

CAPTOR CAPITAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2019

Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Captor Capital Corp. and its subsidiaries (collectively, the "Company" or "Captor") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended March 31, 2019. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual financial statements of the Company for the fiscal years ended March 31, 2019 and 2018, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. Information contained herein is presented as at November 4, 2019, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considered the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Captor common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations can be obtained from the offices of the Company or on SEDAR at www.sedar.com.

Special Note Regarding Forward-Looking Information

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as at the date of this MD&A or as at the date specified in such statement. 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.

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Forward-looking information	Assumptions	Risk factors
The Company's plans, to acquire a portfolio of investment assets mainly cannabis focused investments that could contain significant value for shareholders.	Financing will be available for future acquisitions by the Company; the Company will be able to retain and attract skilled staff; all requisite regulatory and governmental approvals for producing and selling cannabis will be received on a timely basis upon terms acceptable to Captor, and applicable political and economic conditions are favourable to Captor; the price of applicable investments and applicable interest and exchange rates will be favourable to the Company.	Equity price volatility; uncertainties involved in receiving the appropriate licenses to produce and sell cannabis; availability of financing for the acquisitions; increases in costs; interest rate and exchange rate fluctuations; changes in economic and political conditions; the Company's ability to retain and attract skilled staff.
<p>The Company's ability to meet its working capital needs at the current level for the twelve-month period ending March 31, 2020.</p> <p>The Company's cash and investment balances at March 31, 2020, are sufficient to fund its consolidated operating expenses at current levels.</p>	The operating and investing activities of the Company for the twelve-month period ending March 31, 2020, and the costs associated therewith, will be dependent on raising sufficient capital consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions are favourable to Captor.	Adverse changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; changes in regulatory and governmental regulations; interest rate and exchange rate fluctuations; changes in economic conditions.
Management's outlook regarding future trends.	Financing will be available for Captor's investing and operating activities; the price of applicable equity investments will be favourable to the Company.	Equity price volatility; changes in debt and equity markets; interest rate and exchange rate fluctuations; changes in economic and political conditions.
Sensitivity analysis of financial instruments.	Equity price will not be subject to change in excess of plus or minus 20%; foreign exchange rates against the United States dollar will not be subject to change in excess of plus or minus 5%.	Changes in debt and equity markets and exchange rate fluctuations.
Prices and price volatility for investments.	The price of investments will be favourable; debt and equity markets, interest and exchange rates and other economic factors which may impact the price of investments will be favourable.	Changes in debt and equity markets and the spot prices of investments; interest rate and exchange rate fluctuations; changes in economic and political conditions.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond Captor's ability to predict or control. Please also make reference to those risk factors referenced in the "Risks and Uncertainties" section in this MD&A. Readers are cautioned that the above chart 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.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Captor's actual results, performance or achievements to be materially different from any of its future 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.

Description of Business

Captor was incorporated under the laws of the Province of Ontario, Canada by articles of incorporation on September 26, 2003 and Captor's outstanding common shares became publicly listed on March 19, 2004 on the TSX Venture Exchange (the "Exchange") under the symbol "NWT". Subsequently, the Company's outstanding common shares were listed on the OTCBB under the symbol "NWURF" and on the Frankfurt Exchange. The Company de-listed its common shares from the Exchange on June 1, 2017 and submitted an application for listing its common shares on the Canadian Securities Exchange ("CSE"). The delisting of the Company's shares from the Exchange was done pursuant to a resolution approved by shareholders that was passed on December 16, 2016. On October 30, 2017, the common shares of Captor commenced trading on the CSE under the symbol "CPTR".

Effective October 3, 2018, the Company consolidated its common shares on a 20:1 basis. All references in this MD&A have been adjusted to reflect this share consolidation.

The Company was a cannabis focused investment and merchant banking company which accounted for its investments at fair value. During the year ended March 31, 2019, the Company made certain acquisitions in the cannabis industry and changed its strategy. Effective August 3, 2018, the Company was deemed to be an operating company engaged in the retail sale of cannabis products and the financial statements for the year ended March 31, 2019 include the consolidated accounts of the Company and its subsidiaries.

The Company is a cannabis operating company with licences for manufacturing, distribution and retail in the State of California, the largest cannabis consumer market in the USA. Currently, the Company has 2 cannabis dispensaries which operate under the proprietary name Chai Cannabis ("Chai"), located in Santa Cruz and Castroville, respectively. The Chai stores are known for having a diverse set of competitively priced high quality product brands and an excellent bud tender led customer service. Supplementing the bricks and mortar retail presence is the Company's direct to consumer delivery business which also operates under the Chai branded name. The Company also wholly owns Mellow Extracts which is a manufacturing and distribution operation. The Mellow Extracts facility is currently in the final phase of construction and management expects this to be operational in the near term. The Mellow Extracts facility will produce vape pens and cannabis edibles upon commissioning of the facility.

The objective of the Company is to provide its shareholders with long-term capital growth by improving the operating efficiencies and market share of its current operations, with a focus on EBITDA enhancement, and through acquisitions with direct revenue, cost and/or financial synergies.

Highlights

- On February 26, 2018, Captor acquired 5,181,785 Class A Units of MM Enterprises USA, LLC ("MM Enterprises") for US\$23,000,000 (\$29,164,000). On May 28, 2018, MM Enterprises completed a business combination with MedMen Enterprises Inc. ("MedMen Enterprises"), a US based medical and adult use cannabis company listed in the CSE.

Captor Acquisition Corp. (the "Acquiror"), a subsidiary of Captor, in connection with the business combination, acquired 7,991,251 Class B Common Shares ("Class B Shares") of MM Can USA, Inc. ("PC Corp"), a subsidiary of MedMen Enterprises, pursuant to a contribution by the Acquiror of the same number of units of the LLC in exchange for such Class B Shares. Pursuant to the articles of incorporation of PC Corp, Captor may, from time to time, exchange its Class B Common Shares for Class B Subordinate Voting Shares of MedMen Enterprises on a one-for-one basis (the "Subordinate Voting Shares").

The Company received 7,991,251 Subordinate Voting Shares of MedMen Enterprises in exchange for the 5,181,785 Class A Units of MM Enterprises.

On February 4, 2019, the Company announced the sale of its two MedMen branded retail operations in southern California to MedMen for USD\$31,255,353 pursuant to a stock purchase agreement (the "SPA") entered into on January 9, 2019. Under the terms of the SPA, MedMen acquired all of the shares of ICH California Holdings, Ltd., a wholly owned subsidiary of Captor that held the ownership interests in both of its MedMen branded retail cannabis dispensaries. The purchase price was paid by MedMen with 9,736,870 of its Class B Subordinate Voting Shares at a deemed issue price of USD\$3.21 per share. Odyssey Trust Company is holding 701,268 Class B Subordinate Shares in escrow issued as part of the purchase price. Of the shares held in escrow, 350,634 shares will be released from escrow on the 6-month anniversary of the closing date, subject to these shares being used to offset any indemnifiable claims under the SPA that may arise, and 350,634 shares will be released on the earlier of (a) the 6-month anniversary of the closing date; and (b) the occurrence of specified other post-closing events. Additionally, 1,051,902 Class B Subordinate Voting Shares issued as part of the purchase price were contractually restricted from trading for a period of six months from the closing date.

During the year ended March 31, 2019, the Company sold 10,893,411 shares for cash of \$44,191,260 and \$4,527,916 for the extinguishment of a loan owed by I-5 Holdings to MedMen Enterprises resulting in a gain of \$237,650. As at March 31, 2019, the Company held 7,195,070 shares in MedMen Enterprises with a value of \$29,499,787.

- On February 26, 2018, Captor issued a total of 8,593,418 Captor Shares in escrow to acquire the remaining 79% of the I-5 Holdings securities. The Acquisition was completed on May 30, 2018 pursuant to an amended merger agreement dated February 16, 2018 between Captor and I-5 Holdings whereby the holders of common shares of I-5 ("I-5 Shares") received 0.13 common shares of Captor Capital Corp. ("Captor Share") in exchange for each I-5 Share.

As a result of the Acquisition, certain common share purchase warrants of I-5 Holdings are exercisable into 1,105,402 Captor Shares at an exercise price of \$5.00 per Captor Share and other common share purchase warrants of I-5 Holdings are exercisable into 187,545 Captor Shares at an exercise price of \$6.20 per Captor Share.

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- During the year ended March 31, 2019, the Company changed its status from an investment company to an operational company and therefore its investment in I-5 Holdings was eliminated upon consolidation with the accounts of I-5 Holdings.

In August 2018, through its subsidiary Captor Acquisition Corp. ("Acquisition Corp."), the Company completed the acquisition of all of the issued and outstanding shares of Chai Cannabis Inc. ("Chai") for US\$6,015,000. Chai currently operates a fully adult use dispensary in Santa Cruz, California.

The acquisition was accounted for accordance with *IFRS 3 Business Combinations*. Accordingly, the acquisition of Chai is accounted at the fair value of the equity instruments issued plus the cash paid. The excess of consideration over the net assets acquired has been recorded as goodwill.

The fair value of the consideration is as follows:

Issuance of 383,136 common shares	\$ 1,184,867
Cash	5,816,521
Promissory note	860,408
Present value of escrow	131,460
Total consideration	\$ 7,993,256

The consideration has been allocated as follows:

Current assets	\$ 404,589
Tradenname	551,712
Customer relationships	689,640
Licenses	2,311,936
Goodwill	5,286,152
Tax payable	(190,472)
Deferred tax liability	(1,060,301)
	\$ 7,993,256

- On August 8, 2018, Captor granted an aggregate of 1,825,000 stock options to officers, directors, employees and consultants of the Company. All stock options are fully vested and exercisable at \$6.00 per common share of Captor for a period of 2 years.
- In December 2018, the Company acquired all of the outstanding equity interests of the Higher Level of Care dispensary ("Higher Level") in Castroville, California. The total purchase price was US\$2,875,000 for the Castroville dispensary. The purchase price shall be satisfied by a, cash payment of US\$1,500,000 and the remaining US\$1,375,000 shall be paid pursuant to a promissory note, which has been issued for a term of one year at an interest rate of 9% compounded monthly. In addition, Acquisition Corp. made a cash payment for the cannabis inventory owned by the company, which was determined upon the closing of the deal.

The acquisition was accounted for accordance with *IFRS 3 Business Combinations*. Accordingly, the acquisition of Higher Level is accounted at the fair value of the cash paid and inventory received. The excess of consideration over the net assets acquired has been recorded as goodwill.

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The fair value of the consideration is as follows:

Cash	\$ 1,250,747
Other payable	765,834
Promissory note	1,777,687
Present value of escrow	133,460
Total consideration	\$ 3,927,728

The consideration has been allocated as follows:

Current assets	\$ 148,141
Tradename	774,068
Customer relationships	333,650
Licenses	1,628,212
Goodwill	1,860,059
Deferred tax liability	(816,402)
	\$ 3,927,728

- In September 2018, the Company acquired Mellow Extracts, LLC ("Mellow") in Costa Mesa, California. The Company acquired 100% of the membership interests of Mellow for 187,500 common shares.

The acquisition did not meet the definition of a business combination and was accounted for as an asset acquisition. Accordingly, the acquisition of Mellow is accounted at the fair value of the equity instruments.

The fair value of the consideration is as follows:

Issuance of 187,500 common shares	\$ 525,000
Total consideration	\$ 525,000

The consideration has been allocated as follows:

Property and equipment	525,000
	\$ 525,000

- On January 3, 2019, the Company announced that the CEO of the Company was issued 233,133 common shares at a deemed price of \$1.50 in lieu of receiving \$350,000 in deferred and unpaid salaries and bonuses.
- On February 4, 2019, the Company announced the sale of its two MedMen branded retail operations in southern California to MedMen for USD\$31,255,353 pursuant to a stock purchase agreement entered into on January 9, 2019 (the "SPA"). Under the terms of the SPA, MedMen acquired all of the shares of ICH California Holdings, Ltd., a wholly owned subsidiary of Captor that held the ownership interests in both of its MedMen branded retail cannabis dispensaries. The purchase price was paid by MedMen with 9,736,870 of its Class B Subordinate Voting Shares at a deemed issue price of USD\$3.21 per share. Odyssey Trust Company is holding 701,268 Class B Subordinate Shares in escrow issued as part of the purchase price. Of the shares held in escrow, 350,634 shares will be released from escrow on the 6-month anniversary of the closing date, subject to these shares being used to offset any indemnifiable claims under the SPA that may arise, and 350,634 shares will be released on the earlier of (a) the 6-month anniversary of the closing date; and (b) the occurrence of specified other post-closing events. Additionally, 1,051,902 Class B Subordinate Voting Shares issued as part of the purchase price are contractually restricted from trading for a period of six months from the closing date.

- On March 29, 2019, the Company announced that one of its wholly owned subsidiary entered into a Letter of Intent ("LOI") to acquire 100% ownership of a Type 7 Volatile Solvent Extraction facility based in California from People's Holdings. The facility has been in operation since January 2019 and holds an annual license for volatile manufacturing from the Bureau of Cannabis Control of California. Subsequent to March 31, 2019, the Company terminated the LOI.

Corporate Objective

The objective of the Company is to provide its shareholders with long-term capital growth by improving the operating efficiencies and market share of its current operations, with a focus on EBITDA enhancement, and through acquisitions with direct revenue, cost and/or financial synergies.

The Company seeks to achieve this by becoming a market leading owner and distributor of self-branded cannabis products in the budding legal cannabis sector. By owning manufacturing, distribution and retail infrastructure the Company has achieved a base of operations from which it can scale to support revenue growth. The existing infrastructure, particularly the retail base, give the Company a strategic advantage in the launch of its owned brands into the market.

As the market matures the Company will seek to expand into the value chain through supportive strategies such as cultivation and licensing of proprietary cannabis strains, exporting its product and retail portfolio to new markets in the USA, and/or leveraging its existing infrastructure to develop new sources of revenue growth, such as hemp based CBD products or cannabis based nutraceutical or pharmaceutical goods.

On August 3, 2018, the Company decided to change its business focus from a cannabis investment company to a cannabis operating company. This change in the focus and direction of Captor's business is considered a Fundamental Change under Canadian Securities Exchange ("CSE") Policy 8. In accordance with the policies of the CSE, the shareholders of Captor had to approve this Fundamental Change before it became effective.

Corporate Update on Operations of Cannabis Dispensaries

Captor has been able to achieve a base position in the California cannabis industry as a direct result of having sourced prime retail locations at Chai Santa Cruz and Chai Castroville. These stores have a multi-year operating history and a stable and consistent customer base. A key driver of the Chai retail model customer loyalty has been consistent strong customer service which is led by its well-trained bud tender workforce. The bud tenders guide Captor's customer base through a variety of cannabis product options to help them find the products which best work for them. This customer interaction has helped Chai to maintain consistent market share even as the competition has grown in the respective markets in which the stores operate.

The next step in Captor's retail market strategy will be to expand the floor space available as well as upgrade the design and aesthetics of the Chai brand of dispensaries. The goal of this redesign is to create a standardized experience whilst maintaining a bespoke look tailored to the culture of the local market. Management believes that the upgrades, in particular the floor space expansion, will have a material effect on revenue growth and the profitability of the Chai stores.

The Company will also be providing additional resources and support to expanding and improving its current direct to consumer delivery service. The direct to consumer model allows the Company to leverage its bricks and mortar store to deliver products to a much larger customer base with minimal incremental costs. Having the current geographic cluster of stores allows management to achieve maximum impact under the current delivery manifest rule limitations.

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Captor will also seek to develop its own proprietary cannabis products which it will sell into the market. Certain products that the Company owns will only be sold in Captor owned dispensaries and delivery service. Management believes that having an exclusive set of high quality bespoke products in its retail stores will further protect its current market share and lead to material new customer acquisition.

Retail Opportunities

In August 2018, the Company completed the acquisition of Chai for approximately US\$6.1 million. The dispensary has continued to perform well as expected within the Captor brand. Captor plans to improve Chai's sales through the expansion of its direct to consumer delivery service, upgrade of the design and aesthetic look of the store, and increasing its sales floor space.

Captor was pleased to continue to expand its retail footprint in California with the acquisition of Higher Level of Care ("HLC") in Castroville California in December 2018 for a total purchase price US\$2.875 million. Captor also is operating its direct to consumer delivery service from the location and will be expanding this service to capture a wider customer base.

Manufacturing Opportunities

Captor announced the acquisition of Mellow Extracts LLC ("Mellow") on September 12, 2018 for 187,500 shares at a price of \$2.80 per share. Mellow extracts received its conditional use permit (CUP) from the city of Costa Mesa earlier this year. It is currently awaiting final construction permitting such that it can complete the equipment installation and become fully operational.

Mellow will have the capacity to produce both edibles and vape pen cannabis products. Mellow will be able to self-distribute to the Captor owned retail outlets, as well as 3rd party dispensaries across the State of California. Mellow will also have the ability to produce premium oil for white label product sales and co-packing services. Mellow expects that it will be able to generate sales in the range of \$3 million to \$6 million in its first 12 months of operations depending on product focus and market price assumptions.

Overall Outlook

The past 12 months required the Company to navigate several challenges which include completing a change in business use to become a cannabis operating company, redefining its operating strategy for the near and long term, sourcing and hiring of new executive level talent, and concluding the onerous regulatory framework process to complete its acquisitions.

Over this period of time the Company was able to achieve a solid foothold in the retail sector via its acquisitions of the Chai branded dispensaries in Santa Cruz and Castroville. These acquisitions provided a geographic base and operating cash flow to the Company. Furthermore, the Company successfully divested itself of its MedMen managed stores for US\$31 million equivalent in MedMen shares, progressed the construction of the Mellow Extracts manufacturing and distribution facility with the goal of near term commissioning, and made operational its direct to consumer delivery service whilst maintaining a strong balance sheet with good cash reserves. The new fiscal year will see the Company seeking to improve its current operations and leverage its strong balance sheet position to acquire assets with direct synergies.

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Captor Investment Strategy

Captor is seeking to create product brands that are known by its customers as having a premium and consistent quality and improve its already strong customer retail experience based on a concept of best in class customer experience whether via its bricks and mortar retail stores or its direct to consumer delivery service. To achieve this, the primary mandate of the company is to acquire profitable, established cannabis focused companies that require capital to scale. As the Captor team continues to grow, and more expertise is added, Captor will look to further its investment opportunities by looking at only the most strategic of acquisitions as determined by a team with experience. To efficiently engage Captor's well-defined and deep pipeline of cannabis related targets, the Company will acquire them at favorable prices, and unlock the intrinsic value of these firms through operational enhancements.

Newly targeted acquisitions will be selected based off synergy with current existing brands or licenses, location, operational structure, and licensing regulations. Upon the completion of the transaction, the newly acquired company will be directly supported by Captor and integrated into the Captor family of brands. In certain situations, that will mean expanding production capacity, increasing retail floor space, applying for additional ad-on licenses, or restructuring the existing management of the license to become more efficient.

The current market focus is California as it is the biggest and most mature of the recreational cannabis markets in the US right now with favorable licensing structure. As previously mentioned, Captor is continuing to assemble a team of experienced operators and managers to aid in expanding its geological footprint.

Selected Annual Financial Information

	Year ended March 31, 2019 (\$)	Year ended March 31, 2018 (\$)	Year ended March 31, 2017 (\$)
Sales, net of excise taxes	5,865,687	Nil	nil
Net income (loss)	(46,436,066)	3,781,005	8,311,787
Net loss per share – basic	(1.23)	0.33	1.25
Net loss per share – diluted	(1.23)	0.32	1.25
	As at March 31, 2019 (\$)	As at March 31, 2018 (\$)	As at March 31, 2017 (\$)
Total assets	81,445,838	72,090,500	7,657,951
Total long-term liabilities	2,111,857	nil	nil

Summary of Quarterly Results

Three Months Ended	Revenue (\$)	Income or (Loss)		Total assets (\$)
		Total (\$)	Basic and diluted income (loss) per share ⁽⁹⁾ (\$)	
March 31, 2019	Nil	(34,476,774) ⁽¹⁾	(0.87)	81,445,838
December 31, 2018	Nil	(3,668,578) ⁽²⁾	(0.09)	107,961,426
September 30, 2018	Nil	(3,751,014) ⁽³⁾	(0.10)	109,455,446
June 30, 2018	Nil	(4,539,700) ⁽⁴⁾	(0.19)	107,042,109
March 31, 2018	Nil	8,982,725 ⁽⁵⁾	0.38	72,090,500
December 31, 2017	Nil	(933,308) ⁽⁶⁾	(0.10)	10,244,774
September 30, 2017	Nil	(442,952) ⁽⁷⁾	(0.07)	3,993,473
June 30, 2017	Nil	(3,825,460) ⁽⁸⁾	(0.58)	4,003,357

- (1) Net loss of \$34,476,774 consisted primarily of loss on disposition of subsidiary of \$26,244,153, unrealized loss on investments at fair value \$4,264,939, general and administrative expenses of \$18,303,404 offset by gross profit of \$1,619,356 and foreign exchange gain of \$1,554,250.
- (2) Net loss of \$3,668,578 consisted primarily of unrealized loss on investments at fair value \$2,800,000, unrealized loss in other investments of \$686,822 and general and administrative expenses of \$1,283,365.
- (3) Net loss of \$3,751,014 consisted primarily of realized loss in investment in MM Enterprises of \$1,327,276; unrealized gain in investment in MM Enterprises of \$4,533,446, unrealized loss in other investments of \$465,480 and general and administrative expenses of \$6,239,241.
- (4) Net loss of \$4,539,700 consisted primarily of realized gain in investment in MM Enterprises of \$4,204,092; unrealized loss in investment in MM Enterprises of \$2,866,344, unrealized loss in other investments of \$1,882,962, unrealized loss in investment in URU Metals Limited of \$91,736 and general and administrative expenses of \$4,191,390.
- (5) Net income of \$8,982,725 consisted primarily of unrealized gain in investment in MM Enterprises of \$7,917,734, unrealized gain in investment in I-5 Holdings of \$2,500,000, unrealized loss in other investments of \$249,734, unrealized loss in investment in URU Metals Limited of \$545,775 and general and administrative expenses of \$702,241.
- (6) Net loss of \$933,308 consisted primarily of unrealized gain in other investments of \$63,985, unrealized loss in investment in URU Metals Limited of \$509,327 and general and administrative expenses of \$492,672.
- (7) Net loss of \$442,952 consisted primarily of unrealized gain in other investments of \$65,255, unrealized loss in investment in URU Metals Limited of \$419,565 and general and administrative expenses of \$86,310.
- (8) Net loss of \$3,825,460 consisted primarily of unrealized loss in other investments of \$56,509, unrealized loss in investment in URU Metals Limited of \$3,616,521 and general and administrative expenses of \$155,236.
- (9) Per share amounts are rounded to the nearest cent, therefore aggregating quarterly amounts may not reconcile to year-to-date per share amounts.

Results of Operations

For the three months ended March 31, 2019 compared with the three months ended March 31, 2018:

For the three months ended March 31, 2019, the Company's net loss was \$34,476,774 (\$0.87 per share), compared to net income of \$8,982,725 (\$0.38 per share) for the three months ended March 31, 2018. The increase in net loss of \$43,459,499 is a result of the following:

- During the three months ended March 31, 2019, the Company recorded a gross profit of \$1,619,356 from the sale of cannabis at its retail dispensaries compared to \$nil in the 2018 comparative period when the company was an investment and merchant banking company.
- During the three months ended March 31, 2019, the Company recorded a loss of \$26,244,153 from the sale of a wholly-owned subsidiary, ICH California Holdings Ltd., which held two MedMen dispensaries.
- Unrealized loss on investment at fair value increased to \$5,041 for the three months ended March 31, 2019 from a gain of \$7,122,225 for the three months ended March 31, 2018 due to changes in the fair value of the Company's investments;
- During the three months ended March 31, 2019, the Company recorded a realized loss on investments at fair value of \$2,347,085 primarily from the sale of 5,041,800 shares of MedMen Enterprises.
- General and administrative expenses increased from \$702,241 for the three months ended March 31, 2018 to \$6,589,408 for the three months ended March 31, 2019. The primary reasons for the increase of \$5,887,167 was \$3,912,013 of office and administration for the combined entities and \$2,271,209 for professional fees for services required to support execution of its business strategy.

For the year ended March 31, 2019 compared with the year ended March 31, 2018:

For the year ended March 31, 2019, the Company's net loss was \$46,436,066 (\$1.23 per share), compared to net income of \$3,781,005 (\$0.33 per share) for the year ended March 31, 2018. The increase in net loss of \$50,217,071 is a result of the following:

- During the year ended March 31, 2019, the Company recorded a gross profit of \$1,619,356 from the sale of cannabis at its retail dispensaries compared to \$nil in the 2018 comparative year when the company was an investment and merchant banking company.
- During the year ended March 31, 2019, the Company recorded a loss of \$26,244,153 from the sale of a wholly-owned subsidiary, ICH California Holdings Ltd., which held two MedMen dispensaries.
- Unrealized loss on investment at fair value increased to \$4,264,939 for the year ended March 31, 2019 from a gain of \$2,649,543 for the year ended March 31, 2018 due to changes in the fair value of the Company's investments;
- General and administrative expenses increased from \$1,436,459 for the year ended March 31, 2018 to \$18,303,404 for the year ended March 31, 2019. The primary reasons for the increase of \$16,866,945 was the payment of business advisory fees of \$4,690,060 for the closing of the acquisition of I-5 Holding, share based compensation of \$2,040,350 from the grant of 1,825,000 stock options, \$4,982,351 for professional fees for services required to support execution of its business strategy.

Liquidity and Financial Position

As at March 31, 2019, the Company had a consolidated cash balance of \$32,722,957 compared to \$21,296,842 at March 31, 2018. The Company had a working capital of \$56,631,544 as at March 31, 2019, compared to a working capital of \$70,625,989 at March 31, 2018.

The activities of the Company, which consist of the sale of cannabis products and investments in a diversified portfolio of public companies and commodities, are financed through the completion of equity offerings and the exercise of stock options and warrants.

Current liabilities increased from \$1,426,375 at March 31, 2018 to \$10,079,805 as at March 31, 2019. The increase is primarily a result of increased payables from general operations and the promissory note from the acquisition of cannabis dispensaries during the period.

As of March 31, 2019, and to the date of this MD&A, the cash resources of the Company are held with select financial institutions in Canada and the United States. At March 31, 2019, the Company's current liabilities consisted of trade payables, promissory note payable, loans payable and income taxes payable. Accounts payable and accrued liabilities are in the ordinary course of business, short term and non-interest bearing.

The Company's use of cash at present occurs, and in the future is expected to occur, principally in two areas: the funding of its general and administrative expenditures and its cannabis operations. In connection with the Company's operating and investment activities, the Company will seek to raise capital primarily through the issuance of equity securities. The Company has sufficient capital to meet its ongoing operating and investment activities.

Related Party Transactions

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Remuneration of directors and key management of the Company was as follows:

Fees	Year Ended March 31, 2019 \$	Year Ended March 31, 2018 \$
David Tsubouchi ⁽¹⁾	nil	3,000
Kyle Appleby ⁽¹⁾	12,000	12,000
Alexander Dementev ⁽¹⁾⁽⁵⁾	72,000	9,000
Alegana Enterprises Ltd. ("Alegana") ⁽²⁾	1,099,996	219,996
2249872 Ontario Ltd. ⁽³⁾	(32,190)	84,000
Marrelli Support Services Inc. ("MSSI") ⁽⁴⁾	18,000	18,000
Totals	1,169,806	345,996

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Share based compensation	Year Ended March 31, 2019 \$	Year Ended March 31, 2018 \$
Kyle Appleby ⁽¹⁾	55,900	31,200
Alexander Dementev ⁽¹⁾	27,950	27,040
Alegana ⁽²⁾	279,500	83,200
Henry Kloepper ⁽³⁾	27,950	20,800
Jing Ping ⁽⁴⁾	27,950	12,480
Totals	419,250	174,720

(1) Fees paid to directors of the Company. Included in accounts payable and accrued liabilities at March 31, 2019, is \$45,350 (March 31, 2018 - \$42,000) due to directors of the Company.

(2) Alegana is a company controlled by Mr. John Zorbas, the President and Chief Executive Officer (“CEO”) of the Company. Alegana provides consulting services to the Company for \$220,000 a year under the terms of a written contract that runs for an indefinite term. The consulting fees paid to Alegana are for the function of the President which include, but are not limited to, managing the capital structure and current investment portfolio of the Company. Alegana may receive, at the sole discretion of the board of directors, a performance bonus of up to 400% of the annual consulting fee payable by the Company to Alegana. Included in accounts payable and accrued liabilities as at March 31, 2019 owing to Alegana was \$1,431,364 (March 31, 2018 - \$669,150).

Upon termination of Alegana by the Company without cause or a termination following a change of control, the Company is obligated to pay Alegana: (a) 1.5 times Alegana’s annual consulting fee; and (b) an amount equal to 1.5 times the amount of all bonuses John Zorbas received for the most recent calendar year ended prior to the termination date or 2 times the amount of Alegana’s annual consulting fee should John Zorbas not have received a bonus for the most recent calendar year ended prior to the termination date. Upon termination of Alegana under any other circumstances, the Company is not obligated to pay Alegana any penalty.

(3) 2249872 Ontario Ltd. is a company controlled by Henry Kloepper, the former CEO of Captor. The management fees paid to 2249872 Ontario Ltd. are for the CEO function performed by Mr. Kloepper which includes the day-to-day operations of the Company as well as an implementation of the Company’s long and short term plans. Included in accounts payable and accrued liabilities at March 31, 2019 was \$nil (March 31, 2018 - \$47,190) due to 2249872 Ontario Ltd. The Company has no ongoing contractual obligation or commitment to 2249872 Ontario Ltd.

(4) Mr. Jing Peng, the Chief Financial Officer (“CFO”), is a senior employee of MSSI. The management fees paid to MSSI relate to CFO function performed by Mr. Peng which includes the reporting of financial information and the safeguard of the Company’s assets. Included in accounts payable and accrued liabilities at March 31, 2018 is \$2,930 (March 31, 2018 – \$8,042) owing to MSSI. The Company has no ongoing contractual obligation or commitment to MSSI.

(5) Alexander Dement'ev, a director of Captor, was paid consulting fees for consulting services performed for the Company. Included in accounts payable and accrued liabilities at March 31, 2019 is \$5,660 (March 31, 2018 - \$nil) due to Alexander Dement'ev.

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The Company is owed \$25,576 (March 31, 2018 - \$25,576) from a company related to Captor through common management. These amounts are included in the amounts receivable and prepaid expenses balance on the statement of financial position.

Off-Balance-Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity, capital expenditures and capital resources, that are material to investors.

Proposed Transactions

There are no material proposed transactions as of the date of this MD&A, except as disclosed in "Subsequent Event" below.

New Accounting Policies

(i) Financial Instruments

Effective April 1, 2018, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39, Financial Instruments: recognition and measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no impact on the Company's financial statements.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

Below is a summary showing the classification and measurement bases of our financial instruments as at April 1, 2018 as a result of adopting IFRS 9 (along with comparison to IAS 39).

Classification	IAS 39	IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Amounts receivable	Loans and receivables (amortized cost)	Amortized cost
Investments	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost
Other payables	Other financial liabilities (amortized cost)	Amortized cost
Loans and notes payable	Other financial liabilities (amortized cost)	Amortized cost

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

- Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

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The Company's cash and cash equivalents and investments are classified as financial assets and measured at FVTPL.

- Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

The Company's receivables are classified as financial assets and measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

- Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable and accrued liabilities, other payables, promissory note payable and loans and notes payable do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified at FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified at amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income. When an instrument at FVTOCI is sold, the accumulated gains or losses are reclassified from accumulated other comprehensive income (loss) directly to deficit.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's financial statements.

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The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(ii) Inventory

Inventory consists primarily of cannabis and related merchandise for resale and is valued at the lower of cost, determined using the weighted average method, and net realizable value. Net realizable value is the estimated selling price net of estimated discounts. Write-downs to net realizable value may be reversed in a subsequent period if circumstances that previously caused a write-down no longer exist.

(iii) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is calculated on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Customer relationships	Straight-line 5 years
Tradenames	Straight-line 5 years

Licenses are considered to have an indefinite life and are not amortized.

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization.

(iv) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

(v) Impairment of intangible assets and goodwill

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested whenever there is an indication of impairment.

Goodwill and indefinite life intangible assets are tested annually at March 31, 2019 for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGU's for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment.

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An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amounts of the CGUs' assets have been determined based on a fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the assets of the CGU on a pro rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior period. Impairment losses on goodwill are not subsequently reversed.

(iv) Revenue recognition

Revenue is generated from sales to customers through retail stores for cannabis. Revenue from retail sales is recognized at the point of sale.

The IASB replaced IAS 18 Revenue in its entirety with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach, where the cumulative impact of adoption was required to be recognized in retained earnings as of April 1, 2018 and comparatives were not required to be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

In accordance with IFRS 15, revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment is typically due prior to shipment and is recognized into revenue upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer.

The adoption of this new standard had no material impact on the amounts recognized in the consolidated financial statements.

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for future accounting periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following recent accounting pronouncement has not yet been adopted.

Leases ("IFRS 16")

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 greater than twelve months, unless the underlying asset's value is insignificant. 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. Lessors will continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17, *Leases*.

Management is currently executing its implementation plan and has completed the initial scoping phase to identify material lease contracts. However, the analysis of such contracts to quantify the transitional impact is still in progress. The most significant impact of IFRS 16 will be our initial recognition of the present value of unavoidable future lease payments as right-of-use assets under property and equipment and the concurrent recognition of a lease liability on the consolidated statement of financial position. The majority of our property leases, which are currently treated as operating leases, are expected to be impacted by the new standard which will result in lower rent expense, higher depreciation expense and higher finance costs related to accretion and interest expense of the lease liability. IFRS 16 will also impact the presentation of the consolidated statement of cash flows by decreasing operating cash flows and increasing financing cash flows.

The standard will be effective for the Company for the fiscal year commencing April 1, 2019. The Company will be adopting the standard retrospectively by recognizing the cumulative impact of initial adoption in opening retained earnings (i.e. the difference between the right-of-use asset and the lease liability). The Company will measure the right-of-use asset at an amount equal to the lease liability on April 1, 2019, apply a single discount rate to leases with similar remaining lease terms for similar classes of underlying assets and will not separate non-lease components from lease components for certain classes of underlying assets. Consistent with the guidance, the Company will not apply this standard to short-term leases and leases for which the underlying asset is of low value.

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign currency and commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Cash is held with reputable financial institutions. Amounts receivable are in good standing as of March 31, 2019. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is minimal.

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Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2019, the Company had a cash balance of \$32,722,957 (2018 - \$21,296,842) to settle current liabilities of \$10,079,805 (2018 - \$1,426,375). The Company generates cash flow primarily from its financing activities and management is of the opinion that additional funding is available to allow the Company to meet its financial obligations when they become due. While it has been successful in the past, there can be no assurance that it will be able to raise sufficient funds in the future. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and at interest bearing debt at fixed interest rates. The Company considers interest rate risk to be immaterial.

(ii) Foreign Currency Risk

Foreign currency risk arises from commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting. The Company maintains United States dollar bank accounts and pays certain expenses in United States dollars. The Company's functional and reporting currency is the Canadian dollar and is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars.

(iii) Price Risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors commodity prices, individual equity movements and the stock market in general to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period. The sensitivity analysis shown in the notes below may differ materially from actual results.

(i) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash and accounts payable and accrued liabilities that are denominated in United States dollars. As at March 31, 2019, had the United States dollar varied by 5% against the Canadian dollar with all other variables held constant, the Company's reported net income and comprehensive income for the year ended March 31, 2019 would have varied by approximately \$482,000.

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(ii) The Company's investments are sensitive to an estimated plus or minus 10% change in equity prices which would affect net income and comprehensive income by approximately \$3,124,000.

As at March 31, 2019	(Level 1)	(Level 2)	(Level 3)	Total
Investments at fair value	\$30,524,719	\$ -	\$717,163	\$31,241,882

As at March 31, 2018	(Level 1)	(Level 2)	(Level 3)	Total
Investments at fair value	\$41,241,574	\$ -	\$7,500,000	\$48,741,574

Capital Management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, reserve and deficit which at March 31, 2019 totaled \$69,254,176 (2018 - \$70,664,125). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is regularly updated based on activities related to its investments. Selected information is frequently provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended March 31, 2019.

Outstanding Share Data

The number of common shares of the Company outstanding and the number of common shares issuable pursuant to other outstanding securities of Captor as at November 4, 2019 are as follows:

Securities	As at November 4, 2019
Common shares outstanding	39,586,639
Issuable under options	2,035,000
Issuable under warrants	14,849,737
Total securities	56,471,376

Subsequent Event

On April 9, 2019, the Company entered into a Letter of Intent ("LOI") to form a Joint Venture Company ("JVCo" or "joint venture") with Green Buddha Group LLC ("Green Buddha"), a company with significant cannabis assets in Michigan, including retail operations currently generating sales, and cultivation and manufacturing facilities presently under development.

In accordance with the terms of the LOI, Green Buddha will transfer to JVCo Michigan licenses to operate 20 retail medical cannabis retailers, two licenses to operate a cannabis manufacturing, processing, and extraction facility, and eight licenses to operate a 325,000 sq. ft. cannabis cultivation facility (the "Michigan Licenses"). Captor has agreed to provide JVCo a convertible loan to fund the exploitation of the Michigan Licenses and the build-out and operation of JVCo's retail processing and cultivation facilities. The loan is convertible into 50.1% of the issued and outstanding shares of JVCo. Upon conversion of the loan, Green Buddha would own 49.9% of JVCo.

Disclosure Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the financial statements 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 by the financial statements; and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date at and for the periods presented.

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 Company uses the Venture Issuer Basic Certificate, which does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the 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
- 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 (IFRS). The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Risks and Uncertainties

The business of cannabis cultivation and distribution involves a high degree of risk. In addition to the other information included in this report, you should consider carefully the following factors, which describe the risks, uncertainties and other factors that may materially and adversely affect our business, products, financial condition and operating results. There are many factors that affect our business and our results of operations, some of which are beyond our control. As a result the securities of the Company must be considered speculative. A prospective investor in the Company should carefully consider the following factors:

Marketability of Investments

There is no assurance that the investment objectives of the Company will actually be achieved. The value of the shares of the Company will increase or decrease with the value of its investment portfolio and general economic conditions beyond the control of the Company's management, including the level of interest rates, corporate earnings, economic activity, the value of the Canadian dollar and other factors.

Lack of Liquidity

Due to market conditions beyond its control, including investor demand, resale restrictions, general market trends and regulatory restrictions, the Company may not be able to liquidate investments without a listed market for their securities, when it would otherwise desire to do so in order to operate in accordance with its investment policy and strategy. Such lack of liquidity could have a material adverse effect on the value of the Company's investments and, consequently, the value of the shares of the Company.

Fluctuation in Investments

The Company's investments in securities of public companies are subject to volatility in the share prices of the companies. There can be no assurance that an active trading market for any of the subject shares is sustainable. The trading prices of the subject shares could be subject to wide fluctuations in response to various factors beyond the Company's control, including, quarterly variations in the subject companies' results of operations, changes in earnings (if any), estimates by analysts, conditions in the industry of the subject companies and general market or economic conditions. In recent years equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, often unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of our investments.

Reliance on the Board

Shareholders will be required to rely on the business judgment, expertise and integrity of the directors and officers of the Company. The Company must rely substantially upon the knowledge and expertise of its directors and officers in entering into any investment agreement or investment arrangements, in determining the composition of the Company's investment portfolio, and in determining when and whether to dispose of securities owned by the Company. The death or disability of any of the Company's directors and officers could adversely affect the ability of the Company to achieve its objectives. The success of the Company will be dependent upon Management, the Board successfully identifying and managing the Company's investments.

Trading Price of Common Shares Relative to Net Asset Value

The Company is neither a mutual fund nor an investment fund and due to the nature of its business and investment strategy and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from the Company's net asset value per share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

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Ability to Raise Investment Capital

If the Company is unable to raise additional investment capital either through revenues or new financing through securities offerings, then it will be limited in its ability to fulfill its business objectives. This may adversely affect its long-term viability of the Company. The Company will require additional capital to continue its business and to raise additional capital the Company may have to issue additional shares which may dilute the interests of existing shareholders. Due to the Company's involvement in cannabis activities in the United States, the number of potential investors willing to purchase securities of the Company may be limited as a result of cannabis being illegal under U.S Federal Law. *Please see "Canadian Companies with U.S. Cannabis-Related Operations" below.*

Competitive Risks

The Company faces competition from other capital providers, all of which compete for investment opportunities. These competitors may limit the Company's opportunities to acquire interests in investments that are attractive to the Company. The Company may be required to invest otherwise than in accordance with its investment policy and strategy in order to meet its investment objectives. If the Company is required to invest other than in accordance with its investment policy and strategy, its ability to achieve its desired rates of return on its investments may be adversely affected.

Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or may have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will disclose the conflict of interest.

Additional financing

The Company believes that its raised capital is sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan which, in turn, is based on assumptions, which may prove to be incorrect. In addition, the Company may need to raise significant additional funds sooner to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values.

If such global volatility, market turmoil and the global recession continues, the Company's operations and financial condition could be adversely impacted.

Private Issuers and Illiquid Securities

The Company may invest in securities of private companies, illiquid securities of public companies and publicly-traded securities that have low trading volumes. The value of these investments may be affected by factors such as investor demand, resale restrictions, general market trends and regulatory restrictions. Fluctuation in the market value of such investments may occur for a number of reasons beyond the control of the Company and there is no assurance that an adequate market will exist for investments made by the Company. Many of the cannabis investments made by the Company may be relatively illiquid and may decline in price if a significant number of such investments are offered for sale by the Company or other investors.

Volatility of Stock Price

The market price of the Common Shares have been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the Common Shares, even if the Company is successful in maintaining revenues, cash flows or earnings. The purchase of the Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Securities of the Company should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company should not constitute a major portion of an investor's portfolio.

Canadian Companies with U.S. Cannabis-Related Operations

Effective as of July 31, 2019, Company believes that it is subject to certain disclosure requirements set forth in the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Cannabis-Related Activities ("Staff Notice 51-352"). Below is a discussion of the federal and state-level United States regulatory regimes in those jurisdictions where the Company is currently directly involved, through its subsidiaries, in the cannabis industry. In accordance with Staff 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 and amended 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 cannabis regulation. The Company makes the following disclosures necessary to fairly present all material facts, risks and uncertainties:

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

The Company is a cannabis operating company operating in the state of California with licenses for commercial cannabis manufacturing, distribution and retail (for more information on the Company's current and intended future operations, please see the "Description of Business" section above). The Company anticipates being fully vertically integrated and will therefore be carrying out operations that would be considered U.S. marijuana-related activities and direct involvement in cultivation and distribution.

Cannabis Illegality

In the US, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 33 states, plus the District of Columbia, Puerto Rico and Guam, which allow their residents to use medical cannabis. Eleven of those states, including California, and Washington D.C., have legalized cannabis for adult-use. Notwithstanding the permissive regulatory environment of cannabis at the state level, the Federal Controlled Substances Act (the "FCSA") makes it illegal under federal law to cultivate, manufacture, distribute, sell, or dispense cannabis. 21 U.S.C § 801, et seq. Cannabis is categorized as a Schedule I controlled substance under the FCSA and as such, violates federal law in the US. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment. Thus, enforcement of relevant laws is a significant risk.

Guidance from Federal Authorities

The US Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of cannabis pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

As a result of the conflicting views between state legislatures and the US federal government regarding cannabis, investments in cannabis businesses in the US 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 a memorandum (the "Cole Memorandum") addressed to all US district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the US, several US states have enacted laws relating to cannabis for medical purposes, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

- (1) Distribution of cannabis to minors;
- (2) Criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis;
- (3) Transfer of cannabis from States where it is legal to States where it is illegal;
- (4) Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity;
- (5) Violence or use of firearms in cannabis cultivation and distribution;
- (6) Drugged driving and adverse public health consequences from cannabis use;
- (7) Growth of cannabis on federal lands; and
- (8) Cannabis possession or use on federal property.

The Cole Memorandum outlined certain priorities for the US Department of Justice (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,

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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.

The DOJ has issued official guidance regarding cannabis enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use cannabis. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to cannabis. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to cannabis and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use cannabis businesses even if they are not engaged in cannabis-related conduct enumerated by the Cole Memorandum, the memorandum dated August 29, 2013, as being an enforcement priority.

On January 4, 2018, former Attorney General Sessions issued a memorandum (the "Sessions Memorandum") that rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of US Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principles are included in chapter 9.27.000 of the US Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities, despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from US Congress in the form of the Rohrabacher-Blumenauer Amendment, which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding.

Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third-parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

As the Sessions Memorandum demonstrates, the US approach to enforcement of cannabis violations of the FCSA can change at any time. While there is some uncertainty at the federal level, on March 23, 2018, the omnibus spending bill signed into law by President Trump included an updated version of the Rohrabacher-Blumenauer amendment, which, as stated above, prohibits the DOJ from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. The amendment applies to medical cannabis but not recreational cannabis and does not change the designation of cannabis as a Schedule I controlled substance under the FCSA.

While there are no explicit federal protections for adult-use commercial cannabis activity, on April 11, 2018, President Trump made a verbal commitment to Republican Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such

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bipartisan legislation has not yet been finalized, but Senate Garner went on to say, “[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President’s desk to deliver on his campaign position.” The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized cannabis. The Company is cautiously optimistic that it represents a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

While cannabis remains illegal at the federal level, there have been recent developments relevant to the federal government taking a position that respects states’ rights to legalize and regulate commercial cannabis and refrain from prosecuting commercial cannabis businesses. Senator Gardner and Senator Elizabeth Warren have introduced federal legislation that would bar the federal government from interfering with any state-approved cannabis legalization and permit cannabis businesses to use the federal banking system.

On June 8, 2018, President Trump was asked about the bill in an interview and replied, “we’re looking at it. But I probably will end up supporting that, yes.” Such a bill would effectively prevent the federal government from taking any action that interferes with legal commercial cannabis businesses in California.

On November 7, 2018, Attorney General Sessions resigned after the US Mid-Term Elections, which could potentially impact the US cannabis industry. From the Mid-Term Elections, US voters delivered a split verdict for Congress, as the Democrats secured a majority in the House of Representatives (the “House”) while the Republicans expanded their majority in the Senate. With the Democrats taking back control of the House, there may be opportunity for bi-partisanship on a number of issues including the Strengthening the Tenth Amendment Through Entrusting States Act, S. 3032 (“STATES Act”), which would protect individuals working in cannabis sectors from federal prosecution. The STATES Act was introduced in June 2018 through bi-partisan efforts initiated by Senator Gardner together with Senator Warren. Senator Warren won re-election which ensures she will push the change to federal law regarding cannabis. In addition, constituents of Michigan voted to legalize adult-use cannabis, making Michigan the first state in the Midwest to do so and the 10th in the US overall demonstrating growing sentiment amongst Americans towards legalization. Voters in Missouri and Utah approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.

Although Jeff Sessions has been replaced by President Trump with William Barr, there is still very little clarity as to how President Trump, or Attorney General Barr, will enforce federal law or how they will deal with states that have legalized medical or recreational cannabis. There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. Any such change in the US federal government’s enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company’s businesses.

Most recently, the US Congress passed H.R. 3055, the “Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020” (the “2020 Appropriations Act”). On June 20, 2019, the 2020 Appropriations Act was Amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (*Blumenauer (D-OR)*, *Norton (D-DC)*, *McClintock (R-CA)*), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the DOJ from interfering with “state cannabis programs”, which includes both medical and adult-use cannabis programs.

On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives such as CBD from the purview of the FCSA. Prior to its enactment, the 2014 Farm Bill allowed Industrial Hemp to be cultivated under agricultural pilot programs conducted by state departments of

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agriculture and institutions of higher education. Under federal law, hemp is to be treated as an agricultural commodity, and the regulation of hemp products, including those containing CBD, will be enforced by the FDA under the Federal Food, Drug, and Cosmetic Act of 1938. As of this date, federal authorities have not set regulations that govern the manufacturing, advertising, or sale of hemp products. However, the FDA has issued statements that declare that CBD products intended for human or pet consumption are illegal. The FDA's position is that consumable CBD products, whether cannabis or hemp-derived, are untested "new drugs" and, thus are illegal for consumption until FDA approval. However, the FDA is taking strides to legalize consumable CBD products. On May 31, 2019, the FDA held the first stakeholder hearing to discuss the pathway to the potential legalization of consumable CBD products.

Enforceability of Contracts

Since cannabis is illegal at a federal level, judges in multiple U.S. states have on several occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law. Therefore, there is uncertainty that the Company will be able to legally enforce its material agreements.

Product Liability

The Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by them caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim, or regulatory action could result in increased costs, could adversely affect the reputation of the Company and could have a material adverse effect on the business, results of operations and financial condition of the Company. There can be no assurances that product liability insurance will be obtained or maintained on acceptable terms or with adequate coverage against potential liabilities.

Risks Inherent in an Agricultural Business

Medical and adult-use cannabis is an agricultural product. There are risks inherent in the cultivation business, such as insects, plant diseases and similar agricultural risks. Although the products are usually grown indoors or green houses under climate-controlled conditions, with conditions monitored, there can be no assurance that natural elements will not have a material adverse effect on the production of the Company's products and, consequentially, on the business, financial condition and operating results of the Company.

Restricted Access to Banking

In February 2014, the FinCEN bureau of the U.S. Treasury Department 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 in the United States 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. In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a

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controlled substance, regardless of whether the state it resides in permits cannabis sales. While the United States Congress is contemplating the SAFE Act, the passage of which would permit commercial banks to offer services to cannabis companies that are in compliance with state law, if Congress fails to pass the SAFE Act, the Company's inability, or limitations on 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 or to operate efficiently.

Third-Party Service Providers

As a result of any adverse change to the approach in enforcement of the U.S. cannabis laws, adverse regulatory or political changes, additional scrutiny by regulatory authorities, adverse changes in the public perception in respect to the consumption of cannabis or otherwise, third-party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the business, revenues, operating results, financial condition or prospects of the Company.

Balance Sheet/Operating Exposure

Twenty Percent (20%) of the Company's balance sheet is comprised of U.S.-based commercial cannabis operations.

Legal Advice, Compliance, and Potential Exposure

The Company is monitoring compliance with California Laws on an ongoing basis. The Company has engaged California-based cannabis regulatory compliance counsel and provides the Company with ongoing compliance advice. Counsel has substantial experience advising cannabis companies on how to comply with California law and the potential exposure to federal law. The Company's counsel has been tasked with monitoring California law on an ongoing basis and ensuring that the Company's operations comply with all California cannabis laws and regulations. The Company has regularly scheduled calls with compliance counsel to discuss compliance matters. Nevertheless, there is no assurance that the Company will be able to maintain or remain in compliance with California or other state laws. Moreover, even if the Company complies with each and every law and regulation, they may still be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment.

Regulation of the Cannabis Market in California

In 1996, California was the first state to legalize medical cannabis through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). This provided an affirmative defense for defendants charged with the use, possession and cultivation of medical cannabis by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which cannabis provides relief. In 2003, Senate Bill 420 was signed into law, decriminalizing the use, possession, and collective cultivation of medical cannabis, and establishing an optional identification card system for medical cannabis patients.

In September 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA established a licensing and regulatory framework for medical cannabis businesses in California. The system created testing laboratories, and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the "Adult Use of Cannabis Act" ("AUMA") creating an adult-use cannabis program for adult-use 21 years of age or older. In June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA"), which amalgamated MCRSA and AUMA to provide a set of

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regulations to govern the medical and adult-use licensing regime for cannabis businesses in the State of California. MAUCRSA went into effect on January 1, 2018. The five agencies that regulate cannabis at the state level are BCC, California Department of Food and Agriculture, California Department of Public Health, the California Environmental Protection Agency, and California Department of Tax and Fee Administration.

One of the central features of MAUCRSA is known as “local control.” In order to legally operate a medical or adult-use cannabis business in California, an operator must have both express local authority and a state license. This requires license-holders to operate in cities or counties that offer a path to local approval for local approval for cannabis businesses. Cities and counties in California can determine the number and type and type of licenses they will issue to cannabis operators or can choose to outright ban local cannabis activity, except they may not prevent the transportation of cannabis through their jurisdictions.

California License Types

Once an operator obtains local approval, the operator must obtain state licenses before conducting any commercial cannabis activity. There are 12 different license types that cover all commercial activity. License types 1-3 and 5 authorize the cultivation of medical and/or adult-use cannabis plants. Type 4 licenses are for nurseries that cultivate and sell clones and “teens” (immature cannabis plants that have established roots but require further vegetation prior to being sent into the flowering period). Type 6 and 7 licenses authorize manufacturers to process cannabis biomass into certain value-added products such as shatter or cannabis distillate oil with the use of volatile or non-volatile solvents, depending on the license type. Type 8 licenses are held by testing facilities who test samples of cannabis products and generate “certificates of analysis,” which include important information regarding the potency of products and whether products have passed or failed certain threshold tests for pesticide and microbiological contamination. Type 9 licenses are issued to “non-storefront” retailers, commonly called delivery services, who bring cannabis products directly to customers and patients at their residences or other chosen delivery location. Type 10 licenses are issued to storefront retailers, or dispensaries, which are open to the public and sell cannabis products onsite. Type 11 licenses are known as “Transport-Only” distribution licenses, and they allow the distributor to transport cannabis and cannabis products between licensees, but not to retailers. Type 12 licenses are issued to distributors who move cannabis and cannabis products to all license types, including retailers.

California Agencies Regulating the Commercial Cannabis Industry

There are three agencies tasked with issuing and regulating the cannabis license types in California. The California Department of Food and Agriculture (“CDFA”) oversees nurseries and cultivators; the California Department of Public Health (“CDPH”) oversees manufacturers, and the newly-created Bureau of Cannabis Control (“BCC”) oversees distributors, retailers, delivery services, and testing laboratories. Operators must apply to one or more of these agencies for their licenses, and each agency has released regulations specific to the operation of the types of businesses they oversee. The BCC has a number of regulations that apply to all licensees, but generally the CDFA and CDPH regulations only apply to the licensees in their charge.

The Cannabis Supply Chain in California

In California, depending on a local government’s own cannabis ordinances, plants may be cultivated outdoors, using mixed-light methods, or fully indoors. Cultivators must initially acquire seeds, clones, teens, or other immature plants from nurseries. The cultivation, processing, and movement of cannabis within the state is tracked by the METRC system, into which all licensees are required to input their track and trace data (either manually or using another software that automatically uploads to METRC). Immature plants are assigned a Unique Identifier number (“UID”), and this number follows the flowers and biomass resulting from that plant through the supply chain, all the way to the consumer. Each licensee in the supply chain is required to meticulously log any processing, packaging, and sales associated with that UID.

When cannabis plants mature and complete their life cycle, they are harvested, cured, and trimmed, in preparation of being sold to distributors or manufacturers. Cultivators have two main products: flowers, or "buds," and the biomass, or "trim," which is typically removed from the mature flowers. Trim is commonly sold to Manufacturers for further processing into cannabis extracts. Buds may also be sold to manufacturers, or to distributors for sale to retailers. The cultivator may package and label its cannabis flowers or may sell flower in bulk and the Distributor may package and label the flower. Manufactured cannabis goods may be sold from a manufacturer to a Distributor but have to be provided to Distributors in their final packaging. Distributors may not package manufactured cannabis goods. Certain tax rates apply to the cannabis flower and biomass, which are assessed per ounce of product sold. The tax is paid by the Cultivator to the Distributor, or alternatively the manufacturer to the distributor, who has the responsibility of tendering the fees to the State of California.

Cannabis in California may only be transported between licensees by a licensed distributor. Some cultivators and manufacturers have their own distribution licenses, and others contract with third-party distributors. Distributors may or may not take possession of the cannabis and cannabis products but ultimately all cannabis goods must be taken to a distributor facility for testing before they can be transported to retail. How this is evolving in California currently is that, similar to the alcohol distribution model, retailers are choosing from a portfolio of products carried by the distributors they work with. Brands are doing some direct marketing to retailers, but many brands target their marketing to distributors.

Distributors are the point in the supply chain where final quality assurance testing is performed on products before they go to a retailer. Retailers may not accept product without an accompanying certificate of analysis (COA). Distributors must hold product to be tested on their premises in "quarantine" and arrange for an employee of a licensed testing laboratory to come to their premises and obtain samples from any and all goods proposed to be shipped to a retailer. Cannabis and cannabis products are issued either a "pass" or "fail" by the testing laboratory. Under some circumstances, the BCC's regulations allow for failing product to be "remediated" or to be re-labeled to more accurately reflect the COA.

Retail Compliance in California

California requires that certain warnings, images, and content information be printed on all cannabis packaging. BCC regulations also include certain requirements about tamper-evident and child-resistant packaging. Distributors and retailers are responsible for confirming that products are properly labeled and packaged before they are sold to a customer.

Consumers aged 21 and up may purchase cannabis in California from a dispensary with an "adult-use" license. Some localities still only allow medicinal dispensaries. Consumers aged 18 and up with a valid physician's recommendation may purchase cannabis from a medicinal-only dispensary or an adult-use dispensary. Consumers without valid physician's recommendations may not purchase cannabis from a medicinal-only dispensary. All cannabis businesses are prohibited from hiring employees under the age of 21.

Security Requirements

Each local government in California has its own security requirements for cannabis businesses, which usually include comprehensive video surveillance, intrusion detection and alarms, and limited access areas in the dispensary. The State also has similar security requirements, including that there be limited-access areas where only employees and other authorized individuals may enter. All Licensee employees must wear employee badges. The limited access areas must be locked with "commercial-grade, nonresidential door locks on all points of entry and exit to the licensed premises."

Each licensed premise must have a digital video surveillance system that can "effectively and clearly" record images of the area under surveillance. Cameras must be "in a location that allows the camera to clearly record activity occurring within 20 feet of all points of entry and exit on the licensed premises."

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The regulations list specific areas which must be under surveillance, including places where cannabis goods are weighed, packed, stored, loaded, and unloaded, security rooms, and entrances and exits to the premises. Retailers must record point of sale areas on the video surveillance system.

Licensed retailers must hire security personnel to provide on-site security services for the licensed retail premises during hours of operation. All security personnel must be licensed by the California Bureau of Security and Investigative Services.

Inspections

All licensees are subject to annual and random inspections of their premises. Cultivators may be inspected by the California Department of Fish and Wildlife, the California Regional Water Quality Control Boards, and the California Department of Food and Agriculture. Manufacturers are subject to inspection by the California Department of Public Health, and Retailers, Distributors, Testing Laboratories, and Delivery services are subject to inspection by the Bureau of Cannabis Control. Inspections can result in notices to correct, or notices of violation, fines, or other disciplinary action by the inspecting agency.

Cannabis sales and excise taxes in California

Several taxes are imposed at the point of sale and are required to be collected by the retailer. The State imposes an excise tax of 24%, and a sales and use tax is assessed on top of that. Cities and counties apply their sales tax along with the State's sales and use tax, and many cities and counties have also authorized the imposition

Compliance

In all material aspects, the Company believes it is in compliance with all applicable state and local laws/licensing framework related to its cannabis operations based on its ongoing compliance program described in this MD&A. As set forth above, the Company has engaged California counsel specializing in regulatory compliance for California cannabis businesses. The Company works with counsel regularly to ensure its operations remain compliant. Moreover, the Company has not received any non-compliance notices or citations from any regulatory agency. Company will promptly disclose any such notices or citations if received.