted 4,000,000 special finder's warrants into an equivalent number of units in the capital of the Company. As of October 31, 2018, the Company has not yet issued the 4,000,000 units in the capital of the Company pursuant to the conversion of the 4,000,000 special finders' warrants.

The Company intends to make a \$3,000,000 equity investment in an arms-length cannabis brands company ("California Company") that owns and operates two dispensaries and a cultivation facility in California. Each purchased unit will consist of one 12.0% unsecured convertible debenture of the California Company in the principal amount of \$1,000 and 87 common share purchase warrants of the California Company, each exercisable for one common share at an exercise price of \$8.60 for a period of 2 years. The Company's subscription amount is currently being held in escrow pending closing. If the closing does not occur, the entire subscription amount will be returned to the Company.

Subsequent to year end, the Company issued 12,700,000 common shares for gross proceeds of \$635,000 pursuant to warrant exercises.

After the close of trading on September 10, 2018, OTC Markets ceased trading Tidal Royalty's common shares under the symbol "TDRYF" as a result of an October 12, 2010 order issued by the Securities Exchange Commission ("SEC") revoking the registration of the common shares of a predecessor company to Tidal Royalty, Elkhorn Gold Mining Corp., for filing deficiencies pursuant to Section 12(j) of the Securities Exchange Act of 1934. As a result, broker-dealers in the United States are currently unable to effect transactions in the United States markets under the trading symbol TDRYF.

On October 17, 2018 Tidal Royalty filed a registration statement on Form 20-F with the SEC that Tidal Royalty expects will rectify the historical filing deficiencies of the predecessor entity and permit FINRA (the Financial Industry Regulatory Authority that regulates the OTC Markets) to reinstate Tidal Royalty's eligibility for quotation on the OTC Markets. Tidal Royalty is hopeful its common shares will resume trading on the OTC Markets before the end of the calendar year.

Filing of the Form 20-F does not guarantee that trading of Tidal Royalty's common shares on the OTC Markets will recommence in the near term or at all. The SEC may provide comments on Tidal Royalty's Form 20-F delaying or restricting the recommencement of trading. Tidal Royalty's common shares continue to trade publicly on the CSE under the symbol RLTY.U.

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**Outstanding Share Data**

At October 30, 2018, the date of this MD&A, there are:

Securities*	Number
Common shares	258,397,661
Special warrants	4,000,000
Share purchase warrants	129,661,365
Stock options	17,568,727
Preferred shares	40,000,000

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.

**Additional Disclosure for Venture Issuers without significant revenue**

Additional disclosure concerning the Company's expenses is provided in the Company's statement of loss and note disclosures contained in its condensed interim financial statements for the period ended July 31, 2018. These statements are available on SEDAR - Site accessed through [www.sedar.com](http://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 *Controlled Substances Act* of 1970 ("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.

*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.

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**Additional Disclosure for Venture Issuers without significant revenue (continued)**

*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.

**Additional Disclosure for Venture Issuers without significant revenue (continued)**

*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: statements regarding estimated capital requirements and planned use of proceeds. 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. 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](http://www.sedar.com).

**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;

**Risks Factors (continued)**

**Cannabis Industry and Operational Risks (continued)**

- 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;
- 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;

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**Risks Factors (continued)**

- 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 or private 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.

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**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*.

While the Company currently only has ancillary involvement in the U.S. cannabis industry through its financing commitments to Diem, the Company anticipates entering into additional financing arrangements, which may include non-controlling investments in an entity directly involved in the U.S. marijuana industry, and the Company will evaluate, monitor and reassess the following disclosure, and any related risks, on an ongoing basis. The Company's disclosure regarding its marijuana-related activities will be supplemented, amended and communicated to investors in public filings, including in the event of a change in the type of industry involvement of the Company, government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. Although the Company's activities, and the Company believes the activities of the companies it finances, are compliant with applicable U.S. state and local law, strict compliance with state and local laws with respect to cannabis would neither absolve the Company or the entities the Company finances of liability under U.S. federal law, nor provide a defense to any federal proceeding which may be brought against the Company.

*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 the Company's ability to conduct its 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 the Company's 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.



**Risks Factors (continued)**

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

The Company's financings 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 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 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.

**Risks Factors (continued)**

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

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."

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."

**Risks Factors (continued)**

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

The Rohrabacher Blumenauer Appropriations Amendment (originally the Rohrabacher Farr Amendment) has been included in federal annual spending bills since 2014. This amendment restricts the Department of Justice from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. In 2017, Senator Patrick Leahy (D-Vermont) introduced a parity amendment to H.R.1625—a vehicle for the Consolidated Appropriations Act of 2018, preventing federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding (“Leahy Amendment”). The Leahy Amendment was set to expire with the 2018 fiscal year on September 30, 2018; however, Congress approved a nine-week continuing resolution from the 2018 fiscal year (the “Continuing Resolution”). The Continuing Resolution has the result of providing ongoing and consistent protection for the medical cannabis industry until December 7, 2018. Congress has been negotiating the 2019 fiscal year appropriations since February 2018. Although we expect that language protecting the medical cannabis industry will be included in the final 2019 fiscal year appropriations bill, there can be no assurance that the final 2019 fiscal year appropriations bill will include appropriations protecting the medical cannabis industry.

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 resolutions, 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.

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.

**Risks Factors (continued)**

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

*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 chequing 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 (continued)**

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

*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.

**Risks Factors (continued)**

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

*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.

*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.