



**MANAGEMENT DISCUSSION AND ANALYSIS
OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2019**

Stated in United States Dollars

Dated: May 30, 2019



FOR THE THREE MONTHS ENDED MARCH 31, 2019

REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS

Expressed in United States Dollars

TO OUR SHAREHOLDERS

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Planet 13 Holdings Inc. ("P13" or the "Company") should be read in conjunction with P13's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 and the audited annual financial statements for the year ended December 31, 2018 and related notes therein.

Except as otherwise indicated, all financial data in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All dollar amounts in this MD&A are reported in United States Dollars except where otherwise indicated. As at March 31, 2019, the Company had a working capital surplus of \$19,701,315 and had reported a net loss of (\$1,423,344) for the three months ended March 31, 2019.

Further information about the Company, its operations and other continuous disclosure documents, including the Company's annual information form, press releases and management information circular are available through filings with the securities regulatory authorities in Canada under the Company's profile (Planet 13 Holdings Inc.) at www.sedar.com.

A CAUTIONARY NOTE

This document contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future supply, demand, inventory, production and price of minerals, the estimation of reserves and resources, the realization of reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the Company's business model; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks related to capital raising due to heightened regulatory scrutiny; risks related to quantifying the Company's target market; risks related to access to banks and credit card payment processors; risks related to lack of U.S. federal trademark and patent protection; risks related to the enforceability of contracts; risks related to potential violation of laws by banks and other financial institutions; risks related to service providers withdrawing or suspending services under threat of prosecution; risks related to tax liabilities; and heightened scrutiny by Canadian regulatory authorities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from



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those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward-Looking Information	Key Assumptions	Most Relevant Risk Factors
Future funding for strategic business initiatives	The Company will continue to be able to operate its businesses in the state of Nevada and raise the necessary funds to advance its strategic growth objectives.	Cannabis-Related Practices or Activities are Illegal Under U.S. Federal Laws The concepts of “medical cannabis” and “recreational cannabis” do not exist under U.S. federal law. The U.S. <i>Federal Controlled Substances Act</i> classifies “marijuana” as a Schedule I drug. Accordingly, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under U.S. federal law, nor will it provide a defence to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. Please also refer to those risk factors in the “Risk Factors” section below. Readers are cautioned that the preceding table does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially from those expressed or implied by the forward-looking statements contained in this MD&A.



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Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its anticipated results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

CORPORATE OVERVIEW

The Company is a vertically integrated company active in the cultivation, production, distribution, and retail sale of both medical and recreational cannabis which at the date of this MD&A is restricted to the state of Nevada. The Company holds four cultivation licenses operating at two licensed cultivation facilities, each location operating jointly under a medical and adult-use cultivation license. One cultivation license is located in Clark County Nevada (Las Vegas) in an approximately 15,000 square foot facility with indoor cultivation and a perpetual harvest cycle. This facility has a current production capacity of approximately 2,100 lbs/year (950 kg/year) of dried cannabis. The second cultivation license is located near the town of Beatty in Nye County, Nevada. The facility currently houses approximately 500 square feet of research and development and genetics testing. The Beatty site has the potential for over 2,300,000 square feet of greenhouse production capacity on 80 acres of owned land with municipal water and abundant electrical power already at the edge of the property. The Company also has four production licenses operating at two licensed production facilities, each location operating jointly under a medical and adult-use cultivation license, one in Clark County that is co-located within the cultivation facility and is approximately 2,300 square feet and incorporates butane hash oil extraction (BHO extraction), distillation equipment and microwave assisted extraction equipment, and the second co-located at the Beatty facility. The Company also has two dispensary licenses operating at one licensed dispensary facility, one license is medical and the other is for adult-use retail sales. The licenses operate out of the same joint location and presently occupy approximately 16,000 square feet of retail space located adjacent to the Las Vegas Strip where the Company opened, on November 1, 2018, a cannabis entertainment complex (the "**Planet 13 Superstore**"). The Planet 13 Superstore is open 24 hours/day, seven days per week. Prior to November 1, 2018, the licenses operated out of a 2,300 square feet facility located approximately six miles off the Las Vegas Strip. The licenses were transferred to the Planet 13 Superstore location on October 31, 2018. The Planet 13 Superstore opened on schedule to the public on November 1, 2018. The Planet 13 Superstore has the capacity to serve up to 5,000 customers per day through its new, enhanced dispensary. It is the Company's plan to build out the balance of the Planet 13 Superstore location with ancillary offerings such as a coffee shop, merchandise store and CBD store selling the Company's Planet M branded CBD products and a potential cannabis lounge in a segregated area of the facility where patrons will be able to consume products that have been purchased at the dispensary should the state and county pass the necessary legislation that legalizes consumption lounges and the Company is successful in obtaining a license for such activity. The Planet 13 Superstore also houses the Company's corporate offices. In addition, as part of the Phase II buildout, which includes the coffee shop/bistro and an event space, the Company is constructing a 14,000 square feet advanced production facility. Upon completion, the new production facility will enable the Company to expand its vertical integration and increase the amount of its own branded products that are sold in the Planet 13 Superstore as well as re-entering the wholesale market selling concentrates, edibles and infused beverages. Upon completion of the production facility build out, anticipated to be in Q3 2019, the Company will transfer its current production license in Clark County to the Planet 13 Superstore location and then expand its cultivation space into the area currently housing the production facility. The Company intends to acquire two additional licenses (medical and recreational) either through the next round of license grants or



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through an acquisition of existing licenses and transfer them to the Company's Medizin dispensary that was closed when the licenses were transferred to the Planet 13 Superstore so that it will be able to re-start operations out of the Medizin location, which remains approved under a special-use permit with Clark County, Nevada for dispensary operations. The Company has also been granted a distribution license and is working towards launching a distribution and delivery service in Nevada to augment its retail locations and be able to deliver product to customers throughout the state of Nevada.

The Company was incorporated on March 20, 2014 as a domestic limited liability company (LLC). On March 14, 2018, MMDC underwent a statutory conversion to a Nevada domestic corporation named MM Development Company, Inc. ("MMDC"). On June 11, 2018, the Company then completed a reverse-take-over ("RTO") transaction of Carpincho and the resulting entity was renamed Planet 13 Holdings Inc. MMDC continues to exist and conducts licensed Nevada state cannabis operations and is owned 100% by the Company.

The Company opened its Medizin medical cannabis dispensary on April 1, 2016 and released its own Medizin branded strains/products into the market on July 1, 2017. Recreational cannabis became legal in the state of Nevada for any one over the age of 21 on July 1, 2017 and the Company began selling recreational cannabis products under the Planet 13 brand under its recreational dispensary license co-located with the Medizin dispensary located at 4850 W Sunset Road, Suite 130, Las Vegas Nevada. On October 31, 2018 the Company closed this dispensary and transferred the licences to the Planet 13 Superstore, which opened for business on November 1, 2018 and is located at 2548 W. Desert Inn Road, Las Vegas, Nevada

The focus of activity during the three months ended March 31, 2019 has been to continue to grow and provide cannabis and cannabis related products to the Company's medical cannabis and recreational customers as well as opening the Planet 13 Superstore location on November 1, 2018 selling branded recreational and medical cannabis products and related cannabis products to its growing customer base. The legalization of the sale and consumption of recreational cannabis came into effect in the State of Nevada on July 1, 2017.

DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Marijuana-Related Activities ("**CSA Notice 51-352**"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved. In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

Use of Cannabis

Marijuana is a preparation of the leaves and flowering tops of cannabis sativa, the hemp plant which contains several pharmacologically active principles (cannabinoids).

Medical cannabis refers to the use of cannabis and its constituent cannabinoids, such as tetrahydrocannabinol ("**THC**") and cannabidiol ("**CBD**"), as medical therapy to treat disease or alleviate symptoms. The cannabis plant has a history of medicinal use dating back thousands of years across many cultures.

Smoking cannabis is the most traditional form of ingestion and consists of smoking the dried flowers or leaves of the cannabis plant. Cannabis can be smoked through a pipe, rolled into a joint (or cigarette), or smoked using a water pipe (bong). Vaporizing involves using a vaporizer, which is a device that is able to extract the therapeutic ingredients in the cannabis plant material at a much lower temperature than required for burning. This allows users to inhale the



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active ingredients as a vapor instead of smoke. Many medical marijuana patients find that vaporizing offers an improved medical effectiveness, compared to smoking.

Topical cannabis encompasses herbal medicines that are applied directly to the skin or muscles. They include lotions, salves, balms, sprays, oils, and creams. Some patients report they are effective for skin conditions like psoriasis, joint diseases like rheumatoid arthritis, migraines, restless leg syndrome, some spasms, and everyday muscle stress and soreness. Unlike smoking, vaporizing or eating cannabis, topical products which are typically low in THC and higher in CBD are generally non-psychoactive.

Nevada

Despite legal, regulatory and political obstacles, the U.S. cannabis industry continues to experience substantial growth. Nevada was one of the first states to legalize adult-use cannabis and is projected to remain a significant market in the U.S., largely due to the tourism industry. As reported by the Nevada Department of Taxation, medical and adult-use sales totalled \$252,076,486 in the first six months following legalisation on July 1, 2017, and totalled \$580,113,455 for the year ended December 31, 2018.

LEGAL AND REGULATORY MATTERS

United States Federal Overview

In the U.S. 33 states and Washington D.C. have legalized medical marijuana, while nine states and Washington D.C. have also legalized adult-use marijuana. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the U.S. Controlled Substance Act of 1970 (the "CSA"). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

While technically illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis programs. The Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by former 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 known as 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



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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 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. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, and Matthew Whitaker serving as Acting United States Attorney General, William Barr was appointed as US Attorney General on January 15, 2019. William Barr stated at his confirmation hearing to the Senate Judiciary Committee that he would "not go after companies" that had relied upon the Obama-era guidance (the Cole Memorandum) that former Attorney General Jeff Sessions had rescinded in states where cannabis has been legalized. It is unclear what impact, if any, Attorney General William Barr's comments will have on the enforcement of federal regulation of marijuana in the United States. In Nevada, the U.S. Attorney has yet to make any comments regarding the revocation of the Cole Memorandum or indicate any changes to enforcement priorities.

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum, a nationwide "crackdown" is unlikely. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump administration. It is also possible that the rescission of the Cole Memorandum could motivate Congress to finally reconcile federal and state laws. Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the U.S. has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018 prior to the Cole Memorandum being rescinded. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("**SAR**") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memo**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.



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However, former 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 be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it is difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution. Furthermore, on January 15, 2019, US Attorney General William Barr stated during his confirmation hearings and to the Senate Judiciary panel that, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum."

In the U.S., a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the U.S., transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts (currently the "**Rohrabacher-Leahy Amendment**") 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 Leahy Amendment expired with the 2018 Fiscal Year on September 30, 2018, however, on May 17, 2018, the United States House of Representatives Appropriations Committee approved inclusion of the Rohrabacher-Farr amendment in the Commerce, Justice, Science, and Related Agencies ("**CJS**") appropriations bill for fiscal year 2019 (H.R. 5952), in a voice vote led by sponsor Rep. David Joyce, which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019 (September 30, 2019), known as the "Joyce Amendment". The United States Senate Appropriations Committee followed on June 12, 2018 by approving a base CJS appropriations bill with the Joyce Amendment included (S. 3072). On February 15, 2019, President Trump signed a continuing resolution through September 15, 2019 which continued funding for the DOJ with the medical marijuana restrictions still in place

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow. It was anticipated that the federal government would eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco.

Given current political trends, however, these developments are considered unlikely in the near-term. As an industry best practice, despite the recent rescission of the Cole Memorandum, the Company intends to abide by the following to ensure compliance with the guidance provided by the Cole Memorandum:

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted for adult-use, the products are only sold to individuals who meet the requisite age requirements);



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- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures in place to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretence for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company may (and frequently does) conduct background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

Nevada State Level Overview

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioural Health (the "**Division**") licensed medical marijuana establishments until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation ("**DoT**"). In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process was merit-based, competitive, and is currently closed.

Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Under Nevada's adult-use marijuana law, the DoT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months after legalization, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.



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The issuance of retail marijuana distribution licenses has been subject to an ongoing legal battle after the DoT opened distribution licenses to existing medical marijuana establishments based on the premise that there was an insufficient number of applications from existing liquor distributors to service the new adult-use cannabis market. There are currently 24 licensed distributors that are medical marijuana establishments and six licensed distributors that are liquor distributors.

In February 2017, the DoT announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses expire at the end of the year and, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana. All cannabis cultivated, and infused products produced under the adult-use program that were not existing inventory at a medical marijuana dispensary must be transported to retail marijuana stores utilizing a licensed retail marijuana distributor. Starting on July 1, 2017, medical and adult-use marijuana became subject to a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis is subject to an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

The DoT is responsible for licensing and regulating retail marijuana businesses and medical marijuana program in Nevada. There are five types of retail marijuana establishment licenses:

- *Cultivation Facility* – Licenses to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- *Distributor* - Licenses to transport marijuana from a marijuana establishment to another marijuana establishment.
- *Product Manufacturing Facility* - Licenses to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers.
- *Testing Facility* - Licenses to test marijuana and marijuana products, including for potency and contaminants.
- *Retail Store* - Licenses to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

The regular retail marijuana program began in early 2018. The *Regulation and Taxation of Marijuana Act* specifies that, for the first 18 months of the program, only existing medical marijuana establishment certificate holders can apply for a retail marijuana establishment license. As that restriction expired in November 2018, on December 5, 2018, DOT expanded the application process and awarded an additional 61 licenses for retail marijuana dispensaries in Nevada. The regular program is governed by permanent regulations found in Nevada Administrative Code Sections 453A and 453D. As of April 30, 2019, all licenses awarded under the December 5, 2018 application announcement remain provisional, and are subject to ongoing litigation between applicants and the State of Nevada.

U.S. Legal Advice

The Company is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its U.S. counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company is not aware of the receipt by any of its subsidiaries of noncompliance orders, citations or notices of violation, that may have an impact on such entities' licenses, business activities or operations.



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Regulatory Risks

The U.S. 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. 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 Company. 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 its 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 outcome becomes probable and reasonably estimable.

The U.S. 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 Company 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 earnings and could make future growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of the Company and which cannot be reliably predicted.

The Company expects to derive the majority of its revenues from the U.S. 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, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company remains focused in the state of Nevada, which has legalized the medical and recreational adult-use of cannabis, but the Company is moving forward with plans to expand in other states with licensed marijuana opportunities. 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 regard to the sale and disbursement of medical or recreational adult-use use marijuana 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 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 business would be materially and adversely affected. 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. The Company's involvement in the medical and recreational adult-use cannabis industry is illegal under the applicable federal laws of the United States and may be illegal under 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



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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

The Company has a material direct involvement in the cannabis industry in Nevada. Currently, the Company is directly engaged in the cultivation, manufacture and production, possession, use, sale and distribution of cannabis in the medical and adult-recreational use cannabis marketplace in Nevada. Approximately 100% of the Company's assets and revenues are directly attributable to the medical and recreational adult-use cannabis market in Nevada. The Company holds cultivation, production and retail distribution licenses for the State of Nevada.

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 and profitability. 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 cannabis laws may be subject to change or may not proceed as previously outlined.

The Company's involvement in the U.S. cannabis industry is presently only in the state of Nevada. The Company may, in future periods, expand its operations outside of Nevada and intends to restrict such future expansion to (i) only in those states that have enacted laws legalizing cannabis; and (ii) only in those state's where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

In addition, the Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management.

The Company will continue to monitor, evaluate and re-assess the regulatory framework in the state of Nevada and any state that it may look to expand its operations to in the future, 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 the U.S. that involve money laundering, financial recordkeeping 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) 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.. 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.

The Company's activities, 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 or effect other distributions. Furthermore, while the Company has no current intention to declare or pay dividends on its



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common shares (the “**Common Shares**”) in the foreseeable future, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Ability to Access Private and Public Capital

Prior to the RTO, the Company relied entirely on access to private capital in order to support its continuing operations and capital expenditure requirements. The Company expects to rely on both private and public capital markets to finance its growth plans 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, the Company has been successful and believes it will continue to be successful in raising private and public financing in the future. 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.

Compliance with Nevada State Law

The Company complies with applicable Nevada state licensing requirements as follows: (i) MMDC is licensed pursuant to applicable Nevada state law to cultivate, possess, distribute, and make medical and adult-use retail sales of marijuana in Nevada; (ii) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (iii) random internal audits of the Company’s business activities are conducted by the applicable Nevada state regulator and by the Company to ensure compliance with applicable Nevada state law; (iv) each employee of the Company is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked and using scanners to confirm each customer’s legal age and the validity of each customer’s drivers’ license; (v) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (vi) software is used to track marijuana inventory from seed-to-sale (as defined herein); and (vii) the Company is contractually obligated to comply with applicable Nevada state law in the United States in connection with the cultivation, possession and/or distribution of marijuana in Nevada.

The Company has a full time General Counsel, Leighton Koehler, on staff in Nevada, who is a licensed attorney under the State Bar of Nevada, in good standing, whose responsibilities include monitoring the day to day activities of staff, including ensuring that the established standard operating procedures are being adhered to at each stage of the cultivation, processing and distribution cycle, to identify any non-compliance matters and to put in place the necessary modifications to ensure compliance. Mr. Koehler, in his capacity as General Counsel, performs monthly, unannounced audits against the Company’s established standard operating procedures and State of Nevada regulations. Each employee is provided with an employee handbook outlining the standard operating procedures and state regulations upon hiring and is then provided with one on one quality and regulatory training by the General Counsel.

The Company’s licenses are in good standing to cultivate, possess and/or wholesale marijuana in the State of Nevada and the Company, through MMDC, is following a regulatory program. MMDC has not experienced any non-compliance nor has it been subject to any notices of violation by the State of Nevada.

The Company is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its General Counsel, Leighton Koehler, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company’s General Counsel also works with external legal advisors in Nevada to ensure that the Company and MMDC are in on-going compliance with applicable Nevada state law, including:



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- quarterly independent regulatory consultant inspections and reviews with written findings and recommendations,
- weekly correspondence and updates with advisors;
- development of standard operating procedures with respect to cultivation, processing and distribution;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure compliance with the FinCEN Memorandum.

The Company, through MMDC, has not received any noncompliance orders, citations or notices of violation, that may have an impact on MMDC's licenses, business activities or operations.

In addition, the Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. See "Risk Factors".

Reporting Requirements

The State of Nevada has selected Franwell Inc.'s METRC solution ("METRC") as the state's track-and-trace system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements. For all Nevada licensed facilities, the Company has designated an in-house computerized seed-to-sale software that integrates with METRC via an application programming interface. BioTrackTHC, the Company's chosen seed-to-sale system, captures the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes sections 453A and 453D.

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Company is required to do the following:

- have an enclosed, locked facility.
- have a single secure entrance.
- train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring.
- install security equipment to deter and prevent unauthorized entrances, which includes:
- have devices that detect unauthorized intrusion which may include a signal system;
- have exterior lighting to facilitate surveillance;
- have electronic monitoring including, without limitation:
 - at least one call-up monitor that is 19 inches or more;



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- a video printer capable of immediately producing a clear still photo from any video camera image;
- video cameras with a recording resolution of at least 704 x 480 which provide coverage of all entrances to and exits from limited access areas and all entrances to and exits from the building and which can identify any activity occurring in or adjacent to the building;
- a video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;
- a video camera in each grow room which can identify any activity occurring within the grow room in low light conditions;
- a method for storing video recordings from the video cameras for at least 30 calendar days;
- a failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system; and
- sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage;
- install a security alarm to alert local law enforcement of unauthorized breach of security; and
- implement security procedures that:
 - restrict access of the establishment to only those persons/employees authorized to be there;
 - deter and prevent theft;
 - provide identification (badge) for those persons/employees authorized to be in the establishment;
 - prevent loitering;
 - require and explain electronic monitoring; and
 - require and explain the use of automatic or electronic notification to alert local law enforcement of an unauthorized breach of security.

SIGNIFICANT EVENTS AND TRANSACTIONS TO THE PERIOD

Prior to July 1, 2017 the Company was focused solely on the medical cannabis market through its Medizin branded products, selling high quality products, predominately produced by the Company directly through its vertically integrated operations (cultivation, production of consumable products and the sale of such through its licensed dispensary). The Company created the Planet13 brand in order to distinguish its medical and recreational branded products and began selling products to recreational customers out of its revamped 2,300 square foot Planet13 and Medizin co-branded, licensed (both medical and recreational licenses), dispensary located at 4850 W Sunset Rd #125, Las Vegas, Nevada. The Company experienced significant month-over-month revenue growth as the number of customer visits and the average spend per customer increased significantly over the 6-month period from July 1, 2017 to December 31, 2017. The average number of customers per day has continued to increase subsequent to the period end. Customer demand also led the Company to extend the operating hours of its Medizin dispensary to 24 hours a day and the new Planet 13 Superstore is open 24 hours, seven days a week, 365 days per year. The Company has organically grown its customer database to over 44,000 unique customers and has introduced a customer loyalty



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program to help continue to drive both customer visits and product demand. The Company experienced the following average daily customer traffic and spending since the opening of the Planet 13 Superstore on November 1, 2018:

	30-Nov-18	31-Dec-18	31-Jan-19	28-Feb-19	31-Mar-19	30-Apr-19
Revenue	\$ 3,364,891	\$ 3,483,723	\$ 4,075,052	\$ 4,304,122	\$ 5,493,097	\$ 5,275,840
MoM growth		3.5%	17.0%	5.6%	27.6%	-4.0%
Total Tickets	42,157	44,296	48,119	48,052	61,602	58,869
# of Days	30	31	31	28	31	30
Average customers/day	1,405	1,429	1,552	1,716	1,987	1,962
Avg ticket	\$ 79.82	\$ 78.65	\$ 84.69	\$ 89.57	\$ 89.17	\$ 89.62
Total Visitors	55,433	68,422	70,133	67,900	99,000	96,659
Avg visitors/day	1,848	2,207	2,262	2,425	3,194	3,222
Visitor conversion rate	76%	65%	69%	71%	62%	61%

Since opening the Planet 13 Superstore dispensary on November 1, 2018, revenue has grown at an average of 9.4% per month and the average number of daily customers has grown by 6.9% month over month. The average ticket size has also increase by 2.3% month over month starting at \$79.82 in the month of November and increasing to an average of \$89.62 for the month of April.

Prior to opening the Planet 13 Superstore the Company experienced the following average daily traffic and spending at its Medizin dispensary location from January 1, 2018 to October 29, 2018 the Medizin store was closed. The licenses were then transferred to the Planet 13 Superstore location for its opening on November 1, 2018:

	31-Jan-18	28-Feb-18	31-Mar-18	30-Apr-18	31-May-18
Revenue	\$ 1,031,879	\$ 1,229,853	\$1,338,750	\$ 1,402,030	\$ 1,471,959
MoM growth	na	19.2%	8.9%	4.7%	5.0%
Total Tickets	14,783	17,631	19,307	19,906	20,890
# of Days	31	28	32	30	31
Average customers/day	477	630	603	664	674
Avg ticket	\$ 69.80	\$ 69.76	\$ 69.34	\$ 70.43	\$ 70.46

	30-Jun-18	31-Jul-18	31-Aug-18	30-Sep-18	29-Oct-18
Revenue	\$ 1,552,207	\$ 1,625,765	\$1,645,431	\$ 1,643,270	\$ 1,421,997
MoM growth	5.5%	4.7%	1.2%	(0.1%)	(13.5%)
Total Tickets	22,237	23,169	23,865	24,356	21,025
# of Days	30	31	31	30	29
Average customers/day	741	747	770	812	741
Avg ticket	\$ 69.80	\$ 70.17	\$ 68.95	\$ 67.47	\$ 67.63

Note for the month of October the Medizin store closed the morning of October 29, 2018 in order to enable the transfer of the licenses to the Superstore location on November 1, 2018



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The Company experienced an increase of more than 10% in terms of average daily customers and an increase in average ticket size of \$21.54, or 31.8% from October 2018 (the last month the Medizin store was open) to March 2019.

The Company currently operates one licensed indoor grow facility housed in a 15,000 square feet industrial building in Las Vegas (Clark County) with a perpetual harvest cycle and the capacity to produce approximately 2,100 lbs/year (approximately 950 kg/year) of finished product. The significant increase in demand for product, as evidenced by the revenue growth during fiscal 2017 and continuing into the year ended December 31, 2018, caused the Company to have to purchase products from other licensed producers in Nevada in order to meet customer demand, a significant increase over the prior period when the Company only sold its Medizin branded product to medical cannabis patients. The Company's original intention was to remain a fully integrated operator and was in the process of embarking on the expansion of its production capabilities through its cultivation license (both medical and recreational cultivation licenses) on 80 acres of owned land, with access to both municipal water and power, near the town of Beatty (in Nye County, Nevada). The total potential expansion capacity of the Beatty site is approximately 2,300,000 square feet of greenhouse capacity. The current state of the wholesale cannabis market in the state of Nevada has caused the Company to re-evaluate the timing of its planned build out of the Beatty facility. The Company has been able to enter into a series of cannabis supply agreements with licensed producers of quality cannabis product in the state of Nevada that is expected to enable the Company to ensure that it has sufficient inventory on hand to meet the anticipated demand at the Planet 13 Superstore. The Company intends to continue to progress with the planning of the phase 1 buildout of the Beatty facility (by obtaining the necessary permits and approvals to be able to construct approximately 100,000 square feet of greenhouse space and a 43,000 square feet production facility in its planned phase 1 expansion) such that it would be able to aggressively expand its production capacity should there be material changes to the quality and quantity of cannabis and related products that are currently available in the wholesale market. The Company intends to continue to purchase finished product from other third-party licensed producers to complement its own high quality Medizin and Company branded products in order to maintain product variety and to ensure that it has an adequate supply of product on hand to meet anticipated demand.

Bought Deal Financing

On December 4, 2018, the Company issued 8,735,250 units ("**Bought Deal Units**") at a price of CAD\$3.00 per Bought Deal Unit and 425,000 Common Share purchase warrants ("**Over-Allotment Warrants**") pursuant to a bought deal offering (the "**Bought Deal Offering**"). The Bought Deal Offering was led by Beacon Securities Limited and included Canaccord Genuity Corp and Cormark Securities Inc. (collectively, the "**Bought Deal Underwriters**"). Each Bought Deal Unit was comprised of one Common Share and one half of a Common Share purchase warrant (each whole warrant, a "**Unit Warrant**" and, together with the Over-Allotment Warrants, the "**Bought Deal Warrants**"). Each Bought Deal Warrant entitles the holder thereof to purchase one Common Share at an exercise price of CAD\$3.75 for a period of 36 months following the closing. The Bought Deal Warrants may be accelerated by the Company, at its sole option, at any time in the event that the volume-weighted average closing price of the Common Shares on the Canadian Securities Exchange is greater than or equal to CAD\$5.00 for a period of 20 consecutive trading days, by giving notice to the holders thereof and, in such case, the Bought Deal Warrants will expire at 4:00 pm (Toronto time) on the earlier of: (i) the 30th day after the date on which such notice is given by the Company in accordance with the terms of the Bought Deal Warrants, and (ii) the actual expiry date of the Bought Deal Warrants. As consideration for services rendered, the Bought Deal Underwriters were paid a cash commission equal to 6.0% of the gross proceeds of the Bought Deal Offering and issued compensation options equal to 6% of the number of Bought Deal Units and Over-Allotment Warrants sold (the "**Bought Deal Compensation Options**"). Each Bought Deal Compensation Option entitles the holder thereof to purchase one Common Share at an exercise price of CAD\$3.00 for a period of 24 months following the closing of the Bought Deal Offering. Total aggregate gross proceeds on the financing were \$19,965,769 (CAD\$26,392,750) and the Company recorded share issuance costs of \$1,722,572. (All figures are in Canadian dollars unless otherwise stated).



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Use of Available Net Proceeds	Estimated allocation of Net Proceeds CAD\$	Estimated allocation of Net Proceeds US\$ ¹	Actual allocation of Net Proceeds US\$
Phase II build-out of the Planet 13 Superstore (consumption lounge) ²	\$ 9,000,000	\$ 6,792,966	\$ 6,500,000
Expansion of production facilities, coffee shop/bistro and event space	3,620,400	2,732,584	6,000,000
Retail expansion(new dispensary locations)	8,000,000	6,038,192	6,086,385
Operating cash flow	2,000,000	1,509,548	-
General corporate and other working capital purposes	2,004,700	1,513,095	\$ -
Total	\$ 24,625,100	\$ 18,586,385	\$ 18,586,385

1 Based on the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada on December 4, 2018 of US\$1.00 = \$1.3219.

2 The Company is continuing to wait for the State and local government authorities to enact legislation that will enable the Company to apply for an on-site cannabis consumption lounge prior to spending any funds on the buildout of the planned facility.

The Company has commenced with the start of construction of the Phase II build-out, excluding the build-out of the consumption lounge space. The construction of the consumption lounge is contingent upon both the State of Nevada and unincorporated Clark County passing the necessary legislation to allow for the on-site consumption of cannabis and cannabis related products in the jurisdictions in which the Planet 13 Superstore is operating. In the event that the necessary legislation is further delayed or the applicable measure is defeated, it is expected that the Company will re-allocate that portion of the net proceeds that had been allocated to the completion and build-out of the consumption lounge to alternative use such as a non-cannabis retail space and event hosting space and an enhanced co-located production facility at the Superstore location. Approximately \$2,000,000 of the amount allocated to the Phase II build-out has been targeted to the build out of other related and ancillary activities at the Planet 13 Superstore location, including the build-out of the planned premium coffee shop/bistro.

The Phase II build-out is expected to be completed in late Q3/early Q4 2019. Objectives and milestones include:

- completion of the planned coffee shop/bistro;
- completion of planned shells for retail event space at the Company's facilities;
- completion of planned Planet M branded CBD and non-cannabis related merchandise retail store at the Company's facilities; and
- completion of planned build-out of co-located cannabis production facility.

The Company has allocated \$4,000,000 of the net proceeds from the Offering to the expansion of its production facilities in order to support its recently launched Trendi line of products, the expansion of the Company's premium Medizin branded product line-up (which includes disposable vape pens, oils and other related paraphernalia), Company's Leaf & Vine brand, and with the forthcoming additional edibles, beverages and concentrate brands that the Company anticipates launching once the production facility is operational. The Company currently has sufficient space and capital for the expansion in products, and anticipates regulatory approvals to transfer the production facility license to the new production facility.



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The Company has allocated \$6,000,000 of the net proceeds from the Offering to retail expansion which included \$800,000 to obtain a co-located medical and recreational license that will enable the Company to reopen its Medizin dispensary that was closed on October 29, 2018 and the licenses and inventory were transferred to the new Superstore location on October 31, 2018. The Superstore held its grand opening on November 1, 2018. The Company applied for six additional licenses in the State of Nevada but was unsuccessful in obtaining any additional licenses when the State of Nevada awarded licenses on December 5, 2018. The Company, along with other industry participants who were also unsuccessful their applications for new licenses, have launched a lawsuit against the state seeking to overturn the licensing process. There can be no certainty with respect to the outcome of such a lawsuit. Should the Company not be successful with its lawsuit in obtaining a license in this round of grants then it may seek to purchase a license in the open market in order to re-open the Medizin location. The balance of funds allocated to retail expansion include \$5,200,000 to build out new retail locations in Nevada, California and other states where recreational cannabis is legal, and for retail acquisition and other growth opportunities that may arise over the next 12 months. Expansion outside of the State of Nevada is proceeding in-line with Management's plans. Management of the Company has held multiple discussions with potential licensees in other jurisdictions; however, as of the date hereof, those discussions have not progressed to the level of anything more than an interest on both sides to continue to evaluate potential synergies and opportunities. There are no existing agreements to proceed with any such opportunities or restrictions on the Company from pursuing opportunities with other entities.

Common shares issued on warrant exercise

During the three months ended March 31, 2019, the Company issued 732,358 Common Shares to warrant holders who exercised 732,358 warrants resulting in cash proceeds of \$518,641. Details as follows:

<u>Date</u>	<u>Number of warrants exercised</u>	<u>CAD\$ Exercise price</u>	<u>CAD\$ Share price</u>
22-Jan-19	250	\$1.40	\$2.02
22-Jan-19	100,000	\$0.80	\$2.02
31-Jan-19	100,000	\$0.80	\$2.16
14-Feb-19	100,000	\$0.80	\$1.88
07-Mar-19	244,608	\$0.80	\$1.77
26-Mar-19	187,500	\$1.40	\$1.99
Total	732,358		

Common shares issued on RSU exercise

During the three months ended March 31, 2019, the Company issued 1,922,786 Common Shares to RSU holders who exercised 1,922,786 RSUs. The Company did not receive any cash proceeds on the exercise of the RSUs. The RSU's are a form of compensation issued to employees, officers, directors and consultants of the Company. The Company recognized compensation expense in the amount of \$1,479,709 on June 11, 2018 on the date the RSUs were granted.

Common shares issued on the exercise of options

During the three months ended March 31, 2019, the Company issued 15,002 Common Shares to option holders who exercised 15,002 common share purchase options on March 8, 2019. The options had a strike price of CAD\$0.80 and resulted in the Company receiving \$9,024 in cash proceeds on the exercise.



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SIGNIFICANT EVENTS AND TRANSACTIONS SUBSEQUENT TO THE PERIOD

The Company began construction on a coffee shop and bistro/pizzeria as part of a Phase II expansion of the Planet 13 Superstore, adjacent to the famed Las Vegas Strip. The coffee shop and bistro/pizzeria are expected to add to the unique customer experience that has already made the Planet 13 Superstore the number one rated dispensary in Nevada. (<https://www.leafy.com/news/strains-products/best-in-state-2018-nevada-cannabis>) and are dedicated to capturing revenue from non-cannabis consumers and to driving cross-over revenue from cannabis customers, and is only the first of several planned expansions for the 112,000 square foot site. The combined footprint of the coffee shop and bistro/pizzeria is 4,500 square feet would be able to seat between 130 and 150 patrons. The bistro/pizzeria will be operated by award-winning Arizona restaurant and craft brewery chain Rickety Cricket. Rickety Cricket operates three locations in Arizona and has won multiple awards for its pizza, including second place in the world at the International Pizza Expo in Las Vegas. The coffee shop will be operated under the name Purc Coffee, "Coffee for the Planet," and will be a greenhouse concept, completely unique in Las Vegas.

The Company also began the construction of a 14,000 sq. ft. production facility (the "**Production Facility**"), co-located within the Planet 13 Superstore. The Production Facility will enable the Company to meet the rapidly growing demand for its TRENDI concentrate and vape lines, which it launched in November. It will also be used to address the overwhelming demand for Company's Medizin line and to launch additional brands and product lines. The Production Facility will offer an immersive experience to customers, featuring 115 feet of windows where visitors can watch and learn what goes into the creation of individual products. Interactive kiosks will be available near the production viewing area to teach customers what goes into making their favourite product, offering the Company a powerful branding opportunity. The highly automated Production Facility will utilize robotics to lower costs and will be capable of processing 600 lbs of plant biomass per day once in full production, a throughput increase of approximately 1,300% from the Company's current production facility. The expansion will allow the Company to create new brands and product lines and expand the existing TRENDI and Medizin product lines both for the Planet 13 Superstore and for the wholesale market. The Production Facility is expected to be completed in Q3 2019.

The entire Phase II expansion, excluding the build-out of a consumption lounge is expected to cost approximately \$6.0 million.

On March 14, 2019, the Company announced that it had signed a purchase agreement (the "**Purchase Agreement**") with Mike Tyson's cannabis venture, Tyson Ranch ("TR"), to be the exclusive launch partner of TR products in Nevada. The Purchase Agreement also includes marketing appearances by Mike Tyson at the Planet 13 Superstore. TR products have been available on Planet 13 Superstore shelves since the launch date of April 13, 2019. Mike Tyson attended the launch, which included an autograph session, pictures, and a raffling of memorabilia and prizes for the Company's customers. TR consists of a team with over 100+ years of industry experience with deep love, respect and appreciation for the cannabis plant. TR focuses on quality and exotic genetics to ensure quality and premium cannabis products. All TR products are indoor cultivated, hand trimmed, and 100% pesticide free.

Common shares issued on warrant exercises

Subsequent to the three months ended March 31, 2019 and up to the date of this MD&A the Company issued the following common shares:

The Company issued 3,085,750 common shares on various dates from April 1, 2019 to May 30, 2019 on the exercise of warrants with a strike price of CAD\$1.40 and realized cash proceeds of CAD\$4,320,050 from the exercise.

The Company issued 5,790 common shares on various dates from April 1, 2019 to May 30, 2019 on the exercise of warrants with a strike price of CAD\$0.80 and realized cash proceeds of CAD\$4,632 from the exercise.



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The Company issued 100 common shares on May 7, 2019 on the exercise of warrants with a strike price of CAD\$3.75 and realized cash proceeds of CAD\$375 from the exercise.

RESULTS OF OPERATIONS

<i>Expressed in US\$</i>	Three Months Ended Mar-31-2019	Three Months Ended Mar-31-2018	Percentage Change	Three Months Ended Dec-31-2018	Percentage Change
Revenue					
Revenues, net of discounts	13,836,063	3,587,542	285.7%	8,279,698	67.1%
Cost of Goods Sold	(6,393,446)	(1,948,174)	228.2%	(4,110,064)	55.6%
Gross Profit, Before Biological Asset Adjustment	7,442,617	1,639,368	354.0%	4,169,634	78.5%
Gross Profit Margin %	53.8%	45.7%		50.4%	
Realized fair value amounts included in COGS	(346,062)	(587,834)	(41.1%)	(675,419)	(48.8%)
Unrealized fair value gain on growth of biological assets	358,771	656,208	(45.3%)	750,879	(52.2%)
Gross profit	7,455,327	1,707,742	336.6%	4,245,094	75.6%
Gross Profit Margin %	53.9%	47.6%		51.3%	
Expenses					
General and Administrative	4,540,220	1,110,973	308.7%	4,788,076	(5.2%)
Sales and Marketing	1,402,129	105,546	1228.5%	1,151,010	21.8%
Depreciation and Amortization	597,089	32,363	1745.0%	332,925	79.3%
Share based payments	572,352	-	na	367,497	55.7%
Total Expenses	7,111,790	1,248,882	469.5%	6,639,508	7.1%
Income (Loss) From Operations	343,537	458,860	(25.1%)	(2,394,414)	(114.3%)
Other (Income) Expense:					
Interest Expense, net	215,699	118,452	82.1%	5,674	3701.5%
Realized Foreign Exchange gain (loss)	2,725	-	na	330	725.8%
Other income	(17,163)	(12,968)	na	(80,285)	(78.6%)
Loss on settlement of accounts payable	-	-	na	96,341	na
Total Other (Income) Expense	201,261	105,484	90.8%	22,060	812.3%
Income (loss) for the period before tax	142,276	353,376	(59.7%)	(2,416,474)	(105.9%)
Provision for tax - current	1,565,619	340,635	359.6%	889,066	76.1%
Income (Loss) for the period	(1,423,343)	12,741	(11271.0%)	(3,305,540)	(56.9%)
Other Comprehensive (loss)					
<i>Items that may be reclassified subsequently to profit/loss</i>					
Foreign exchange translation adjustment	273,205	-		(666,970)	
Net Comprehensive Income (Loss) for the period	(1,150,138)	12,741		(3,972,510)	
Loss per share for the period					
Basic and fully diluted loss per share	(\$0.01)	\$0.00		(\$0.03)	
Weighted Average Number of Shares Outstanding					
Basic and fully diluted	129,467,108	75,000,000		128,166,081	

The Company experienced month-over-month sales increases during the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 and the three months ended December 31, 2018. The results from the prior periods in 2018 represent medical and recreational cannabis sales from the Company's former Medizin dispensary, a premium 2,500 square foot retail cannabis dispensary that was located approximately 5.9 miles from the Company's current 16,000 square foot dispensary located in the Company's flagship Superstore cannabis



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entertainment complex.. The Company experienced revenue growth across all of its cannabis product categories (Flower sales, Concentrates, Edibles, Topicals and Other revenue) for the three months ended March 31, 2019 when compared to the prior year period and when compared to the three months ended December 31, 2018.

Details of gross revenue, excluding discounts, by product category are as follows:

	Three Months Ended 31-Mar-19	Three Months Ended 31-Mar-18	Percentage Change	Three Months Ended 31-Mar-19	Three Months Ended 31-Dec-18	Percentage Change
Flowers	\$5,943,544	\$2,895,525	105.3%	\$5,943,544	\$4,404,103	35.0%
Concentrates	4,798,771	1,197,287	300.8%	4,798,771	2,984,111	60.8%
Edibles	3,024,968	358,103	744.7%	3,024,968	1,450,593	108.5%
Topicals and other revenue	1,255,038	90,712	1283.5%	1,255,038	664,933	88.7%
					(\$ -)	
Total Cannabis Sales	15,022,321	4,541,627	230.8%	15,022,321	9,503,740	58.1%
Discounts/Loyalty Program Accrual	(1,186,258)	(954,085)	24.3%	(1,186,258)	(1,224,042)	(3.1%)
Net Revenue	\$13,836,063	\$3,587,542	285.7%	\$13,836,063	\$8,279,698	67.1%

Overall net revenue during the three months ended March 31, 2019 increased by 285.7% or by \$10,248,521 over the three months ended March 31, 2018 and increased 67.1% or by \$5,556,365 when compared to the three months ended December 31, 2018. The increase in both periods is due to both increased customer traffic during the current period and an increase in the average spend per customer. In addition, the prior year period did not include any sales from the Planet 13 Superstore and the three months ended December 31, 2018 only included two months of operations from the Superstore. The average number of daily customer visits was up over 329% in the three months ended March 31, 2019 when compared to March 31, 2018. The large increase in daily customer visits was due to the Superstore opening on November 1, 2018 that had a significant impact on customer traffic. The average ticket price per customer was relatively stable increasing to \$87.70 during the three months ended March 31, 2019 compared to \$69.61 during the three months ended March 31, 2018.

Gross Profit margin before the impact of biological asset adjustments increased to 53.9% for the three months ended March 31, 2019 when compared to the Gross Profit margin of 45.7% experienced during the three months ended March 31, 2018. Gross profit margin for the three months ended December 31, 2018 was 50.4%. The increase during both the three months ended March 31, 2019 and the three months ended December 31, 2018 is attributable to better pricing on product purchased in the wholesale market during Q4 2018 when compared to the higher costs associated with the expansion of the Company's premium cultivation operations during the three months ended March 31, 2018.. The costs of the internal cultivation have continued to trend down as the Company improved its yields and cultivation efficiency. In addition, margin enhancement through the creation of internally generated brands, such as Trendi and Medizin, have also had a positive impact on gross margins. The realized fair value amounts included in cost of goods sold during the three months ended March 31, 2019 was in line with both the three months ended March 31, 2018 and the three months ended December 31, 2018. The Company's premium cultivation facility was operating near its capacity during the three periods and the amount of cannabis grown during each period was similar, the price per gram



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was also similar as was the plant yields during each year resulting in a consistent level of biological assets being transferred to inventory and sold during each year.

Overall gross profit margin percentage of 53.9% for the three months ended March 31, 2019 increased from 47.6% for the three months ended March 31, 2018 and from 51.3% from the three months ended December 31, 2018. Overall Gross Margin increased to \$7,455,327 in the three months ended March 31, 2019 compared to \$1,707,742 in the three months ended March 31, 2018, an increase of 336.6% Overall Gross Margin increased \$3,210,233 when compared to the three months ended December 31,2018, or approximately 75.6%.

Operating expenses, excluding non-cash share-based compensation expenses, include general and administrative expenses, marketing and promotion costs and depreciation expense. Total operating expenses, excluding non-cash share-based payments, increased by 308.7% for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 and increased 11.4% when compared to the three months ended December 31, 2018. The large increase in the three months ended March 31, 2019 when compared to the prior periods is attributable to the increases in activity at the Company when compared to the prior year periods. A detailed breakdown of general and administrative expenses is as follows:

	For the three months ended		Percentage Change	For the three months ended	
	March 31,			December 31,	Percentage Change
	2019	2018		2018	
Salaries and wages	\$ 1,559,717	\$ 401,474	288.5%	\$ 739,890	110.8%
Executive compensation	184,986	60,000	208.3%	156,971	17.8%
Licenses and permits	279,587	98,051	185.1%	-	na
Payroll taxes and benefits	458,723	70,255	552.9%	229,909	99.5%
Supplies	314,797	53,731	485.9%	784,372	(59.9%)
Office expenses	97,712	-	na	160,180	na
Professional fees (legal, audit and other)	748,725	74,218	908.8%	262,537	185.2%
Miscellaneous general and administrative expenses	895,973	353,244	153.6%	1,743,465	(48.6%)
	<u>\$ 4,540,220</u>	<u>\$ 1,110,973</u>	308.7%	<u>\$ 4,077,324</u>	11.4%

Also included in operating expenses is non-cash, share based payments (. This amount totalled \$572,352 for the three months March 31, 2019 compared to *nil* for the three months ended March 31, 2018 and \$367,497 for the three months ended December 31, 2018. The increase over the three months ended December 31, 2018 was a result of the Company granting 100,000 options to employees in January 2019. The balance of the expenses relate to the expensing of both RSUs and options that vest over a two year period and are expensed monthly. The expense represents the recognition over time of the fair market value of employee incentive options and restricted share units (“RSU’s”) that were granted to employees, consultants, officers and directors of the Company on the closing of the RTO on June 11, 2018. These amounts are non-cash and the expense are recognized in accordance with the vesting schedule of the underlying stock options and RSUs. (See Note 13 in the Company’s consolidated financial statements for the year ended December 31, 2018 for additional details on the assumptions used to calculate fair value as well as information regarding the vesting of the various components of the non-cash share-based compensation).

Interest expenses recorded in the three months ended March 31, 2019 relates to non-cash interest expense from lease liabilities that were recognized with the adoption of IFRS 16 on January 1, 2019. The interest expense incurred during the three months ended March 31, 2018 related to interest expense on the related party notes that were outstanding in



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the period. Interest expense in the three months ended December 31, 2018 of \$5,674 related to interest incurred on notes payable and capital leases outstanding during the period. The balance of long-term debt as at March 31, 2019 was \$884,000 compared to \$4,235,281 as at March 31, 2018 and \$928,227 as at December 31, 2018.

The Company conducts its operations in both the United States and Canada holding financial assets in both currencies and incurs expenses in both USD and CAD. On December 31, 2018 the value of the USD was USD\$1.00= CAD\$1.3642 compared to the value of the USD declining to CAD\$1.3363 as at March 31, 2019 resulting in the Company realizing a foreign exchange gain of \$273,205 for the three months ended March 31, 2019. The Company did not have any foreign currency exposure during the three months ended March 31, 2018. It is the Company's policy to not hedge its CAD\$ exposure.

The income tax provision for the three months ended March 31, 2019 was \$1,565,619 compared to \$340,635 for the three months ended March 31, 2018 and \$889,066 for the three months ended December 31, 2018. The tax provision increased substantially due to the increase in revenue and taxable profitability during the period. The Company is subject to US Federal tax legislation that denies the deduction of certain expenditures for tax purposes that would otherwise be available to non-cannabis-based businesses that results in the Company being subject to a higher overall tax rate on net income. Refer to Note 18 in the Company's audited annual financial statements for the year ended December 31, 2018 for additional details.

Overall net (loss) after tax for the three months ended March 31, 2019 was (\$1,423,343) compared to net income of \$12,741 for the three months ended March 31, 2018 and (\$3,305,540) for the three months ended December 31, 2018.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Mar-31-2019	Dec-31-2018	Sep-30-2018	Jun-30-2018	Mar-31-2018	Dec-31-2017	Sep-30-2017	Jun-30-2017
US\$								
Total revenue	13,836,063	8,279,698	4,896,191	4,403,324	3,587,542	3,382,717	3,025,048	1,461,782
Net income (loss)	(1,423,343)	(3,305,540)	(824,916)	(6,605,989)	12,741	259,493	(185,632)	22,209
Comprehensive Net Income (loss)	(1,150,138)	(3,972,510)	(683,625)	(6,883,229)	12,741	259,493	(185,632)	22,209
Net Income (loss) per share	(0.01)	(0.03)	(0.01)	(0.07)	-	n/a	n/a	n/a
Total assets	55,510,677	44,945,306	26,854,931	26,942,786	9,081,603	7,657,047	7,546,186	7,463,866
Total liabilities	17,656,059	7,040,566	4,857,506	5,957,754	8,314,441	10,839,575	11,680,362	11,760,007
Working capital	19,701,315	20,982,049	11,757,401	17,236,373	1,344,989	1,197,763	2,178,498	2,218,708
Dividends declared	-	-	-	-	-	-	-	-

Selected Annual Information	Dec-31-2018	Dec-31-2017	Dec-31-2016
US\$			
Total assets	\$44,945,306	\$7,657,047	\$5,062,394
Total liabilities	\$7,040,566	\$10,839,575	\$8,365,209
Net income (loss) for the period	(\$10,723,704)	(\$602,515)	(\$2,271,662)
Comprehensive income (loss)	(\$11,526,624)	(\$602,515)	(\$2,271,662)
Net income (loss) per share	(\$0.11)	n/a	n/a

In the State of Nevada the sale of recreational cannabis commenced on July 1, 2017. The Company began operations with the legalization of medical cannabis and began participating in the recreational cannabis market on July 1, 2017 when the recreational adult use market was legalized. Revenue has grown consistently quarter over quarter along with an increase in average daily customer and average ticket size during this period. The larger increase in the quarter ended September 30, 2017 was the result of the legalization of recreational adult use cannabis on July 1, 2017 leading to a doubling in the number of average daily customers when compared to the quarter ended June 30, 2017. Revenue



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and average daily traffic grew consistently from July 1, 2017 until October 29, 2018 when the Company closed its Medizin dispensary location in order to transfer its licences to the Superstore, which opened on November 1, 2018. Revenue and average daily traffic increased substantially with the opening of the Superstore with revenue increasing by 170% compared to the quarter ended September 30, 2018. This increase only includes 2 months of start-up operations of the Superstore. Revenue and traffic have continued to increase subsequent to the year ended December 31, 2018 as both average daily traffic and average ticket size continue to increase. The large increase in net loss in the quarter ended June 30 2018 was specifically related to the Company's RTO transaction that closed on June 11, 2018 that saw the Company record RTO related expenses of \$4.7 million, including non-cash share based payments of \$4.0 million with respect to shares issued to the former shareholders of Carpincho on the closing of the RTO as well as share based incentive payments of \$1.6 million RSUs and options issued. The increase the Net loss that occurred in the quarter ended December 31, 2018 was a result of costs incurred with e opening of the Superstore on November 1, 2018 with significant increases in sales and marketing related costs in order to drive awareness and traffic to the Superstore. The Company has continued to see increases in the number of average daily customers and average ticket size and has been able to a just its product offering in order to meet customer demand and improve margins now that the Superstore has been open for 6 months.

The three months ended March 31, 2019 was the first full quarter of operations at the Superstore. The Company continued to experience month over month revenue growth, increased visitor and customer traffic and an increase in the average spend per customer during each month of Q1 2019. This growth has continued into the months of April and May 2019. Gross margin for the three months ended March 31, 2019 averaged 53.09% and is expected to improve once the production facility is fully operational and the Company is able to sell a greater percentage of its own products in the dispensary (the Company is currently limited by the size of its existing production facility).

OUTSTANDING SHARES

As at the date of this report, the Company had 79,086,246 Common Shares and 55,232,940 Restricted Voting Shares issued and outstanding for a total of shares outstanding. There were 875,000 options issued and outstanding of which 354,883 have fully vested. There were 18,086,742 warrants outstanding and 3,444,905 RSU's outstanding of which *nil* RSUs had fully vested as at the date of this MD&A.

FINANCIAL POSITION AND LIQUIDITY

As at March 31, 2019 the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and shareholder loans. The Company has no speculative financial instruments, derivatives, forward contracts or hedges.

As at March 31, 2019 the Company had working capital of \$19,701,315 compared to working capital of \$20,982,049 as at December 31, 2018.

The following table relates to the three months ended March 31, 2019, and compares that to the three months ended March 31, 2018.

	Three months Ended Mar-31-2019	Three months Ended Mar-31-2018
Cash flows provided by (used in) operating activities	2,574,441	98,129
Cash flows provided by (used in) investing activities	(2,202,345)	(53,226)
Cash flows provided by (used in) financing activities	151,866	(3,536)

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Financial instrument classification and measurement

Financial instruments of the Company carried on the annual audited consolidated statement of financial position are carried at amortized cost with the exception of cash, which is carried at fair value. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at March 31, 2019 or December 31, 2018 due to the immediate or short-term maturities of the financial instruments.

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts payable and accrued expenses. At March 31, 2019, the carrying value of cash is fair value. Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are included in the amount initially recognized. Accounts payable and other liabilities, notes payable, and notes payable related parties have been classified as other financial liabilities

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties. Thus, the credit risk associated with other receivables is also considered to be negligible.

d) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk.

e) Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Canada and the United States and incurs certain expenditures and obtains financing in both Canadian and US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company or subsidiary that holds the financial asset or liability. The Company's risk management policy is to review its exposure to non-US dollar forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in US dollars and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of foreign currency financial assets and liabilities in US dollars as at March 31, 2019 is as follows:

US Dollar amounts of foreign currency assets and liabilities		
	Assets	Liabilities
Canadian Dollars	\$646,414	\$46,307



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Based on the financial instruments held as at March 31, 2019, the Company's deficit would have changed by \$54,555 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments. At March 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time

f) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash and liquid investments to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

As at March 31, 2019, the Company had working capital of \$19,701,315 (December 31, 2018 - \$20,982,049) and anticipates that revenue from operations will provide sufficient funds to cover all the Company's operating expenditures for the next 12 months. Planned expansion of the Company's cultivation facilities, its production and manufacturing facilities and its retail distribution facilities will require it to raise additional capital from outside sources. The Company will consider financing alternatives while contemplating minimal shareholder dilution.

The Company's potential sources of cash flow in the upcoming year will be from the proceeds of the sale of cannabis and cannabis related products and possible equity financings, loans, lease financing and entering into joint venture agreements; or any combination thereof.

g) Pricing risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 7 in the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

h) Concentration risk

The Company operates exclusively in Southern Nevada. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

CAPITAL RESOURCES

The Company has a recent history of operating losses. It may be necessary for the Company to arrange for additional financing to meet its on-going growth initiatives.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. There can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able



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to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its capital expansion plans and ultimately the development of its business and will need to raise adequate capital by obtaining equity financing and/or incurring debt.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at March 31, 2019 and as at the date hereof.

RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

The following is a summary of the Company's related party transactions during the period:

(a) Building Lease

Prior to September 2018, the Company leased approximately 15,000 square feet of office and production space for the Company's Clark County Cultivation facility from a limited partnership controlled by one of the Company's members. Related-party rents paid under this lease for the three months ended March 31, 2019 and 2018 equalled \$0 and \$29,932, respectively.

The Company sub-lets approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company's Co-CEO. Amounts paid to such company for rent for the three months ended March 31, 2019 and 2018 equalled \$6,010 and \$6,010 respectively, for rent and amounts paid for printed marketing collateral and stationery items equalled *Nil* and \$39,574 respectively.

(b) Officer Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and board of directors. The following table summarizes amounts paid to related parties as compensation for the three months ended March 31, 2019 and 2018:



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Name and principal position	Three months ended March 31,	Remuneration or fees ⁽¹⁾	Share based payments ⁽¹⁾	Included in accounts payable ⁽¹⁾
Larry Scheffler, Co-CEO	2019	\$59,631	\$144,308	-
	2018	-	-	-
Robert Groesbeck, Co- CEO	2019	\$58,764	\$144,308	-
	2018	\$2,810	-	-
Dennis Logan, CFO	2019	\$53,172	\$53,538	-
	2018	-	-	-
William Vargas, VP Finance	2019	\$18,793	\$53,538	-
	2018	12,000	-	-
Tanya Lupien, VP Sales and Marketing ²	2019	-	-	-
	2018	34,420	-	-
Chris Wren, VP Operations	2019	\$54,674	\$80,308	-
	2018	52,527	-	-
Stephen Markle, VP Production	2019	\$28,809	\$32,123	-
	2018	16,250	-	-
Leighton Koehler, General Counsel	2019	\$40,828	\$28,862	-
	2018	-	-	-
David Farris, Director of Marketing	2019	\$22,984	\$8,659	-
	2018	15,000	-	-
Greg Wilson, Director	2019	-	\$35,657	-
	2018	-	-	-
Michael Harman, Director	2019	-	\$35,657	-
	2018	-	-	-
Marc Lustig, Director	2019	-	\$35,657	-
	2018	-	-	-

⁽¹⁾ Amounts disclosed were paid or accrued to the related party during the three months ended March 31, 2019 and 2018.

⁽²⁾ Ms. Lupien resigned from her position as VP Sales and Marketing on November 9, 2018.

SEGMENTED INFORMATION

The Company operates in a single reportable operating segment – the cultivation of cannabis, the manufacture and production of cannabis and related products and the retail distribution and sale of cannabis and cannabis related products.

As at March 31, 2019 and December 31, 2018, all the Company’s operating assets were located in the state of Nevada.

MANAGEMENT

The Company is dependent upon the personal efforts and commitments 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.

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NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

New Accounting Standards and Interpretations Adopted in the Current Year

On January 1, 2019 the Company implemented IFRS 16 “Leases”. The impacts on the implementation of IFRS 16 on the Company’s unaudited condensed interim consolidated financial statements is described below.

(i) *IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company applied the modified retrospective approach to remaining lease payments as of January 1, 2019 without restatement of comparative figures presented for 2018 as previously reported under IAS 17. Upon the initial application as of January 1, 2019, right-of-use assets and lease liabilities were recorded, with no net impact on retained earnings. For leases previously classified as operating leases under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at the date of application. Additionally, the right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application. For leases previously classified as finance leases under IAS 17, the lease liability and the right-of-use asset has been measured as the carrying amount of the lease asset and liability immediately before the date of initial application. The following table summarizes the impact of the initial application on the statement of financial position:

	Balance at December 31, 2018	IFRS 16 Initial Application	Balance at March 31, 2019
ASSETS			
Property, plant & equipment	\$ 17,256,484	\$ (52,136)	\$ 17,204,348
Right of use assets	-	8,082,639	8,082,639
Total			
LIABILITIES			
Capital lease obligations - current	\$ 14,459	\$ (14,459)	\$ -
Capital lease obligations - long-term	29,768	(29,768)	-
Deferred rent	427,508	(427,508)	-
Lease liabilities	-	8,494,971	8,494,971

The Company has elected to apply the practical expedient to grandfather the assessment of which transaction are leases on the date of initial application as previously assessed under IAS 17 and IFRIC 4. The Company has elected to account for all short-term leases and all leases for which the underlying asset is of low value as expenses on either a straight-line basis over the term of the lease or another systematic basis, and this not recognize a lease liability and a right-of-use asset at the date of initial application. Short-term leases are leases with a lease term of 12 months or less.



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The Company's only significant debt obligation is a promissory note payable for land secured by a deed of trust. Further, due to the nature of the Company's business operations in the Cannabis industry and its illegality under United States Federal regulations, the Company is unable to borrow monies from U.S financial institutions. Consequently, when measuring lease liabilities, the Company discounted lease payments using a rate of 15.0%, the rate of interest under its previously outstanding shareholder note agreements. The Company has not included extension options in the measurement of lease terms because it is not reasonably certain that it will exercise the extension options.

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$ 9,153,300
Extension options reasonably certain to be exercised	22,758,094
Finance lease obligations recognized at December 31, 2018	44,227
Discounted using incremental borrowing rate	(23,460,650)
Lease liabilities as at January 1, 2019	\$ 8,494,971

Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) *IFRIC 23 Uncertainty Over Income Tax Treatments*

IFRIC 23 Clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The adoption of this standard did not have a material impact on the condensed interim consolidated financial statements.

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3 Business Combinations. The amendment narrowed and clarified the definition of a business as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The extent of the impact of the adoption of this amendment has not yet been determined.



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On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors. These amendments clarify and align the definition of material and provide guidance to help improve consistency in the application of materiality when used in other IFRS standards. These amendments are effective on January 1, 2020. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning January 1, 2020. The extent of the impact of the adoption of these amendments has not yet been determined.

Risk Factors

The Company operates in the US medical and recreational adult-use cannabis market, and more specifically in the state of Nevada, and may face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

- The production and sale of recreational cannabis remain illegal under federal law, it is possible that the Company may be forced to cease activities. The U.S. federal government, through both the Drug Enforcement Agency (“**DEA**”) and Internal Revenue Service (“**IRS**”), has the right to actively investigate, audit and shut-down marijuana growing facilities, processors and retailers. The U.S. federal government may also attempt to seize the Company’s property. Any action taken by the DEA and/or the IRS to interfere with, seize, or shut down the Company’s operations will have an adverse effect on the Company’s business, operating results and financial condition.
- Some of the Company’s current and planned business activities, while believed to be compliant with certain applicable U.S. state and local law, are illegal under United States federal law. Although certain states and territories of the U.S. authorize medical or recreational adult-use cannabis production and distribution by licensed or registered entities under applicable state laws, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the U.S. Controlled Substances Act (“**CSA**”). A shareholder’s contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.
- 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, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult 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.



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- The possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it intends to provide and sell. The Company intends to continue to cultivate cannabis, process and sell cannabis products, operate dispensaries, lease intellectual property and/or real property in Nevada. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against the Company, including, but not limited to, aiding and abetting another's criminal activities. The Federal aiding and abetting statute provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." Because of such an action, the Company may be forced to cease operations and members could lose their entire investment. Such an action would have a material negative effect on the business and operations of the Company.
- Nevada's regulatory system is relatively new and constantly evolving, so there are uncertainties as to how authorities in the state of Nevada will interpret and administer applicable regulatory requirements. Any determination that the Company fails to comply with state cannabis regulations would require the Company either to significantly change or terminate lines of business, or the business as a whole, which could adversely affect the Company's business.
- Regulatory risks are inherent to the Company. The activities of the Company are subject to regulation by governmental authorities. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by US Federal and the state of Nevada governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products in each jurisdiction in which it operates. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by relevant governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to import, distribute or, in the future, produce cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Company.
- Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital. The Company's business activities are expected to rely on newly established and/or developing laws and regulations in Nevada. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug



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Administration (“FDA”), Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal, Nevada or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company’s industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital, which could reduce, delay or eliminate any return on investment in the Company.

- The size of the Company’s target market is difficult to quantify, and members will be reliant on their own estimates on the accuracy of market data. Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for members and potential members to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, members and potential members will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company’s estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.
- The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate. In February 2014, FinCEN issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States and may have to operate the Company’s U.S. business on an all-cash basis. The inability or limitation in the Company’s ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned. The Company is actively pursuing alternatives that ensure its operations will continue to be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.
- U.S. Federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled



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substance. As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

- The Company's contracts may not be legally enforceable in the United States. Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.
- There is uncertainty surrounding the Trump Administration and Attorney General William Barr and their influence and policies in opposition to the cannabis industry as a whole. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis business in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored the Cole Memorandum. The Cole Memorandum was addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum outlined certain priorities for the DOJ relating to the prosecution of cannabis offenses. In particular, 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. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. On January 4, 2018, US former Attorney General Jeff Sessions issued a memorandum to US district attorneys which rescinded the Cole Memorandum. With the Cole Memorandum rescinded, US federal prosecutors can exercise their discretion in determining whether to prosecute compliant state law cannabis-related operations as violations of U.S. federal law throughout the United States. The potential impact of the decision to rescind the Cole Memorandum is unknown and may have a material adverse effect on the Company's business and results of operations.
- The Company's business interests in the United States include the cultivation and provision of cannabis and cannabis-infused and related products. The Company is not aware of any non-compliance with the applicable licensing requirements or regulatory framework enacted by the state of Nevada where the Company's customers or partners are operating. In February

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2017, the Task Force on Crime Reduction and Public Safety was established through an executive order by the President of the United States. Names of those serving on the task force have not been published, and the group was supposed to deliver its recommendations by July 27, 2017. The recommendations of the group were not made public on that date, but the Attorney General issued a public statement which said he had received recommendations “on a rolling basis” and he had already “been acting on the task force’s recommendations to set the policy of the department.” Based on previous public statements made by the Attorney General, there had been some expectation that the task force may make some recommendations with respect to laws relating to cannabis. However, to date there has been no public announcement in this regard from the Attorney General. Due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes. Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-transmitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a “specified unlawful activity” such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks.

- In the event that any of the Company’s investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize 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 in the foreseeable future, in the event that a determination was made that any such investments in the United States could reasonably be shown to constitute proceeds of crime, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.
- Third party service providers to the Company may withdraw or suspend their service under threat of prosecution. Since under U.S. federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company’s operations could have a material and adverse effect on the Company’s business.

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- The FDA regulation of medical-use cannabis and the possible registration of facilities where medical-use cannabis is grown could negatively affect the medical-use cannabis industry, which would directly affect our financial condition. Should the federal government legalize cannabis for medical-use, it is possible that the FDA would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, it is unknown what the impact would be on the medical-use cannabis industry, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.
- The Company is likely subject to Section 280E of the Internal Revenue Code of 1986 because of our business activities and the resulting disallowance of tax deductions could cause us to incur more than anticipated U.S. federal income tax. Section 280E of the Internal Revenue Code of 1986 (the "Code") provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by federal law or the law of any state in which such trade or business is conducted." Because cannabis is a Schedule I controlled substance under the CSA, Section 280E by its terms applies to the purchase and sale of cannabis products and the Company is likely subject to Section 280E. If the IRS were to take the position that the Company is primarily or vicariously liable under federal law for "trafficking" a Schedule I substance (cannabis) under section 280E of the Code or for any other violations of the CSA, the IRS may seek to apply the provisions of Section 280E to the Company and disallow certain ordinary tax deductions. If such tax deductions are disallowed it may increase the Company's effective tax rate and have an adverse effect on the Company's operating results and financial condition.
- The approach to the settlement of trades in Canada through CDS Clearing and Depository Services Inc. ("CDS") of issuers with cannabis-related activities in the United States may be subject to change or may not proceed as previously outlined. On February 8, 2018, CDS announced the signing of a Memorandum of Understanding ("MoU") with recognized Canadian equities exchanges outlining the parties' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the exchanges and CDS. The MoU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. Accordingly, CDS will not ban the clearing of securities of issuers with marijuana-related activities in the United States. 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



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until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of the applicable stock exchange. Additionally, although CDS will not implement policies that would result in the refusal to settle trades for cannabis issuers that have investments in the United States, individual stock exchanges in Canada retain the ability under certain circumstances, when applying listing requirements and rules related to issuers' compliance with applicable laws, to halt or delist an issuers' listed securities.

- Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the business of the Company and leaves their cash holdings vulnerable.
- Because the cannabis industry remains illegal under US federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

DISCLOSURE OF INTERNAL CONTROLS

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented, and (ii) the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of and for the three months ended March 31, 2019.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 – *Certification 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 the 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 issuer 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



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- (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 issuer's generally accepted accounting principles.

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 the 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.