



**QUINSAM CAPITAL CORPORATION**

**Management's Discussion and Analysis**

**For the Year Ended December 31, 2018**

**April 29, 2019**

## QUINSAM CAPITAL CORPORATION

### Management's Discussion and Analysis

For the year ended December 31, 2018

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The following Management's Discussion and Analysis ("MD&A") constitutes management's assessment of the factors that affected the financial condition and results of operations of Quinsam Capital Corporation ("Quinsam", the "Company" or "We") for the year ended December 31, 2018 ("Fiscal 2018"). This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the Company's financial statements and related notes for the years ended December 31, 2018 and 2017 ("Fiscal 2017").

Except as otherwise indicated (see "Use of Non-GAAP Financial Measures" section in this MD&A), the Company's financial statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee ("IFRIC"). All figures in this MD&A are reported in Canadian dollars (\$) unless otherwise stated.

#### About Quinsam Capital Corporation

Quinsam was incorporated under the Canada Business Corporations Act on March 18, 2004 in the Province of British Columbia. The Company is a merchant banking firm focused on the small-cap market with early-stage investments in the cannabis markets. The Company's business may encompass a wide range of activities including acquisitions, advisory services, lending activities and portfolio investments. Quinsam invests its capital for its own account in assets, companies or projects which management believes are undervalued and where we see a viable plan for unlocking such value. The Company does not invest on behalf of any third-party and does not offer investment advice.

The Company's common shares are publicly-traded on the Canadian Securities Exchange (the "CSE") under the ticker symbol "QCA". The Company is presently domiciled in the Province of Ontario, Canada and its registered office address is at 77 King Street West, Suite 2905, Toronto, Ontario, M5H 1H1, Canada.

As at April 29, 2019, the directors and officers of the Company were:

Roger Dent	Chief Executive Officer and Director
Keith Li	Chief Financial Officer
Peter Bilodeau	President and Director
Eric Szustak	Corporate Secretary and Director
Terry Booth	Director
Ross Geddes	Director
Anthony Roodenburg	Director
Adam Szweras	Director

#### Outlook

In Q4 2018, Quinsam continued its strategy of operating in the cannabis market as a focused specialty investor. As investor interest in the sector continues to be strong, Quinsam anticipates a large number of liquidity events in the coming months by its investee companies, as a result of numerous pre-public company investments made over the past year. While timing of these liquidity events is not within the Company's control and they are subject to regulatory approvals, management expects these liquidity events will have a positive impact on the Company's NAV, and is optimistic about the prospects for results in the first half of Fiscal 2019. The Company now has approximately \$50 million investable capital thereby qualifying it as an accredited investor in Canada.

While the Company is optimistic about the outlook for the cannabis sector, it is a sector which comes with risks and volatility. Accordingly, the Company maintains a cautious approach in overseeing its investment portfolio. When sector volatility leads to situations where Quinsam believes that upside is limited, the Company attempts to realize profits where possible and free up capital for new investments.

Quinsam is becoming an important "bellwether" investor for the investment community, helping to power growth for public companies, as well as private entities seeking listing on recognized stock exchanges, and providing strategic capital on a blended loan/equity basis. As the cannabis markets expand and mature, Quinsam plans to deploy its expertise to make strategic investments and contributions to upcoming industry leaders as well as portfolio investments in niche growers, manufacturers, retailers, service providers and other companies. Quinsam intends to build a portfolio of cannabis-related investments that are targeted to generate attractive returns at acceptable levels of risk for shareholders going forward.

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While the legislative climate for cannabis remains in flux in the United States (the "US"), the climate has been increasingly positive for investors. Quinsam believes that, if progress with legalization continues in the US, merger & acquisition ("M&A") activity in the US market will increase. With legalization of recreational marijuana in full effect in Canada since October 2018, the Company expects to continue providing assistance to our investee companies as they look to make acquisitions, undertake M&A transactions, and undertake other strategic growth initiatives.

Quinsam plans to continue to deploy its investable capital and pursue opportunities which are generally unavailable to the typical investor. The Company will remain focused on maintaining a tight cost structure, and by bringing a disciplined approach to this rather volatile sector, we expect to deliver strong results for our investors.

#### Recent Developments

On August 6, 2018, the Company began a normal course issuer bid to purchase up to 5,928,951 common shares (the "Bid"), representing 5% of its issued and outstanding common shares. The Company commenced the Bid as we feel that the repurchase of common shares for cancellation is in the best interests of its shareholders, since the Bid is intended to increase the respective proportionate shareholdings and equity interests of all remaining shareholders. The Bid will terminate on August 6, 2019, or on an earlier date in the event that the number of common shares sought in the Bid has been repurchased. As of the date of this MD&A, 1,443,000 common shares of the Company had been repurchased under the Bid.

On February 22, 2019, the Company paid its Q4 2018 quarterly dividend of \$0.00125 per share, to the shareholders of record on February 1, 2019. That marked a 18<sup>th</sup> consecutive quarter in which the Company has paid dividends to its shareholders.

#### Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state's regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to: (i) a description of the nature of a reporting issuer's involvement in the US marijuana industry; (ii) disclosure that marijuana is illegal under US federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the US; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

At this time, the Company's involvement in the US cannabis industry is limited and its industry involvement of cannabis activities is "Indirect" through investments in entities operating in the US cannabis industry (the "Investees"). In addition, the Company does not operate, nor control any subsidiary that is directly engaged in the cultivation or distribution of marijuana in accordance with a US state license. As a result of the Investees having cannabis operations in the US (as described below), the Company is subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

#### *Compliance with Applicable State Laws in the US*

The Company has not obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal laws in the states where its Investees conduct operations. For each of the Investees involved in the US cannabis industry listed in the below summary of investments, to the best of the Company's knowledge, the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable US state for any of such Investees' business and the Company is not aware of: (i) any non-compliance by these Investees with respect to marijuana-related activities, or (ii) any notices of violation with respect to any Investees' marijuana-related activities by its respective regulatory authorities.

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#### *Nature of Investments with US Cannabis-Related Activities*

##### Abacus Health Products Inc. (Colorado, Kentucky, Oregon)

In December 2018, Quinsam subscribed for 80,000 common shares of Abacus Health Products Inc. ("Abacus") for USD \$300,000 (CAD \$403,500). Abacus is a company engaged in the development and commercialization of over-the-counter ("OTC") topical medications which contain organic and natural ingredients, including CBD. Abacus' products are aimed at the growing markets for topical pain relief and skincare and are based on proprietary patent technologies developed in-house. All its commercialized products are registered with the FDA and utilize FDA-approved ingredients. Abacus is also developing a pipeline of other CBD products addressing additional medical indications and targeting the health and wellness segments. Abacus' common shares began trading on the CSE on January 30, 2019.

##### Acreage Holdings Inc. (California, Oregon, Washington, Colorado, Arizona, Pennsylvania, Connecticut, Florida, Iowa, Illinois, New Jersey, New York, New Hampshire, Massachusetts, Maryland, Maine, North Dakota, Michigan, Nevada)

In May 2018, Quinsam subscribed for 160,000 Membership units of Acreage Holdings Inc. ("Acreage") for USD \$992,000 (CAD \$1,275,315). Acreage is a vertically-integrated owner of cannabis licenses and assets in US states where either use of medical and recreational cannabis is legal. Acreage owns cultivation, processing and dispensary operations across 18 states and has one (1) of the largest footprints of any cannabis company in the US. Acreage's board of advisors include John Boehner, former Speaker of the House, Bill Weld, former Massachusetts Governor, and Brian Mulroney, former Prime Minister of Canada. In November 2018, Acreage completed its public offering and its common shares began trading on the CSE on November 15, 2018.

In April 2019, Acreage announced two (2) major transactions. On April 17, 2019, it entered into an agreement to acquire 100% of Deep Roots Medical LLC, a vertically-integrated cannabis operator in Nevada, for a total value of \$120 million. The deal marks Acreage's entry into Nevada. On April 18, 2019, Acreage entered into a definitive arrangement agreement with Canopy Growth Corporation ("Canopy") which grants Canopy the right to acquire 100 percent of the shares of Acreage, with a requirement to do so at such time as cannabis production and sale becomes federally legal in the US, subject to obtaining the requisite prior approval of the shareholders of each entity, respectively, as well as the approval of the Supreme Court of British Columbia.

##### Aura Health Inc. (Arizona, Florida, Nevada)

In December 2017, Quinsam subscribed for 300 units of convertible debentures of Aura Health Inc. ("Aura") for \$300,000 through a non-brokered private placement, which bear interest at 12% per annum and mature 24 months from closing. The debentures are convertible into units at \$0.3675, equal to 75% of the liquidity event price. Each unit is comprised of one (1) common share and 1/2 warrant exercisable until 12 months from its reverse takeover ("RTO") transaction listing on the CSE completed on August 16, 2018. During the period, Quinsam also subscribed for 150,000 units for \$73,500 through a non-brokered private placement and acquired an additional 150,000 shares through an arm's length share exchange agreement. Each private placement unit is comprised of one (1) common share and one (1) warrant exercisable at \$0.75 for 24 months from closing. Aura holds interest in certain investments of medical marijuana certification clinics in the US but has recently shifted its focus toward the medical cannabis market in Europe, in an effort to build an international network of vertically-integrated cannabis assets.

##### Ballistic Capital Corp. (Oregon)

In August 2018, Quinsam subscribed for 3,900,000 shares of Ballistic Capital Corp. ("Ballistic") for \$390,000 through a non-brokered private placement, which makes Quinsam a near-10-percent shareholder of the company. Ballistic is involved with the disposal of cannabis waste in California. Cannabis waste disposal is a relatively new business that has been created by the legalization of cannabis in the State.

##### Bertram Capital Finance Inc. d/b/a Cannabis One (Colorado)

In September 2018, Quinsam subscribed for 115,000 subscription receipts of Bertram Capital Finance Inc. d/b/a Cannabis One ("Cannabis One") for \$341,550 through a non-brokered private placement. Each unit is comprised of one (1) common share and 1/2 warrant exercisable at \$4.45 for 24 months from closing. Cannabis One is a US-based professional management corporation formed to service the fast-growing legal cannabis industry through real estate development and leaseback equipment financing, operating lines of credit, consultation, intellectual property and brand management within marijuana-legal US states.

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#### Blackshire Capital Corp. (Washington, Arizona, Massachusetts)

In October 2018, Quinsam subscribed for 350,000 units of Blackshire Capital Corp. ("Blackshire") for \$385,000. Each unit is comprised of one (1) common share and 1/2 warrant exercisable at \$1.75 for 24 months from closing. Blackshire is a principal investor and asset manager, focused on investing growth capital in the securities of private cannabis companies on a global basis. Blackshire is currently invested in the following categories: (a) general cannabis investments in Canada, (b) cannabis-related retail in Canada, and (c) cannabis-infused foods and beverages (US consumer packaged goods and beverages, Tre Holdco, Cascade and Lehua, operating in Washington, Arizona and Massachusetts, respectively).

#### CannAmerica Brands Corp. (Colorado, Nevada, Maryland)

In July 2018, Quinsam subscribed for 1,650,000 shares of CannAmerica Brands Corp. ("CannAmerica") for \$495,000 through a non-brokered private placement. CannAmerica is a US marine veteran founded and operated portfolio of cannabis brands with licensing agreements in the States of Colorado, Nevada and Maryland. The Company aims to maximize value of its brands by employing brand management teams, marketing and licensing the brands through various distribution channels, including dispensaries, wholesalers and distributors in the US and internationally. Its flagship edible gummy brand, CannAmerica, is sold across US dispensaries. It is also targeting acquisitions of other well established and/or new consumer cannabis brands with potential for growth and strong brand awareness in exchange for royalties on gross sales. CannAmerica's common shares began trading on the CSE on October 15, 2018.

#### Cannex Capital Group Inc. (Washington)

Cannex Capital Group Inc. ("Cannex") is focused on premium indoor cultivation, extraction, manufacturing and branding of edible and derivative products as well as retail operations. Cannex is undertaking expansion initiatives to support the acquisition and development of additional assets in legal medical and recreational cannabis markets, and it currently owns BrightLeaf Development LLC which holds real estate assets, property leases, brands and intellectual property, and material supply agreements in the State of Washington. Quinsam continues to hold a warrants position through its investments in Cannex.

#### Captor Capital Corp. (California, Washington)

During Q3 2018, Quinsam received 2.6 Captor Capital Corp. ("Captor") shares of in exchange for each I-5 Holdings Ltd. ("I-5") share previously held, pursuant to Captor's acquisition of I-5 per a merger agreement dated February 16, 2018. As a result, Quinsam received 975,000 common shares of Captor, which were subsequently consolidated on the basis of a 20:1 ratio on October 4, 2018. Captor is a vertically-integrated cannabis company, which provides recreational and medical marijuana-based products to consumers via its leading brands and dispensary locations. It owns and operates advanced growing facilities which produce consistent high-quality contaminant free marijuana for its customers, as well as other high demand cannabis-based goods for consumption. Captor currently has a number of revenue-generating cannabis investments including the CHAI Cannabis Co. dispensaries in Santa Cruz and Monterey, California, and Mellow Extracts, a producer of cannabis extracts based in Costa Mesa.

#### CLS Holdings USA Inc. (Nevada)

In December 2018, Quinsam subscribed for 400 units of convertible debentures of CLS Holdings USA Inc. ("CLS") for USD \$400,000 (CAD \$533,840), which bear interest at 8% per annum for a maturity term of three (3) years. At Quinsam's option, the debentures are convertible into units at USD \$0.80. CLS is a diversified cannabis company that acts as an integrated cannabis producer and retailer through its Oasis Cannabis subsidiaries in Nevada, and it has plans to expand to other states. CLS stands for "Cannabis Life Sciences" in recognition of the Company's patented proprietary method of extracting various CBD from the marijuana plant and converting them into products. CLS's business model includes licensing operations, processing operations, processing facilities, sale of products, brand creation and consulting services.

#### Empower Clinics Inc. (Oregon, Washington, Illinois)

In March 2018, Quinsam subscribed for 1,000,000 shares of Empower Clinics Inc. ("Empower") for \$310,000 through a non-brokered private placement. In September 2018, the Company subscribed for \$250,000 of Empower unsecured convertible debentures which bear interest at 7% per annum, payable on maturity which is one (1) year from closing. On maturity, the debentures will be automatically converted at \$0.18, into units consisting of one (1) common share and one (1) warrant exercisable at \$0.19 for a period of one (1) year from the maturity date. Empower is a multi-state operator of medical cannabis clinics and developer of medical products in the US, focused on enabling individuals to improve and protect their health. It

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also provides treatment solutions through its physician-staffed clinics that are focused on education, data, and efficacy. As at the end of Fiscal 2018, the Company had further increased its holdings in Empower.

#### Evio Inc. (California, Oregon, Washington, Florida, Massachusetts)

In January 2018, Quinsam subscribed for 450 units of convertible debentures of Evio Inc. ("Evio") for USD \$450,000 (CAD \$556,850) through a non-brokered private placement. Each unit is comprised of one (1) common share and 1/2 warrant exercisable at USD \$0.60 for 18 months from closing. Evio is a provider of cannabis testing and scientific research for the regulated cannabis industry, where its EVIO Labs division operates coast-to-coast in the US and provides state-mandated ancillary services to ensure the safety and quality of cannabis supply. Evio is currently under application to become a reporting issuer in Ontario.

#### FLRish, Inc. d/b/a Harborside (California)

In April 2018, Quinsam invested USD \$1.25 million (CAD \$1,607,750) in FLRish, Inc. ("FLRish") d/b/a Harborside ("Harborside") as part of a USD \$6.5 million financing. In October 2018, Quinsam subscribed for 250 units of FLRish's Series B unsecured 10% convertible debentures for USD \$250,000 (CAD \$414,812). Each unit is comprised of \$1,000 principal amount of debenture, and 87 share purchase warrants. Each debenture is convertible into shares of FLRish Series B Common Stock at any time at Quinsam's option and automatically upon completion of the RTO Transaction (see below) at the lower of (1) CAD \$6.90 or (b) at a 10% discount to the share price at listing for a financing equal to \$5,000,000 or greater. Each warrant is exercisable at CAD \$8.60 for 24 months after closing.

Harborside operates two (2) flagship cannabis dispensary stores in Oakland and San Jose, and a large cannabis cultivation facility in Salinas, California. Harborside is considered by many as a pioneer in the California cannabis market. In February 2019, Harborside and Lineage Grow Company Ltd. ("Lineage") entered into a definitive merger agreement pursuant to which Harborside will affect an RTO that will result in Lineage acquiring all of the issued and outstanding securities of Harborside on a debt-free basis in exchange for newly issued Lineage common shares valued at approximately \$200 million. The RTO Transaction is expected to be completed during Q2 2019, subject to all required approvals and consents from the CSE and Lineage shareholders.

#### Gefion Canada Inc. (Various states in the US)

In September 2018, Quinsam subscribed for 500,000 shares of Gefion Canada Inc. ("Gefion") for \$300,000 through a non-brokered private placement. Gefion is a private Canadian corporation which has licensed transdermal delivery technology from BioPhysics Pharma, Inc., for the development and sale of herbal extracts products which include cannabis and hemp-based products. In Canada, Gefion has developed products for entry into the CBD OTC market. In the US, Gefion's business model provides for the sale of the formula bases in bulk to extractors in all states.

#### Green Growth Brands Ltd. (formerly Xanthic Biopharma Limited) (Oregon, Washington)

In January 2018, Quinsam subscribed for 2.4 million units of Xanthic Biopharma Limited ("Xanthic") for \$300,000 through a non-brokered private placement offering. Xanthic provides intellectual property to cannabis industry participants, which enable its strategic partners to produce non-combustible cannabis and cannabis-infused products. Its strategy is focused in US states where cannabis has been legalized for recreational or medical use, and it will partner with local licensed cannabis producers in each state in order to facilitate its roll-out and minimize capital needs. Its product offering includes cannabis-infused powder beverage mixes such as a fruit drink, a rescue drink, an energy drink, hot chocolate and a protein drink. Xanthic's common shares began trading on the CSE on April 19, 2018. In July 2018, Xanthic and Green Growth Brands Ltd. entered into an arm's length business combination agreement to combine by way of amalgamation, which was completed in November 2018.

#### Grown Rogue International Inc. (Oregon)

In July 2018, Quinsam subscribed for 1,000,000 shares of Grown Rogue International Inc. ("Grown Rogue") for \$440,000 through a non-brokered private placement. Grown Rogue is a seed-to-experience cannabis brand operating in the Oregon recreational market. Grown Rogue's products are categorized according to user experiences, and its brand offers flower, pre-rolls and extracts including shatter, wax, oil and sugar. It operates from its two (2) wholly-owned outdoor facilities and one 17,000 square feet indoor grow operation, utilizing organic farming practices and meeting Clean Green Certification

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standards. In November 2018, it was granted conditional approval by the CSE on the RTO transaction with Grown Rogue Unlimited, LLC. Grown Rogue's common shares began trading on the CSE on November 26, 2018.

Halo Labs Inc. (California, Oregon, Nevada)

In July 2018, Quinsam subscribed for 1,250,000 subscription receipts units of Halo Labs Inc. ("Halo") for \$500,000 through a non-brokered private placement. Each subscription receipt unit is comprised of one (1) common share and one (1) warrant exercisable at \$0.80 until December 31, 2020. In Q4 2018, Quinsam increased its Halo holdings by a further 365,500 shares. Halo is a cannabis extraction company founded in Oregon that develops and manufactures cannabis oils and concentrates. It has expertise in all cannabis manufacturing processes, leveraging proprietary processes and products, and has produced over 2.5 million grams of oils and concentrates since inception. It is currently expanding its operations with new facilities in Nevada and California, and has also begun operations in Lesotho, Africa through a strategic partnership.

Herbiculture Inc. (Maryland)

In 2017, Quinsam signed an agreement to finance the start-up costs of Herbiculture Inc. ("Herbiculture"), in the form of a USD \$655,000 senior secured promissory note carrying interest at 10% on a 3-year term. On February 12, 2018, Herbiculture received a Processor License from the Maryland Medical Cannabis Commission ("MMCC") to commence dispensary operations. On receipt of the Processor License, Quinsam was granted a right equal to a 35% interest shares of Herbiculture's outstanding shares. As Quinsam is not in the business of operating, nor controlling any subsidiary that is directly engaged in the cultivation or distribution of marijuana in accordance with a US state license, the Company is currently looking for interested parties to take on the 35% interest in Herbiculture.

High Hampton Holdings Corp. (California)

In February 2018, Quinsam subscribed for 600,000 units of High Hampton Holdings Corp. ("High Hampton") for \$360,000 through a non-brokered private placement. Each unit is comprised of one (1) common share and one (1) warrant exercisable at \$0.90 for 24 months from closing. High Hampton is a cannabis investment company with operations in California, through its subsidiary, CoachellaGro Corp. ("CoachellaGro"). High Hampton is focused on the development of its 254,000 sq. ft. greenhouse facility situated in Coachella. CoachellaGro has received a conditional use permit for development of a full-service production facility in order to serve third-party state licensed medicinal marijuana operators. The City of Coachella has regulations in place which set aside over 90 acres for the cultivation, production, extraction and transportation of cannabis within a legal framework. High Hampton is also planning to begin construction grow-ops facility in West Sacramento which will serve as a hub for its Northern California market.

Lineage Grow Company Ltd. (California, Oregon)

In May 2017, Quinsam subscribed for 160 units of convertible debentures of Lineage for \$160,000 through a non-brokered private placement which the Company had since converted them into holdings of 1,086,400 common shares. In January 2018, Quinsam participated in a brokered private placement and subscribed for 400,000 units for \$100,000. Each unit is comprised of one (1) common share and one (1) warrant exercisable at \$0.25 for 24 months from closing. Lineage is focused on assembling licensed operators, either through direct acquisition or through joint ventures, with an aim towards a vertically-integrated cannabis business that leverages best-in-class cultivation, brands, distribution, and retail assets. Lineage is currently targeting legalized cannabis markets across multiple states in the US. In September 2018, Lineage acquired two (2) dispensaries in Portland and Eugene, Oregon. In February 2019, Harborside and Lineage entered into a definitive merger agreement on the RTO (refer to discussions on Harborside for details).

Next Green Wave Holdings Inc. (formerly Crossgate Capital Corporation) (California)

In March 2018, Quinsam subscribed for 1,500,000 units of Crossgate Capital Corporation ("Crossgate") for \$525,000 through a non-brokered private placement. Each unit is comprised of one (1) common share and 1/2 warrant exercisable at \$0.60 for 18 months from closing. In August 2018, Crossgate changed its name to "Next Green Wave Holdings Inc." ("Next Green Wave"). Next Green Wave is a vertically-integrated seed-to-consumer medicinal and recreational cannabis company operating in California. Its central operations are in Coalinga and it has been awarded permits for nursery, cultivation, extraction, and distribution. Next Green Wave has acquired over 15 acres of cannabis-zoned development land and has nearly completed the construction of its first facility. It had also completed certain acquisitions which will provide it with access to distribution in Columbia. Next Green Wave's common shares began trading on the CSE on October 10, 2018.

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Nutritional High International Inc. (Colorado, California, Oregon)

In March 2018, Quinsam subscribed for 750 units of convertible debentures of Nutritional High International Inc. (“Nutritional High”) for \$750,000 through a brokered private placement offering. Each debenture unit is comprised of (i) \$1,000 principal amount of 10% unsecured debentures which are convertible at a conversion rate of \$0.60; and (ii) 1,667 warrants exercisable at \$0.70 for a period of 36 months. Nutritional High develops, manufactures and distributes products under recognized brands in the cannabis products industry, with a specific focus on edibles and oil extracts for adult recreational use. It works exclusively through licensed facilities in jurisdictions where such activity is permitted and regulated by state law and follows a vertically-integrated model with a strategy for acquisitions in extraction, production, and distribution sectors of the cannabis industry. Nutritional High’s flagship FLI™ edibles and extracts product lines are currently manufactured and marketed in California, Oregon and Colorado. Nutritional High plans to expand its operations into Nevada, Washington State and the Canadian markets in the near future.

OG DNA Genetics Inc. (formerly Seed Capital Corp.) (California)

In 2017, Quinsam had subscribed for 1,400,000 common shares and units of Seed Capital Corp. (“Seed Capital”) for \$200,000. Seed Capital holds an investment portfolio similar to the Company, but on a smaller scale. In October 2018, Seed Capital was acquired by OG DNA Genetics Inc. (“DNA”) through an amalgamation agreement, whereby DNA issued securities for each Seed Capital security at an exchange ratio of 0.294962. DNA was founded in Amsterdam and is currently based in Los Angeles. Over the past decade, it had built and curated a seasoned genetic library and developed proven standard operating procedures for genetic selection, breeding, and cultivation. DNA plans to pursue a going-public transaction in Fiscal 2018.

Phoenix Extractions Inc. (Arizona)

In November 2018, Quinsam subscribed for USD \$250,000 (CAD \$330,125) of convertible debentures of Phoenix Extractions Inc. (“Phoenix Extractions”). Each debenture unit is comprised of (i) \$1,000 principal amount of 8% unsecured debentures which are convertible at a conversion rate of \$0.29; and (ii) 1/2 warrant exercisable at \$0.35 for a period of 24 months. Phoenix Extractions operates a hemp-extraction business out of Phoenix, Arizona.

Platinex Inc. (Oregon)

Quinsam also holds as a legacy investments 44,000 units of Platinex Inc. (“Platinex”) and 1,045,000 warrants exercisable at \$0.15 expiring on November 15, 2019. Platinex is focused on developing various strategies to capitalize on the lucrative growth of the cannabis sector in Oregon, through letters of intent entered with a number of cannabis cultivators. At the same time, Platinex has been focusing its mining business efforts in assembling a very large property in the Shining Tree gold camp, which has received little modern exploration compared to other gold camps in the Abitibi greenstone Belt.

Xtraction Services Inc. (Florida)

In April 2018, Quinsam subscribed for 400 units of convertible debentures of Xtraction Services Inc. (“Xtraction”) for USD \$400,000 (CAD \$505,320) through a non-brokered private placement. Xtraction is a Florida-based company which provides equipment solutions for cannabis and hemp extraction, known for its best-in-class service and equipment amongst the top growing vape and consumable companies.

As at December 31, 2018, the Company held the following investments in the cannabis sector:

Investees	Investments relationship	Investments type	Jurisdiction	Industry involvement <sup>(1)</sup>	Cost	Fair value	Company’s ownership %
					\$	\$	
48North Cannabis Corp.	Publicly-listed	Warrants	Canada	N/A	-	19,205	Under 10%
Abacus Health Products Inc.	Private	Shares	US (Colorado, Kentucky, Oregon)	Indirect	403,500	409,260	Under 10%
Acreage Holdings Inc.	Publicly-listed	Shares	US (Various states) <sup>(2)</sup>	Indirect	1,275,315	3,732,451	Under 10%
Aldershot Resources Ltd.	Publicly-listed	Shares & warrants	Canada	N/A	68,162	50,000	Under 10%
Algae Dynamics Corp.	Publicly-listed	Shares & warrants	Canada	N/A	200,000	86,257	Under 10%
ALQ Gold Corporation	Private	Shares & warrants	Canada	N/A	405,000	738,002	Under 10%
Ancient Strains Limited	Private	Shares & warrants	Uruguay	N/A	400,000	303,712	Under 10%
Asterion Cannabis Inc.	Private	Shares & warrants	Canada, Australia	N/A	400,000	389,146	Under 10%



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Aura Health Inc.	Publicly-listed	Shares, convertible debentures & warrants	Israel, US (Arizona, Florida, Nevada)	Indirect	376,500	376,099	Under 10%
Ballistic Capital Corp.	Private	Shares	US (Oregon)	Indirect	390,000	299,520	Under 10%
Blackshire Capital Corp.	Private	Shares & warrants	US (Washington, Arizona, Massachusetts)	Indirect	385,000	368,188	Under 10%
Braingrid Limited	Publicly-listed	Shares & warrants	Canada	N/A	250,000	246,510	Under 10%
Brantford (2 <sup>nd</sup> Mortgage)	Private	Loans	Canada	N/A	1,200,000	1,200,000	Under 10%
Canada House Wellness Group Inc.	Publicly-listed	Shares, convertible debentures & warrants	Canada	N/A	314,915	275,581	Under 10%
Canivate Growing Systems Ltd.	Private	Shares & warrants	Canada	N/A	245,000	251,128	Under 10%
Cannabis One	Private	Shares & warrants	US (Colorado)	Indirect	341,550	401,942	Under 10%
Cannabis OneFive Inc.	Private	Shares	Canada	N/A	150,000	150,000	Under 10%
Cannaverse Inc.	Private	Shares	Canada	N/A	350,000	387,500	Under 10%
CannAmerica Brands Corp.	Publicly-listed	Shares	US (Colorado, Nevada, Maryland)	Indirect	495,000	1,171,500	Under 10%
Cannex Capital Group Inc.	Publicly-listed	Warrants	US (Washington)	Indirect	79,733	55,562	Under 10%
Captor Capital Corp.	Publicly-listed	Shares & warrants	Canada, US (California, Washington)	Indirect	150,000	91,105	Under 10%
City View Green	Private	Shares	Canada	N/A	250,000	4,750,001	10.6% <sup>(3)</sup>
CLS Holdings USA Inc.	Publicly-listed	Convertible debentures	US (Nevada)	Indirect	533,840	625,319	Under 10%
Critical CO2 Separation Inc.	Private	Special warrants	Canada	N/A	375,000	375,000	Under 10%
Empower Clinics Inc.	Publicly-listed	Shares, convertible debentures & warrants	US (Oregon, Washington, Illinois)	Indirect	584,040	318,805	Under 10%
Eve & Co Inc.	Publicly-listed	Shares	Canada	N/A	251,074	226,680	Under 10%
Evergreen Reinsurance	Private	Shares	Canada	N/A	325,000	1,833,334	Under 10%
Evio Inc.	Publicly-listed	Convertible debentures & warrants	US (Colorado, California, Oregon, Florida, Maine)	Indirect	556,850	330,087	Under 10%
FLRish, Inc. (Harborside)	Private	Shares	US (California)	Indirect	1,857,750	1,991,500	Under 10%
Gefion Canada Inc.	Private	Shares	Canada, US <sup>(4)</sup>	N/A	300,000	300,000	Under 10%
Georgian Bay Biomed Inc.	Private	Shares	Canada	N/A	263,808	337,200	Under 10%
Green Stripe Naturals Ltd.	Private	Shares & warrants	Jamaica	N/A	640,000	1,140,000	Under 10%
Greentec Holdings Ltd.	Publicly-listed	Warrants	Canada	N/A	60,037	3,573	Under 10%
Green Tree International Inc.	Private	Convertible debentures	Canada	N/A	526,280	611,567	Under 10%
Grown Rogue International Inc.	Publicly-listed	Shares & warrants	US (Oregon)	Indirect	431,986	478,144	Under 10%
Guelph (2 <sup>nd</sup> Mortgage)	Private	Loans	Canada	N/A	1,500,000	1,500,000	15% <sup>(5)</sup>
Halo Labs Inc.	Publicly-listed	Shares & warrants	US (Oregon, California, Nevada)	Indirect	644,847	603,483	Under 10%
Hemp Hydrate Int'l Holdings Inc.	Private	Shares & warrants	Canada	N/A	525,000	1,182,969	Under 10%
Herbiculture Inc.	Private	Loans	US (Maryland)	Indirect	831,480	897,172	Right to 35% interest <sup>(6)</sup>
High Hampton Holdings Corp.	Publicly-listed	Shares & warrants	US (California)	Indirect	363,618	154,951	Under 10%
Hystyle Brands Inc.	Private	Convertible debentures & warrants	Canada	N/A	100,000	106,465	Under 10%
I.M.C. Holdings Ltd.	Private	Shares & warrants	Israel	N/A	445,000	429,313	Under 10%
Icon Exploration Inc.	Publicly-listed	Shares	Canada	N/A	96,875	384,375	Under 10%
Indiva Ltd.	Publicly-listed	Shares & warrants	Canada	N/A	282,158	150,355	Under 10%
King and Pegahmagabow Inc.	Private	Convertible debentures	Canada	N/A	1,000,000	1,006,304	Under 10%
Lineage Grow Company Ltd.	Publicly-listed	Shares & warrants	US (California, Oregon)	Indirect	307,600	265,468	Under 10%
Med. Compassion Canni Farms Inc.	Private	Loans	Canada	N/A	500,000	500,000	Under 10%
Mercio Payments Inc.	Private	Shares	Canada	N/A	150,000	51,196	Under 10%
MVC Technologies Inc.	Private	Shares & warrants	Canada	N/A	440,000	488,279	Under 10%
Next Green Wave Holdings Inc.	Private	Warrants	US (California)	Indirect	63,785	32,093	Under 10%
Nutritional High International Inc.	Publicly-listed	Convertible debentures & warrants	US (Colorado, California, Washington, Nevada, Oregon)	Indirect	750,000	629,671	Under 10%
OG DNA Genetics Inc.	Private	Shares & warrants	US (California)	Indirect	200,000	596,042	Under 10%
Osoyoos Cannabis Inc.	Private	Shares, convertible debentures & warrants	Canada	N/A	513,125	1,342,539	Under 10%
Phoenix Extractions Inc.	Private	Convertible debentures & warrants	US (Arizona)	Indirect	330,125	431,117	Under 10%
Phytopharma International Ltd.	Private	Convertible debentures	Israel	N/A	400,000	384,600	Under 10%
Platinex Inc.	Publicly-listed	Shares	US (Oregon)	Indirect	11,480	5,821	Under 10%
Pure Global Cannabis Inc.	Publicly-listed	Convertible debentures & warrants	Canada	N/A	350,000	309,660	Under 10%
Rocky Mountain Marijuana Inc.	Publicly-listed	Shares	Canada	N/A	671,250	938,025	Under 10%
Segra International Corp.	Private	Shares & warrants	Canada	N/A	400,000	545,675	Under 10%

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Sproutly Inc.	Publicly-listed	Shares, special warrants & convertible debentures	Canada	N/A	943,799	1,487,550	Under 10%
Theracann Int'l Benchmark Corp.	Private	Convertible debentures & warrants	Panama	N/A	300,000	375,149	Under 10%
Therma Bright Inc.	Publicly-listed	Shares & convertible debentures	Canada	N/A	250,000	162,371	Under 10%
Western Canadian Cannabis Stores	Private	Shares	Canada	N/A	57,143	57,143	Under 10%
Westleaf Cannabis Inc.	Private	Shares & warrants	Canada	N/A	500,000	500,000	Under 10%
Xanthic Biopharma Limited	Publicly-listed	Warrants	US (California, Washington)	Indirect	13,598	61,994	Under 10%
Xtraction Services	Private	Convertible debentures	US (Florida)	Indirect	514,440	444,239	Under 10%
					<b>28,290,663</b>	<b>40,347,896</b>	

- (1) Industry involvement refers to Quinsam's involvement in regard to the Investees with marijuana-related activities in the US. For greater clarity per the Staff Notice, Investees classified as "Indirect" in this column generally represents entities with a license to either cultivate and/or sell marijuana in the US, and for which Quinsam has an equity or "convertible-into-equity" stake in that particular investee.
- (2) Acreage manages a portfolio of investments in cultivation, processing and dispensary operations across 18 different states in the US as follows: California, Oregon, Washington, Colorado, Pennsylvania, Arizona, Connecticut, Florida, Illinois, Iowa, New Jersey, New York, New Hampshire, Massachusetts, Maryland, North Dakota, Michigan and Nevada.
- (3) On February 9, 2018, the Company closed a transaction with two companies to provide financing for a new ACMPR applicant. The Company advanced a \$1.2 million loan for a period of 12 months at an interest rate of 12%. The loan is secured by a second mortgage on a 40,000 sq. ft. building in Brantford, Ontario on a 4-acre site. The building was purchased for approximately \$3 million and Quinsam's mortgage is subordinate to a first mortgage of approximately \$2 million. As incentive compensation for providing the mortgage financing, the Company was awarded a 30% stake in City View Green, a company that has made an ACMPR license application incorporating use of the building. Quinsam's interest had diluted down to approximately 10.6% due to recent financings and going-public transaction.
- (4) Gefion, through service agreements with third-parties, has access to OTC retail distribution channels for all 50 states in the US. Its products contain hemp extracts with CBD with 0.3% or less THC which are sold throughout the US pursuant to the recently enacted 2018 Farm Act.
- (5) On June 6, 2018, the Company closed a transaction with MCCI and the Buildingco to provide financing for a late-stage ACMPR applicant. The Company advanced a \$1.5 million loan for a period of 12 months at an interest rate of 12%. The loan is secured by a mortgage on a 54,000 sq. ft. building in Guelph, Ontario on a 2.75-acre lot. Security also includes an assignment of leases, personal guarantees and general security agreements. The loan is subordinate to other indebtedness. If MCCI or the Licenseco proposes to issue any securities, Quinsam shall have a first right of refusal to purchase 15% of the offered securities before such securities are offered to other persons.
- (6) In Q4 2017, the Company signed an agreement with Herbiculture to finance the start-up costs of establishing a medical marijuana dispensary located in Maryland. The financing is structured as a USD \$655,000 senior secured promissory note bearing interest at 10% with a 3-year term. On February 12, 2018, Herbiculture received a marijuana processor license from the MMCC to commence dispensary operations. On Herbiculture's receipt of the processor license, Quinsam was granted a right to a 35% interest of Herbiculture's common shares. While Quinsam had provided the above-noted financing to fund the necessary costs to complete the establishment of Herbiculture's dispensary business, its industry involvement in Herbiculture is considered indirect. While Quinsam has a non-controlling investment in Herbiculture through the right to a 35% equity interest, Quinsam has not exercised this right in question, and does not expect to trigger it in the future. Besides the financing, Quinsam had not provided any goods or services to Herbiculture.

As at December 31, 2017, the Company held the following investments in the cannabis sector:

Investees	Investments relationship	Investments type	Jurisdiction	Industry involvement <sup>1)</sup>	Cost	Fair value	Company's ownership %
					\$	\$	
Aura Health Corp.	Private	Convertible debentures	US (Arizona, Florida, Nevada)	Indirect	300,000	300,000	Under 10%
Axios Mobile Assets Corporation	Publicly-listed	Convertible debentures	Canada	N/A	100,000	-	Under 10%
Canada House Wellness Group Inc.	Private	Shares, convertible debentures & Warrants	Canada	N/A	329,250	2,134,533	Under 10%

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Delshen Therapeutics Corp.	Private	Shares & warrants	Canada	N/A	40,000	121,549	Under 10%
Georgian Bay Biomed	Private	Shares & warrants	Canada	N/A	300,000	340,436	Under 10%
Harvest One Cannabis Inc.	Publicly-listed	Convertible debentures	Canada, Switzerland, Australia	Indirect	255,429	412,673	Under 10%
Herbiculture Inc.	Private	Loans	US (Maryland)	indirect	645,435	645,435	Under 10%
Hiku Brands Company Ltd.	Private	Convertible debentures & warrants	Canada	N/A	300,000	595,146	Under 10%
I-5 Holdings Ltd.	Private	Shares & warrants	US (California, Oregon, Washington)	Indirect	150,000	170,976	Under 10%
Icon Exploration Inc.	Publicly-listed	Shares & warrants	Canada	N/A	50,000	259,549	Under 10%
Indiva Ltd.	Publicly-listed	Shares & warrants	Canada	N/A	331,949	707,752	Under 10%
Lineage Grow Company Ltd.	Private	Shares, convertible debentures & warrants	US (California, Oregon, Washington, Maryland)	Indirect	279,200	291,424	Under 10%
Merrco Payments Inc.	Private	Shares	Canada	N/A	150,000	266,666	Under 10%
Osoyoos Cannabis Inc.	Private	Shares, convertible debentures, loans & warrants	Canada	N/A	513,125	546,500	Under 10%
Platinex Ltd.	Publicly-listed	Shares	US (Oregon)	N/A	52,2500	419,995	Under 10%
Quadron Cannatech Corp.	Publicly-listed	Shares	Canada	N/A	29,800	104,300	Under 10%
Rocky Mountain Marijuana Inc.	Private	Shares	Canada	N/A	250,000	250,000	Under 10%
Seed Capital Corp.	Private	Shares & warrants	Canada	N/A	200,000	350,000	Under 10%
Segra International Corp.	Private	Shares	Canada	N/A	100,000	100,000	Under 10%
Xanthic Biopharma Limited	Private	Shares	US (Oregon, Washington)	Indirect	300,000	300,000	Under 10%
					<b>4,676,438</b>	<b>8,316,934</b>	

(1) Industry involvement refers to Quinsam's involvement in regard to the Investees with marijuana-related activities in the US. For greater clarity per the Staff Notice, Investees classified as "Indirect" in this column generally represents entities with a license to either cultivate and/or sell marijuana in the US, and for which Quinsam has an equity or "convertible-into-equity" stake in that particular investee.

The Company's financial position for US cannabis-related activities is strictly comprised of its investment portfolio. The following is a summary of the Investees from the cannabis sector, including those having US cannabis-related activities, as at December 31, 2018 and 2017:

<u>December 31, 2018</u>	<b>All cannabis investments</b>		<b>Investees involved in US cannabis activities</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
<b>By type</b>				
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Equities	15,104,330	26,807,830	6,918,970	9,810,655
Warrants	2,658,179	2,247,700	1,083,934	719,031
Convertible debentures	6,496,674	7,195,195	3,157,653	3,048,635
Loans	4,031,480	4,097,171	831,480	897,171
<b>Total</b>	<b>26,290,663</b>	<b>40,347,896</b>	<b>11,992,037</b>	<b>14,475,492</b>

  

	<b>All cannabis investments</b>		<b>Investees involved in US cannabis activities</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
<b>By ownership percentage</b>				
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Under 10% ownership	24,540,663	24,097,895	11,992,037	14,475,492
Over 10% ownership	1,750,000	6,250,001	-	-
<b>Total</b>	<b>26,290,663</b>	<b>40,347,896</b>	<b>11,992,037</b>	<b>14,475,492</b>

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*December 31, 2017*

By type	All cannabis investments		Investees involved in US cannabis activities	
	Cost	Fair value	Cost	Fair value
	\$	\$	\$	\$
Equities	1,971,417	3,155,142	589,242	830,450
Warrants	453,557	1,635,932	77,418	232,511
Convertible debentures	1,606,029	2,880,425	514,790	1,783,838
Loans	645,435	645,435	645,435	645,435
<b>Total</b>	<b>4,676,438</b>	<b>8,316,934</b>	<b>1,826,885</b>	<b>3,492,234</b>

By ownership percentage	All cannabis investments		Investees involved in US cannabis activities	
	Cost	Fair value	Cost	Fair value
	\$	\$	\$	\$
Under 10% ownership	4,676,438	8,316,934	1,826,885	3,492,234
Over 10% ownership	-	-	-	-
<b>Total</b>	<b>4,676,438</b>	<b>8,374,671</b>	<b>1,826,885</b>	<b>3,492,234</b>

The following is the summary of net investment revenues of the Investees from the cannabis sector, including those having US cannabis-related activities, for the years ended December 31, 2018 and 2017:

*December 31, 2018*

By type	All cannabis investments		Investees involved in US cannabis activities	
	Net realized gains on disposals of investments	Net changes in unrealized gains on investments	Net realized gains on disposals of investments	Net changes in unrealized gains on investments
	\$	\$	\$	\$
Equities	7,003,694	10,756,763	4,678,074	2,645,123
Warrants	(138,457)	(1,607,162)	(10,285)	(540,649)
Convertible debentures	407,902	(1,143,264)	-	(445,123)
<b>Total</b>	<b>7,273,139</b>	<b>8,006,337</b>	<b>4,667,789</b>	<b>1,659,351</b>

*December 31, 2017*

By type	All cannabis investments		Investees involved in US cannabis activities	
	Net realized gains (loss) on disposals of investments	Net changes in unrealized gains on investments	Net realized gains on disposals of investments	Net changes in unrealized gains on investments
	\$	\$	\$	\$
Equities	400,205	914,559	123,696	88,708
Warrants	(15,221)	1,157,063	-	155,093
Convertible debentures	-	1,274,395	-	1,269,048
<b>Total</b>	<b>384,984</b>	<b>3,346,017</b>	<b>123,696</b>	<b>1,512,850</b>

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#### Regulatory Overview

##### *US Federal Law*

While marijuana and marijuana-infused products are legal under the laws of several US States (with vastly differing restrictions), presently the concept of “medical marijuana” and “retail marijuana” do not exist under US federal law. The US *Federal Controlled Substances Act* (“FCSA”) classifies “marijuana” as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision.

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 marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The US Department of Justice (the “DOJ”) has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. 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 marijuana 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 marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo, the memorandum dated August 29, 2013, as being an enforcement priority.

Prior to 2018 and in the Cole Memo, the DOJ acknowledged that certain US states had enacted laws relating to the use of marijuana and outlined the US federal government’s enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. The Cole Memo was addressed to “All United States Attorneys” from James M. Cole, Deputy Attorney General of the US, 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.

On November 14, 2017, Jeff Sessions, the US Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement, Attorney General Sessions stated that the US Federal Government’s current policy is the same fundamentally as the Holder-Lynch policy, whereby the States may legalize marijuana for its law enforcement purposes, but it remains illegal with regard to federal purposes.

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Attorney General Sessions. It is the Company’s opinion that the Memorandum does not represent a significant policy shift as it does not alter the DOJ’s discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the DOJ to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. The result of the rescission of the Cole Memorandum is that federal prosecutors will now be 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; however, discretion is still given to the federal prosecutor to weigh all relevant considerations of the crime, including the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. No direction was given to federal prosecutors as to the priority they should ascribe to such activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities.

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Furthermore, Attorney General Sessions's statement in relation to the rescission of the Cole Memorandum (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 (as defined herein) 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. See "US Enforcement Proceedings". 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. See "Risk Factors".

Even though the Cole Memo has been rescinded, the Company will continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current US Federal enforcement guidelines and US states in which the Investees operate or have investments in.

On January 16, 2018, a bipartisan coalition of state Attorneys General have issued a letter to Congressional leadership urging them to "advance legislation" to permit state-licensed marijuana businesses greater access to banking and other financial services. The letter is undersigned by the Attorneys General from the States of Alaska, California, Colorado, Connecticut, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, New Mexico, New York, Oregon, Pennsylvania, Vermont, and Washington, as well as from the District of Columbia and the US territory of Guam.

On March 22, 2018, the House of Representatives and Senate voted in favor of approving the Omnibus Spending Bill (the "Bill") and it was signed into law the following day by the President Trump. With the Bill's approval comes an extension of Rohrabacher-Leahy Amendment until September 2018, which is represented by Section 538 of the Bill. Rohrabacher-Leahy Amendment prevents the DOJ from using federal funds in enforcing federal law relating to medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since then. It should be noted that this amendment does not apply to adult-use marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Senator Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's rescission of the Cole memo will not impact Colorado's legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding of states' rights to regulate cannabis, and that former House Speaker John Boehner has been appointed to the advisory board of a private US cannabis company. 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 marijuana. 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.

On November 7, 2018, Attorney General Sessions resigned after the US Mid-Term Elections, both of which would 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, it may prove to be a catalyst for the sector to reinforce the notion that cannabis in the US has the tipping point on its way to eventual full legal status. While pro-cannabis legislation would still require passing the Senate and the Executive Branch, the path to legalization seems to have opened up with Mr. Sessions's departure. With divided congressional power, there will 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 Massachusetts Senator Elizabeth 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 recreational marijuana, making Michigan the first state in the Midwest to do so and the 10<sup>th</sup> 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 31<sup>st</sup> and 32<sup>nd</sup> to do so.

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 CSA. Prior to its enactment, the 2014 Farm Bill allowed Industrial Hemp to be cultivated under agricultural pilot programs conducted by state departments of agriculture and institutions of higher education. The Statement of Principles published by the USDA, the DEA and the FDA in 2016 confirmed that state

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departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate Industrial Hemp as part of the agricultural pilot program.

However, 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 marijuana. 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 and its Investees’ businesses, which could in turn have an impact on the Company’s investments portfolio.** See “Risk Factors”.

*US Enforcement Proceedings*

The US Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 (“Rohrabacher-Blumenauer Amendment”), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the “Rohrabacher-Leahy Amendment”) and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. These protections were subsequently extended through December 7, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, the US States government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA’s five-year statute of limitations.

*State-Level Overview*

The following sections present an overview of regulatory conditions for the marijuana industry in US States in which the Company’s Investees have an operating presence:

Arizona

On November 2, 2010, Arizona passed legislation under Proposition 203 to legalize the use of medical marijuana under the “Arizona Medical Marijuana Act” (“AMMA”). The AMMA allows residents in the state with specific medical conditions to be treated with certain amounts of marijuana for personal use. The AMMA also appointed the Arizona Department of Health Services (“AZDHS”) as the regulator for the program and authorized AZDHS to promulgate, adopt and enforce regulations for the AMMA. AZDHS Regulations are embodied in the Arizona Administrative Code Title 9 Chapter 17 (the “Rules”).

In order for an applicant to receive a Dispensary Registration Certificate (a “Certificate”) they must: (i) fill out an application proscribed by AZDHS, (ii) submit the applying entity’s articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies, (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the dispensary will operate in compliance and (v) designate an Arizona licensed physician as the Medical Director for the dispensary. Certificates are renewed annually so long as the dispensary is in good standing with AZDHS and pays the renewal fee and submits an independent third-party financial audit.

Once an applicant has been issued a Certificate, they are allowed to establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary’s retail site (if allowed by local zoning) and one additional off-site

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cultivation location. None of these sites can be operational, however, until the dispensary receives an approval to operate from AZDHS for the applicable site. This approval to operate requires: (i) an application on the AZDHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by AZDHS of the applicable location to ensure compliance with the Rules and consistency with the dispensary's applicable policies and procedures.

AZDHS may revoke a Certificate if a dispensary does not: (i) comply with the requirements of the AMMA or the Rules, (ii) implement the policies and procedures or comply with the statements provided to the Department with the dispensary's application.

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General in Arizona. However, in October 2018, Attorney General Brnovich withdrew his office's argument to the Arizona Supreme Court to declare hashish and extracts of marijuana illegal in all situations under the state's medical marijuana law, fearing unintended consequences for patients. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Arizona.

California

On November 8, 2016, California voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate for all adults 21 years of age and older. In 1996, California was the first US state to pass a medical marijuana law allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On June 27, 2017, California State Legislature passed Senate Bill No. 94, known as the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA"), which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern medical and adult use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State Government introduced the emergency regulations, which shall be governed by California Bureau of Cannabis Control (the "BCC"), California Department of Public Health and California Department of Food and Agriculture, which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. On January 1, 2018, the new State regulations took effect as California moved to full adult-use state legalization for cannabis products.

To operate legally in California, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are no residency requirements for ownership under MAUCRSA.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with \$2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal weed rather than going after the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our



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resources going after just the black market and never get there,” “So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands.” To the knowledge of the Company’s management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

#### Colorado

On November 6, 2012, Colorado Amendment 64 was passed to amend Colorado’s constitution, subsequently enacted as Article 18, section 16 of the Colorado constitution, addressing “personal use and regulation of marijuana” for adults 21 and over, as well as commercial cultivation, manufacture, and sale, effectively regulating cannabis in a manner similar to alcohol. Pursuant to the Retail Code adopted in April 2017, by the State of Colorado, licensed operators are subject to residency requirements. Medical and retail marijuana programs in the State of Colorado are regulated by the Marijuana Enforcement Division of the Department of Revenue.

Businesses must be licensed to operate a retail marijuana establishment including: retail marijuana stores; retail marijuana products manufacturers; retail marijuana cultivation facilities; retail marijuana testing facilities; retail marijuana transporters; and retail marijuana business operators. The state licensing authority must act on applications within 45 days to 90 days after receipt. A license applicant must undergo a criminal background check and a license can be denied based on certain previous criminal convictions. All officers, managers, and employees of a retail marijuana business must be residents of Colorado, and all owners must be residents of Colorado for at least two years prior to applying for licensure.

In response to the Sessions Memorandum, Colorado Attorney General Cynthia Coffman had publicly stated that she will defend the State’s marijuana legalization law, while she expects that “the federal government is going to continue its focus on enforcement efforts to combat the grey and black markets.” To the knowledge of the Company’s management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Colorado.

#### Connecticut

In June 2012, the Connecticut Legislature and Governor enacted “An Act Concerning the Palliative Use of Marijuana” (House Bill No. 5389, Public Act No. 12-55) which permits the statewide “palliative use” of marijuana by “qualifying patients”. The Department of Consumer Protection (“DCP”) which is responsible for the program, adopted formal rules in September 2013. The initial law did not allow minors to participate in the program. However, on May 17, 2016, Governor Daniel Malloy signed House Bill No. 5450, allow young patients to qualify for certain types of medical marijuana beginning in October 2016. The DCP also expanded the program by adding six (6) new conditions. The DCP can issue up to 10 licenses to businesses that cultivate and process medical marijuana, also called producers. Currently only four producers are operating in the state. Dispensaries must be run by a licensed pharmacist. The DCP originally licensed six (6) dispensaries but later approved three more to better serve Connecticut patients.

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General, headed by Connecticut Attorney General George Jepsen or Governor Malloy, to the knowledge of the Company’s management.

#### Florida

In 2016, Florida voters passed a constitutional amendment known as the “Florida Medical Marijuana Legalization Initiative” (“Amendment 2”). Amendment 2 came into effect on January 3, 2017, and legalized medical marijuana for individuals with specific debilitating diseases or comparable debilitating conditions as determined by a licensed state physician. Amendment 2 protects qualifying patients, caregivers, physicians, and medical marijuana dispensaries and their staff from criminal prosecutions or civil sanctions under Florida laws.

The State of Florida Statutes 381.986(8)(a) provides a regulatory framework that requires licensed producers, which are statutorily defined as “Medical Marijuana Treatment Centers” (“MMTC”), to both cultivate, process and dispense medical cannabis in a vertically integrated marketplace.

Applicants must demonstrate (and licensed MMTCs must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years, (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture (“Department”), (iii) they have the technical and technological ability to cultivate and produce cannabis,

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including, but not limited to, low-THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) they have the ability to maintain accountability of all raw materials, finished products, and any byproducts to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) they have the financial ability to maintain operations for the duration of the 2-year approval cycle, including the provision of certified financial statements to the department, (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Upon approval of the application by the Department, the applicant must post a performance bond of up to USD \$5 million, which may be reduced by meeting certain criteria.

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General, headed by Florida Attorney General Pam Bondi, or any US attorneys from the other Districts of Florida.

#### Illinois

On August 1, 2013, the Illinois General Assembly passed the "Compassionate Use of Medical Cannabis Pilot Program Act (Illinois)" ("CUMCPPA"), which legalized medical marijuana in Illinois with the legislation taking effect on January 1, 2014. CUMCPPA establishes a patient registry program, protects registered qualifying patients and registered designated caregivers from "arrest, prosecution, or denial of any right or privilege" and allows for the registration of cultivation centers and dispensing organizations. The statute that sets out the regulations for dispensaries is: Title 68; Chapter VII; Subchapter b of the Illinois Administrative Code, titled "Rules for Administration of The Compassionate Use of Medical Cannabis Pilot Program" ("IDFPR Rules"). IDFPR Rules impose a number of restrictions on the affairs of the Dispensary, including rules pertaining to changes in ownership structure, addition of new dispensary agents and principal officers, entry into management agreements, bonding rules, changing the location of dispensary and setting the criteria for annual renewals.

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General, headed by Illinois Attorney General Lisa Madigan, who had previously announced that she will not seek re-election as the state's Attorney General in 2018. Governor Bruce Rauner had not directly commented on the issue, but he did state during a subsequent interview in March 2018, that "there are some appropriate medical uses for that and we're monitoring it," but that that he would veto any recreational marijuana bill passed by the state legislature if it reached his desk. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Illinois.

#### Iowa

In 2014, Iowa became one of a few states to legalize the possession and use of cannabidiol, a non-psychoactive extract naturally found in marijuana plants. Even then, use of cannabidiol is limited to patients with intractable epilepsy and the law only provides for an affirmative defense for individuals and their caregivers if they are charged with possession of the extract. The use is so limited that many medical marijuana advocates do not consider Iowa and states like it that have these limited use exceptions for epileptic seizures to be considered as states that truly have legalized medical marijuana. The State's medical marijuana laws state that approved products may only have up to 3 percent of THC, while smokable forms of marijuana will remain illegal. Typically, states that provide for medical marijuana for its residents are on the road to the total decriminalization of the drug. However, that is not true in Iowa.

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General, headed by Iowa Attorney General Tom Miller, to the knowledge of the Company's management.

#### Kentucky

Cannabis is illegal for use as a drug in Kentucky, though non-psychoactive CBD oil is legal in the State. In April 2014, Kentucky's governor signed into law S.B. 124, which allows individuals suffering from seizures to use non-psychoactive CBD with a physician's recommendation, but the law does not include provisions to legally produce or sell CBD. Currently, there are no medical or recreation laws in place, however in March 2019, Kentucky's House Judiciary Committee approved House Bill 136, which legalizes marijuana grown, processed and dispensed in Kentucky to citizens with doctor's prescriptions. Bill 136 will now advance to Kentucky's House of Representatives for consideration.

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#### Maine

In 2009, Maine voted to legalize medical marijuana. The Maine Medical Use of Marijuana Act was legislated in 2009 and the Maine Medical Use of Marijuana Program became operational in 2010, when the first six (6) dispensaries received licenses in July. The rules governing the program became effective September 17, 2013 requiring the Department of Health and Human Services to report to the Legislature an annual report. In the last reported year, 2017, there were 302 caregiver employees, two (2) caregiver cards revoked, eight (8) registered dispensaries, 186 dispensary employees, 21 dispensary board members, and seven (7) dispensary principal officers.

Licenses to operate retail marijuana are regulated by the Department of Agriculture, Conservation and Forestry. Municipalities may impose zoning restrictions for all retail marijuana businesses. They may also regulate the location and operation of all retail marijuana establishments and social clubs. They may in addition impose a separate local licensing requirement, if it chooses to do so, and this may include a mandatory public hearing.

In response to the Sessions Memorandum, US Attorney Halsey Frank issued a public statement, noting that his office will not make prosecuting marijuana users a priority, and that it will instead focus on traffickers of "hard drugs", stating "This office has prioritized the prosecution of cases involving the trafficking of opiates, cocaine, crack and similar hard drugs." To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Maine.

#### Maryland

In Maryland, a state law was enacted in 2012 by the MMCC to establish a state-regulated medical marijuana program. On December 1, 2017, the program became operational and the MMCC has issued medical cannabis dispensary pre-approvals to 102 companies as of June 2018. So far, 22 dispensary licenses have been awarded adding to a total complete list of 50 licensed dispensaries in Maryland to date. There are over 20,000 patients registered with the MMCC.

The MMCC grants medical cannabis grower, processor, and dispensary licenses. A licensee may hold a license in each category to obtain vertical integration. The applicant must first seek pre-approval from the MMCC in order to be granted a license. As part of the pre-approval application, the applicant must submit information related to its operations; safety and security; medical cannabis professionalism; retail management factors; business and economic factors; and other additional factors that may apply.

In order to become a licensed medical cannabis dispensary, each applicant must submit an application detailing the location of the proposed dispensary, the personal details of each principal officer or director, and operating procedures the dispensary will use. An owner, a member, an employee, a volunteer, an officer, or a director of a dispensary must undergo a criminal background check and register as a dispensary agent. Once licensed, the medical cannabis dispensary is required to submit to the MMCC quarterly reports including the following information: (i) the number of patients served; (ii) the county of residence of each patient served; (iii) the medical condition for which medical cannabis was recommended; (iv) the type and amount of medical cannabis dispensed; and (v) if available, a summary of clinical outcomes, including adverse events and any cases of suspected diversion. The medical cannabis dispensary must not include any patient personal information in the quarterly report.

In response to the Sessions Memorandum, Maryland Attorney General Brian Frosh commented that "this decision has the potential to cause fear and disruption in nascent marijuana industries across the country, including those like Maryland's, specifically designed to meet the needs of the very ill." To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Maryland.

#### Massachusetts

In Massachusetts, recreational cannabis was legalized in 2016. The Medical Use of Marijuana Program (the "Program") registers qualifying patients, personal caregivers, Registered Marijuana Dispensaries ("RMDs"), and RMD agents. The Program was established by Chapter 369 of the Acts of 2012, "An Act for the Humanitarian Medical Use of Marijuana", following the passage of Ballot Question 3 in the 2012 general election. RMD certifications are vertically-integrated licenses in that each RMD license entitles a license holder to one cultivation facility, one processing facility and one dispensary location, and there is a limit of three RMD licenses per person/entity. Currently, there are a total of 19 medical licenses outstanding in either provisional or final status.

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Massachusetts has authorized the cultivation, possession and distribution of cannabis by certain licensed cannabis businesses. The Massachusetts Department of Public Health ("MDPH") regulates the State's regulatory program, of which the applicable regulations are summarized below:

- (1) **Registration and Certification** – The MDPH grants cannabis cultivation, processing and dispensary licenses. To obtain a license to cultivate, process and/or dispense cannabis, each applicant must file an application detailing the applicant's business structure, management profile, operations profile, capitalization, architectural plans and the proposed location of business operations.
- (2) **Inspections** – A license holder must be available for inspection by the MDPH upon request. A license holder must maintain written records for a period of at least two years regarding operating procedures, inventory, seed-to-sale tracking, personnel, financials and waste disposal.
- (3) **Security Requirements** – A license holder must implement sufficient security measures to deter and prevent unauthorized entrance into areas containing cannabis and theft of cannabis. A license holder is required to use and maintain security alarms, locks, surveillance equipment, safes, a lit outside perimeter and additional safeguards as required by the MDPH if the MDPH determines that additional safeguards are necessary. A license holder's written operating procedures must contain a policy requiring the immediate dismissal of any employee that diverts cannabis or engages in unsafe practices.
- (4) **Operations** – A license holder must maintain a set of detailed written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, staffing plan and records, emergency procedures, employee termination procedures, a list of board members and executives, and cash handling procedures. Each license holder must maintain minimum liability insurance coverage. A license holder's employees are required to complete training prior to performing job functions. Furthermore, a license holder is required to abide by packaging and labelling requirements and edible cannabis products cannot bear a reasonable resemblance to any product available for consumption as a commercially available candy. Certain license holders are required to provide educational materials about cannabis to customers.
- (5) **Record Keeping and Inventory Tracking** – Massachusetts requires license holders to maintain written records for a period of at least two years regarding operating procedures, inventory, seed-to-sale tracking, personnel, financials and waste disposal. Each license holder is required to track cannabis inventory from seed-to-sale, including by tagging all cannabis inventory. A license holder is required to conduct a monthly inventory of cannabis inventory.

Though Massachusetts legalized recreational marijuana in 2016, the State has yet to set up a retail market. As of July 1, 2018, licensed dispensaries were allowed to begin selling cannabis, but the State had yet to award a license when the day came. Through the Cannabis Control Commission, the recreational use license application process commenced on April 1, 2018 for existing RMD license holders, and July 1, 2018 for all non-RMD license holders. Existing RMD license holders that timely applied for a recreational license on or before April 1, 2018 are eligible to receive three recreational licenses per medical RMD license: one for cultivation, processing and dispensary, respectively.

In response to the Sessions Memorandum, US Attorney Andrew E. Lelling issued a public statement in July 2018 which outlined areas of potential prosecution amid legalization of marijuana at the state level, by stating that he has "a constitutional obligation" to uphold federal laws. But given the State's opioid epidemic, his office would "most likely" prosecute Massachusetts residents for just three types of marijuana-related crimes: selling to minors, overproduction and organized crime's involvement in the cannabis retail market. "This list is not exclusive, and is only intended to clarify which aspects of the state-level marijuana industry are most likely to warrant federal involvement." His office will continue to weigh prosecuting all marijuana-related crimes on a "case-by-case basis," he added. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Massachusetts.

#### Michigan

Cannabis in Michigan is legalized for both medical and recreational use. Medical use was approved by ballot measure in 2008 and recreational use was approved in 2018.

In November 2008, the Michigan Compassionate Care Initiative was approved by Michigan voters, allowing patients with a physician's recommendation to possess up to 2.5 ounces of cannabis for treatment of certain qualifying medical conditions.

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In November 2018, Michigan voters approved the Michigan Regulation and Taxation of Marijuana Act, which allows persons age 21 and over to possess up to 2.5 ounces of cannabis in public, up to 10 ounces at home, and cultivate up to 12 plants at home. It also sets up a system for the state-licensed cultivation and distribution of cannabis, with sales subject to a 10% excise tax (in addition to the state's 6% sales tax). The law went into effect on December 6, 2018.

#### Nevada

In 2001, the use of medical marijuana was legalized in the State of Nevada, and state-certified medical marijuana establishments, like dispensaries, became operational in 2015. The Nevada Medical Marijuana Program is governed by Nevada Revised Statute ("NRS") 453A and Nevada Administrative Code 453A. Patients meeting certain criteria can apply for a Nevada medical marijuana card. The medical marijuana card allows the patient to legally purchase marijuana from a state-certified medical marijuana dispensary and a registry of medical marijuana patient cardholders is administered by the Division of Public and Behavioral Health.

The sale of marijuana for adult use in Nevada was approved by ballot initiative on November 8, 2016 and NRS 453D exempts a person who is 21 years of age or older from state or local prosecution for possession, use, consumption, purchase, transportation or cultivation of certain amounts of marijuana and requires the Nevada Department of Taxation ("NDT") to begin receiving applications for the licensing of marijuana establishments on or before January 1, 2018. As of July 1, 2017, NDT is responsible for licensing and regulating and retail marijuana businesses in Nevada and for the State medical marijuana program. The legalization of retail marijuana does not change the medical marijuana program.

Licensing and operations requirements for production and distribution of medical marijuana are set out in NRS 435A. Each medical marijuana establishment must register with the NDT and apply for a medical marijuana establishment registration certificate. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical marijuana establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony conviction or had a previously granted medical marijuana registration revoked. Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the NDT as a medical marijuana agent and hold a valid medical marijuana establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical marijuana establishment will sell or deliver edible marijuana products or marijuana-infused products, proposed operating procedures for handling such products which must be preapproved by the NDT.

In determining whether to issue a medical marijuana establishment registration certificate pursuant to NRS 453A.322, the NDT, in addition the application requirements set out, considers the following criteria of merit:

- (1) The total financial resources of the applicant, both liquid and illiquid;
- (2) The previous experience of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment at operating other businesses or nonprofit organizations;
- (3) The educational achievements of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment;
- (4) Any demonstrated knowledge or expertise on the part of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment with respect to the compassionate use of marijuana to treat medical conditions;
- (5) Whether the proposed location of the proposed medical marijuana establishment would be convenient to serve the needs of persons who are authorized to engage in the medical use of marijuana;
- (6) The likely impact of the proposed medical marijuana establishment on the community in which it is proposed to be located;
- (7) The adequacy of the size of the proposed medical marijuana establishment to serve the needs of persons who are authorized to engage in the medical use of marijuana;
- (8) Whether the applicant has an integrated plan for the care, quality and safekeeping of medical marijuana from seed to sale;

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- (9) The amount of taxes paid to, or other beneficial financial contributions made to, the State of Nevada or its political subdivisions by the applicant or the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment; and
- (10) Any other criteria of merit that the Division determines to be relevant.

A medical marijuana establishment registration certificate expires 1 year after the date of issuance and may be renewed upon resubmission of the application information and renewal fee to the NDT.

The regular retail marijuana program under Nevada's Regulation and Taxation of Marijuana Act is set to begin in early 2018 and for the first 18 months of the program, only existing medical marijuana establishment certificate holders can apply for a retail marijuana establishment license. In November 2018, the NDT may open up the application process to those not holding a medical marijuana establishment certificate. There are five types of retail marijuana establishment licenses under Nevada's retail marijuana program:

- (1) Cultivation Facility – licensed to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- (2) Distributor – licensed to transport marijuana from a marijuana establishment to another marijuana establishment. For example, from a cultivation facility to a retail store.
- (3) Product Manufacturing Facility – licensed to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers. Marijuana products include things like edibles, ointments, and tinctures.
- (4) Testing Facility – licensed to test marijuana and marijuana products, including for potency and contaminants.
- (5) Retail Store – licensed to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

Administration of the regular retail program in Nevada will be governed by permanent regulations, currently being drafted by the NDT. The NDT has been conducting public consultation and receiving public comments on the Revised Proposed Adult-Use Marijuana Regulation (LCB File No. R092-17) dated December 13, 2017 (the "Nevada Adult-Use Regulation"). As of March 28, 2018, the Nevada Adult-Use Regulation has not been adopted by the NDT and the NDT is not seeking applications for adult-use marijuana or medical marijuana registration certificates.

In response to the Sessions Memorandum, Nevada Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Governor Brian Sandoval also stated, "Since Nevada voters approved the legalization of recreational marijuana in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos," and that he would like for Nevada to follow in the footsteps of Colorado, where the US attorneys do not plan to change the approach to prosecuting crimes involving recreational marijuana. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada.

#### New Hampshire

In July 2013, the New Hampshire Legislature and Governor enacted the House Bill 573, New Hampshire's medical cannabis legislation. Beginning in 2016, patients were able to access cannabis from regulated, licensed alternative treatment centers. Since the initial law's passage, some improvements have been made, most notably by expanding the qualifying conditions to include chronic pain and PTSD. Patients with qualifying medical conditions registered with the state Department of Health and Human Services may possess up to two ounces of marijuana at a time. Four non-profit alternative treatment centers ("ATCs") grow and sell marijuana to patients. Patients may designate a caregiver to pick up their medicine for them, but neither patients nor caregivers may cultivate marijuana under any circumstances. Caregivers typically may assist no more than five patients. ATCs must be non-profit and may not be located within 1,000 feet of the property of a drug-free zone or school. They must provide patients with educational information on strains and dosage and must collect information patients voluntarily provide on strains' effectiveness and side effects.

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In response to the Sessions Memorandum, the New Hampshire House of Representatives voted 207-139 to pass a limited legalization bill, HB 656 on January 9, 2018. However, instead of being transmitted to the Senate, the bill was sent to the House Ways and Means Committee, which recommended that the bill be sent to "interim study," effectively putting the bill on hold. The recommendation was upheld by the House in a 153-135 vote on March 22, 2018. New Hampshire Governor Chris Sununu has also indicated that he is not yet supportive of efforts to end marijuana prohibition in the State. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in New Hampshire.

#### New Jersey

In July 2010, outgoing Governor Jon Corzine signed into law S. 119, the "Compassionate Use Medical Marijuana Act" in the State of New Jersey, permitting the use of medical cannabis for persons with listed conditions: cancer, glaucoma, multiple sclerosis, HIV/AIDS, seizure disorder, severe muscle spasms, Lou Gehrig's disease, muscular dystrophy, inflammatory bowel disease, Crohn's disease and any terminal illness (defined as an illness for which a physician certifies that the patient will die within one year). The State's marijuana law allows the New Jersey Health Department to create rules to add other illnesses to the list, but does not allow patients to grow their own marijuana. Instead, the plant must be acquired through "alternate treatment centers" licensed by the State. Caregivers for patients are permitted to collect marijuana on behalf of the patient, but the caregiver must be designated and cleared by a criminal background check. The State laws also have mandatory minimum penalties for non-medical possession and/or sale of the substance. For example, those with a doctor's recommendation may possess up to two ounces of marijuana per month; but non-medical possession of that same amount is a felony charge punishable by 18 months of incarceration.

In 2017, the State Medicinal Marijuana Review Panel (the "Review Panel") recommended that a number of conditions be added to the list of medical marijuana-qualifying conditions, including: migraines, Tourette syndrome, autism-related anxiety, and Alzheimer's disease-related anxiety, as well as chronic pain if "related to a broad range of ailments, including opioid use disorder, arthritis, back and neck pain, sciatica, diabetes, surgeries, injuries, neuropathy, Lyme disease, lupus, fibromyalgia, irritable bowel syndrome, pancreatitis and others. However, the Review Panel rejected proposals to add asthma and chronic fatigue to the list. The final determination on additions to the list is made by the state Health Commissioner.

In May 2017, State Senator Nicholas Scutari introduced legislation to legalize marijuana in New Jersey for recreational purposes. Under the proposal, adults aged 21 and over in the State would be able to legally consume marijuana and to legally possess up to one ounce of marijuana flower, plus 16 ounces of solid cannabis-infused products; 72 ounces of "liquid marijuana tinctures, drinks and oils" and seven grams of marijuana concentrate. The State, would not however, allow home cultivation. After former Governor Chris Christie left office, the Democratic-controlled state legislature again considered the Scutari legalization bill. Current Governor Phil Murphy supports legalization, and has vowed to sign a legalization bill in a bid to raise \$1.3 billion in revenue. Although a bill has not yet passed the state legislature, a number of municipal governments in New Jersey, enacted legislation in anticipation of legalization that would ban or restrict marijuana sales and use.

In July 2018, New Jersey Attorney General Gurbir Grewal had asked prosecutors in the State to seek adjournments until September in "any matter involving a marijuana-related offense pending in municipal court." The statement was made to "clarify the scope and appropriate use of prosecutorial discretion in marijuana-related offenses in municipal court." Attorney General Grewal's stance has been welcomed by proponents for changing marijuana laws. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in the State of New Jersey.

#### New York

In July 2014, the New York Legislature and Governor enacted the Compassionate Care Act (A06357E, S07923) to provide a comprehensive, safe and effective medical marijuana program to meet the needs of New Yorkers. The program allows ten "Registered Organizations" ("ROs") to hold vertically-integrated licenses and service qualified patients and caregivers. Limited product types are allowed in the state and smoking of cannabis flower is prohibited. The New York State Department of Health ("NYSDOH") is the regulatory agency overseeing the medical marijuana program.

New York Licenses permit the sale of medical cannabis products to any qualified patient who possess a physician's recommendation. Under the terms of the New York Licenses, licensees are permitted to sell NYSDOH-approved medical marijuana manufactured products to any qualified patient, provided that the patient presents a valid government-issued photo

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identification and NYSDOH-issued Registry ID cards proving the patient or designated caregiver meets the statutory conditions to be a qualified patient or designated caregiver. Registry ID cards are valid for one year after the date the certification is signed, and contain the recommendation from the physician and the limitation on form or dosage of medical marijuana. In order for a physician to recommend medical marijuana, the physician must pay for and pass a NYSDOH-approved physician certification training program which lasts for four hours. The content of the course includes: "pharmacology of marijuana; contraindications; side effects; adverse reactions; overdose prevention; drug interactions; dosing; routes of administration; risks and benefits; warnings and precautions; abuse and dependence; and such other components as determined by the commissioner". In order for a patient or registered caregiver to receive dispensed marijuana, they must be logged into the Prescription Monitoring Program ("PMP") registry. The PMP registry is monitored by the NYSDOH and contains controlled substance prescription dispensing history and medical marijuana dispensing history to ensure that patients only receive a maximum of 30 days' worth of dispensed product from one RO. Only registered pharmacists can dispense medical marijuana to approved patients and caregivers.

Allowable forms of medical marijuana in New York State are the following: (i) metered liquid or oil preparations; (ii) solid and semisolid preparations (e.g. capsules, chewable and effervescent tablets, lozenges); (iii) metered ground plant preparations; and (iv) topical forms and transdermal patches. 28 Medical marijuana may not be incorporated into food products by the RO, unless approved by the Commissioner of Health. Smoking is not an approved route of administration. Qualifying conditions in the State of New York are the following: cancer, HIV infection or AIDS, amyotrophic lateral sclerosis (ALS), Parkinson's disease, multiple sclerosis, spinal cord injury with spasticity, epilepsy, inflammatory bowel disease, neuropathy, Huntington's disease, post-traumatic stress disorder or chronic pain. The severe debilitating or life-threatening condition must also be accompanied by one or more of the following associated or complicating conditions: cachexia or wasting syndrome, severe or chronic pain, severe nausea, seizures, or severe or persistent muscle spasms. In the state of New York, only cannabis that is grown and manufactured in the state can be sold in the state. New York is a vertically integrated system however it does allow ROs to wholesale manufactured product to one another.

In response to the Sessions Memorandum, in January 2018, New York Governor Andrew Cuomo directed the NYSDOH to conduct a study of a regulated marijuana program in the State to determine the health, economic and criminal justice impacts of a regulated market and the consequences to New York State resulting from legalization in surrounding states. The report, issued on July 13, concluded that the positive impact of a regulated marijuana market in the State outweigh the potential negative aspects. The report found that regulation of marijuana benefits public health by enabling government oversight of the production, testing, labeling, distribution, and sale of marijuana. The creation of a regulated marijuana program would enable the State to better control licensing, ensure quality control and consumer protection, and set age and quantity restrictions. The report also specifically recommended the creation of a workgroup of subject matter experts to make recommendations to the State. Governor Cuomo, who previously referred to marijuana as a "gateway drug", also announced that he has set up a working group to write a bill implementing recommendations from the NYSDOH to legalize and regulate cannabis. He stated, "As we work to implement the report's recommendations through legislation, we must thoroughly consider all aspects of a regulated marijuana program, including its impact on public health, criminal justice and State revenue, and mitigate any potential risks associated with it." To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in the State of New York.

#### North Dakota

Cannabis in North Dakota is legalized for medical use. In 2016, North Dakota voters approved Measure 5, establishing a medical cannabis program in the state. In 2017, both houses of the state legislature passed changes to Measure 5, including removal of a provision allowing medical users to grow their own marijuana. The changes also required that a medical professional specifically recommend smoking as a method of using marijuana in some cases. Effective April 18, 2017, the North Dakota Department of Health established and implemented a medical marijuana program to allow the production, processing, sale, dispensing, and medical use of marijuana by qualifying patients and caregivers. There are currently two (2) licensed producers and eight (8) licensed dispensaries in the state. North Dakota's medical marijuana program rules are specified in Senate Bill 2344. The list of qualifying conditions for North Dakota's program is relatively small, notably excluding chronic pain.

#### Oregon

In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act" creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use



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from licensed retail marijuana stores, as well as cultivating marijuana at home. The Oregon Liquor Control Commission (the "OLCC") licenses and regulates adult-use marijuana businesses and is currently accepting applications. On October 15, 2015, the OLCC published draft recreational marijuana rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("OAR Division 25"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in the State of Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to OLCC's review and approval.

In Oregon, there are six (6) types of recreational marijuana licenses for commercial uses: Producer, Processor, Wholesaler, Retail, Laboratory, a Certificate for Research, and a Hemp Certificate. There is no limit on the number of licenses being issued, and Oregon is still open to applications.

In February 2018, US Attorney Billy Williams told a gathering that included Governor Kate Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five priorities for going after illegal cannabis operations that violate federal laws, with the first priority to crack down on the leakage of surplus marijuana into bordering states where pot is still against the law. The memo also stated that federal prosecutors will also target keeping marijuana out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage federal lands through improper pesticide and water usage. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon.

Pennsylvania

On April 17, 2016, Pennsylvania passed Senate Bill No. 3, known as the "Medical Marijuana Act". The law went into effect on May 17, 2016, and the first dispensaries began serving patients in April 2018.

The Pennsylvania Department of Health ("PDOH") is responsible for implementing programs, including developing rules, processing applications, and issuing patient ID cards and licenses. The law created an advisory board to make recommendations to the department. The board is comprised of 15 members, including three law enforcement members, several health or medical experts, and at least one patient advocate. Two (2) years after the law took effect, the board was required to issue a report including recommendations regarding access to dry leaf or plant cannabis. In its report, the board recommended a number of changes to the program, including allowing dry leaf cannabis, and the health department accepted the recommendations and promulgated revised rules.

Initially, the only types of medical cannabis allowed were pills, oils, gels, creams, ointments, tinctures, liquid, and non-whole plant forms for administration through vaporization. In May 2018, in keeping with the advisory board recommendations, the PDOH issued revised regulations to allow whole plant, flower cannabis. Dispensaries cannot sell edibles, but medical cannabis products could be mixed into food or drinks to facilitate ingestion by a patient in a facility or residence. Vaporization is allowed, and smoking is prohibited.

The board was directed to issue permits to no more than 50 dispensaries, which can each have three locations, allowing for up to 150 total dispensaries. In the first round of granting permits, the department issued 27 permits for dispensaries. Dispensaries first began serving patients in April 2018. There are currently 12,000 approved medical marijuana patients in Pennsylvania, but it is expected to accumulate with 30,413 more patients waiting to be enrolled in this program as well. In 2018, there are believed to be nine operational medical marijuana dispensaries, and two market-ready medical marijuana producers.

In response to the Sessions Memorandum, Pennsylvania Attorney General Josh Shapiro had said that medical marijuana is legal under state law, stating "It's my job to uphold the law here in Pennsylvania; and on a bipartisan basis, the legislature passed, and the governor signed a medicinal marijuana law that is very popular." US Attorney David Freed also stated, "My office has no intention of disrupting Pennsylvania's medical marijuana program or related financial transactions." To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Pennsylvania.

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Washington

The State of Washington has both medical and adult-use marijuana programs. The original medical law, passed by voters in 1998, allows physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses. But, unlike Colorado, the legislature was unable to pass laws regulating the medical marijuana businesses that developed around 2008.

On November 6, 2012, Initiative 502 was passed to legalize marijuana for adults 21 years of age and older in 2012. It regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. The Governor of Washington then signed, Senate Bill 5052 in 2015, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a "medical marijuana endorsement" to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board (the "WSLCB") regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities ("processors"), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a "true party of interest" in a marijuana business license must have at least six (6) months of Washington residency.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

In response to the Sessions Memorandum, Washington State Attorney General Bob Ferguson stated that his office was prepared for a legal fight over marijuana legalization in the State, if necessary, and that he would be willing to get involved if the federal government takes any "adverse action" against a marijuana business compliant with state law. Governor Jay Inslee also stated, "We will use every single power at our disposal to preserve and protect the mission statement Washington State voters gave us," noting that voters approved the initiative legalizing marijuana in Washington. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Washington State.

**Overall Performance and Investments**

As at December 31, 2018, the Company held cash and investments at fair value totaling \$46,170,811, as compared to \$19,646,504 as at December 31, 2017. A number of new investments were funded through proceeds raised from the March 2018 financing, and from funds generated from portfolio turnovers during the year.

For the year ended December 31, 2018, the Company's investments increased by approximately \$34.9 million, as compared to December 31, 2017. The increase is attributed to net investments of \$19,928,326 (2017 – \$3,290,773) into the portfolio, realized gain of \$11,028,165 (2017 – \$453,242) and unrealized gains on investments of \$5,692,488 (2017 – \$3,393,505). During Fiscal 2018, the Company had also seen a number of its investee companies obtain listings on recognized Canadian exchanges, and the entities' shares were trading at price substantially over their initial costs, which further increased the unrealized gains in the investment portfolio.

Total cash dividends of \$562,025 were also paid to the shareholders during Fiscal 2018 (2017 – \$152,107).

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The Company's investments portfolio consisted of the following as at December 31, 2018:

Investments by type	Cost	Fair Value			Total fair value
		Level 1	Level 2	Level 3	
	\$	\$	\$	\$	\$
Equities	18,003,981	11,036,173	-	19,831,980	30,868,153
Warrants	2,962,583	-	761,192	2,005,999	2,767,191
Convertible debentures	6,846,674	-	2,686,840	4,903,782	7,590,622
Loans	4,031,480	-	-	4,097,171	4,097,171
<b>Total</b>	<b>31,844,718</b>	<b>11,036,173</b>	<b>3,448,032</b>	<b>30,838,932</b>	<b>45,323,137</b>

Investments by sector	Cost	Fair Value			Total fair value
		Level 1	Level 2	Level 3	
	\$	\$	\$	\$	\$
Cannabis-related	28,290,663	9,916,205	3,356,491	27,075,200	40,347,896
Non-cannabis	3,554,055	1,119,968	91,541	3,763,732	4,975,241
<b>Total</b>	<b>31,844,718</b>	<b>11,036,173</b>	<b>3,448,032</b>	<b>30,838,932</b>	<b>45,323,137</b>

In addition to the investments in the cannabis sector as described in the above section, the Company also held the following non-cannabis related investments in its investments portfolio as at December 31, 2018:

Investees	Investments relationship	Investments type	Cost	Fair value	Company's ownership %
			\$	\$	
Acasti Pharma Inc.	Publicly-listed	Warrants	38,099	29,192	Under 10%
Axios Mobile Assets Corporation	Publicly-listed	Conv Debentures	-	-	Under 10%
Biorem Inc.	Publicly-listed	Shares	62,097	73,530	Under 10%
California Nanotechnologies Inc.	Publicly-listed	Shares	150,120	55,600	Under 10%
Clarocity Corporation	Publicly-listed	Shares	-	625	Under 10%
Commercial Royalty Corp	Private	Shares	50,000	-	Under 10%
Deveron UAS Corp.	Publicly-listed	Shares & warrants	50,000	95,000	Under 10%
Digital Buyer Technologies Corp.	Private	Conv Debentures	350,000	395,426	Under 10%
Embark Health Inc.	Private	Shares & warrants	500,000	505,529	Under 10%
Engagement Labs Inc.	Publicly-listed	Warrants	-	4,282	Under 10%
Full Spectrum Brands Canada Inc.	Private	Shares	496,000	496,000	Under 10%
Intelgenx Technologies Corp.	Publicly-listed	Shares & warrants	251,879	237,359	Under 10%
IRRI-AI-Tal Ltd.	Private	Shares & warrants	350,000	467,129	Under 10%
Newlox Gold Ventures Corp.	Publicly-listed	Shares & warrants	183,204	118,583	Under 10%
Pharmex Life Sciences Inc.	Private	Shares	200,000	200,000	Under 10%
Pioneering Technology Corp.	Publicly-listed	Warrants	25,960	-	Under 10%
Plantext Ltd.	Private	Shares	317,988	1,058,109	Under 10%
PMML Corp.	Private	Shares & warrants	50,000	591,519	Under 10%
Posera Ltd.	Publicly-listed	Shares	99,666	48,300	Under 10%
Primaria Medical (Canada) Inc.	Private	Shares	63,000	-	Under 10%
Red Pine Exploration Inc.	Publicly-listed	Warrants	-	805	Under 10%
Solarvest BioEnergy Inc.	Publicly-listed	Shares	170,675	136,540	Under 10%
Tuscany Energy Limited	Publicly-listed	Shares	40,000	-	Under 10%
Umajin Limited	Private	Shares	50,020	50,020	Under 10%
Vitalhub Corp.	Publicly-listed	Shares	42,000	121,800	Under 10%
WealthCraft Capital Inc.	Publicly-listed	Shares	13,347	289,893	Under 10%
			<b>3,554,055</b>	<b>4,975,421</b>	

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In addition to the investments in the cannabis sector, the Company also held the following non-cannabis related investments in its investments portfolio as at December 31, 2017:

<b>Investees</b>	<b>Investments relationship</b>	<b>Investments type</b>	<b>Cost</b>	<b>Fair value</b>	<b>Company's ownership %</b>
			\$	\$	
Acasti Pharma Inc.	Publicly-listed	Warrants	38,099	36,509	Under 10%
Axios Mobile Assets Corporation	Publicly-listed	Convertible debentures	-	-	Under 10%
Biorem Inc.	Publicly-listed	Shares	62,738	85,043	Under 10%
California Nanotechnologies Inc.	Publicly-listed	Shares & warrants	150,120	100,080	Under 10%
Clarcocity Corporation	Publicly-listed	Shares	-	-	Under 10%
Commercial Royalty Corp.	Private	Shares	50,000	-	Under 10%
Deveron UAS Corporation	Publicly-listed	Shares	50,000	147,500	Under 10%
Distincttech	Private	Warrants	-	26,195	Under 10%
Engagement Labs Inc.	Publicly-listed	Convertible debentures & warrants	150,000	194,599	Under 10%
Moly Mines Limited	Publicly-listed	Shares	9,395	7,197	Under 10%
Newlox Gold Ventures Corp.	Publicly-listed	Shares & warrants	183,204	320,183	Under 10%
Pioneering Technology Corp.	Publicly-listed	Warrants	25,961	13,279	Under 10%
Plantext Ltd.	Private	Shares	317,988	317,988	Under 10%
PMML Corp.	Private	Shares & warrants	50,000	178,991	Under 10%
Posera Ltd.	Publicly-listed	Shares	129,999	168,000	Under 10%
Primaria Medical (Canada) Inc.	Private	Shares	63,000	-	Under 10%
Red Pine Exploration Inc.	Publicly-listed	Warrants	-	44,499	Under 10%
Solarvest BioEnergy Inc.	Publicly-listed	Shares	174,425	139,540	Under 10%
Tuscany Energy Limited	Publicly-listed	Shares	40,000	-	Under 10%
Vitalhub Corp.	Publicly-listed	Shares	70,000	259,000	Under 10%
Umajin Limited	Private	Shares	50,020	50,020	Under 10%
			<b>1,614,949</b>	<b>2,088,623</b>	

The Company's investments portfolio consisted of the following as at December 31, 2017:

<b>Investments by type</b>	<b>Fair Value</b>				<b>Total fair value</b>
	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	\$	\$	\$	\$	\$
Equities	3,346,871	2,151,271	-	2,650,976	4,802,247
Warrants	543,052	-	1,610,000	317,450	1,927,450
Convertible debentures	1,756,029	-	2,299,080	731,344	3,030,424
Loans	645,435	-	-	645,436	645,436
<b>Total</b>	<b>6,291,387</b>	<b>2,151,271</b>	<b>3,909,080</b>	<b>4,345,206</b>	<b>10,405,557</b>

<b>Investments by sector</b>	<b>Fair Value</b>				<b>Total fair value</b>
	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	\$	\$	\$	\$	\$
Cannabis-related	4,676,438	972,174	3,572,748	3,772,012	8,316,934
Non-cannabis	1,614,949	1,179,097	336,332	573,194	2,088,623
<b>Total</b>	<b>6,291,387</b>	<b>2,151,271</b>	<b>3,909,080</b>	<b>4,345,206</b>	<b>10,405,557</b>

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*Determination of Fair Value*

The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of each reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the financial statements.

- i. Securities including shares, options and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period. These are included in Level 1 of the fair value hierarchy.
- ii. For options, warrants and conversion features which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used. Valuation models such as the Black-Scholes valuation model (“Black-Scholes”) and the Monte Carlo simulation (“Monte Carlo”) are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at the date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. These are included in Level 2 of the fair value hierarchy.
- iii. Convertible debts and loans issued by investee companies are generally valued at the price in which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The fair value of convertible debentures is measured using valuation techniques such as Black-Scholes and Monte Carlo.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and assumptions provided by management is required in establishing fair values. Judgments include consideration of inputs such as credit risk, discount rates, volatility, probability of certain triggering events, and share price of private company borrowers. Changes in assumptions relating to these factors could affect the reported fair value of the financial instruments. These are included in Level 3 of the fair value hierarchy.

**Results of Operations**

The Company's selected annual financial information as at and for the three (3) most recently completed financial years ended December 31 are summarized as follows:

	<b>2018</b>	<b>2017</b> <b>(Restated)</b>	<b>2016</b>
	\$	\$	\$
Net Investment Income			
(including interest and advisory services income)	17,632,603	3,924,369	800,989
Income from Operations	14,544,543	1,658,028	691,745
Net Income and Comprehensive Income	10,590,795	1,658,028	691,745
Net Income per Share – Basic	0.09	0.05	0.03
Net Income per Share – Diluted	0.09	0.04	0.03
Total Assets	48,351,400	19,695,859	2,989,765
Total Liabilities	4,918,546	88,613	24,625
Shareholders' Equity	43,432,853	19,607,256	2,965,140

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The Company's selected financial results for the eight (8) most recently completed quarters are as follows:

	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Investment Revenue <sup>(1)</sup>	424,181	3,220,110	5,670,072	7,406,290
Interest and Advisory Services Income	280,931	250,476	233,345	147,198
Comprehensive Income (Loss) <sup>(1)</sup>	(3,204,312)	2,076,197	4,642,322	7,076,588
Working Capital	45,297,547	45,710,647	41,038,623	36,945,506
Shareholders' Equity	43,432,853	44,735,647	40,433,623	36,840,506
Net Book Value per Share (NAV)	0.37	0.38	0.34	0.31
Shares Outstanding	118,692,644	118,738,229	118,579,029	118,192,149

  

	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Investment Revenue (Loss) <sup>(1)</sup>	3,841,271	185,850	(235,359)	54,984
Interest and Advisory Services Income	48,124	25,131	3,686	681
Comprehensive Income (Loss) <sup>(1)</sup>	1,709,732	183,082	(276,910)	(34,538)
Working Capital	19,607,256	2,757,063	2,600,552	2,904,032
Shareholders' Equity	19,607,256	2,757,063	2,600,552	2,904,032
Net Book Value per Share (NAV)	0.21	0.10	0.10	0.11
Shares Outstanding	93,522,986	25,880,660	25,880,660	25,880,660

<sup>(1)</sup> Certain figures had been adjusted to reflect the impact on the restatement required from the change in accounting policy in valuing its investments in warrants and convertible debentures. It was determined that the fair value of warrants and conversion features of convertible debentures in the Company's investment portfolio should have been valued using option pricing models such as the Black-Scholes valuation and the Monte Carlo simulation models. The adjustments between amounts previously reported and amounts restated had no material effect on the statements of cash flows, working capital, shareholders' equity and NAV values of the Company.

**Three Months Ended December 31, 2018**

*Results of Operations*

During the three months ended December 31, 2018, the Company generated net investment revenue of \$424,181, as compared to a restated investment revenue of \$3,841,271 for the three months ended December 31, 2017. The net investment revenue in Q4 2018 comprised of realized gains on disposals of investments of \$7,653,660 (Q4 2017 – restated realized gains of \$228,771), offset by an unrealized loss on investments of \$7,229,479 (Q4 2017 – restated unrealized gains of \$3,612,500). The unrealized loss on investments from the current quarter reflects the general market conditions during Q4 2018, especially for many cannabis companies who underperformed versus the TSX Composite Index during Q4 2018.

During Q4 2018, other income totaled \$280,931, as compared to other income of \$48,124 during Q4 2017. Other income is comprised of interest income from loans and convertible debentures and advisory services. The increase in other income in Q4 2018 was primarily related to interest earned and accrued on loans and convertible debentures investments which had been added into the Company's portfolio primarily during the second half of Fiscal 2018.

Total operating expenses for Q4 2018 increased by \$821,289, to \$930,676 (Q4 2017 – \$109,387). The increase for the current quarter was primarily attributed to non-cash stock-based compensation of \$389,521 (Q4 2017 – \$48,242) from vesting of options previously granted in Fiscal 2017 and the early part of Fiscal 2018, professional fees of \$120,699 (Q4 2017 – \$31,068), and salaries and other employment benefits of \$404,027 (Q4 2017 – \$1,500), including a management bonus of approximately \$350,000 based on 5% of net investment income for the current quarter (Q4 2017 – \$nil). The increase in expenses aligns with the increased level of activities in the Company's operations. Operating income for Q4 2018 decreased from a restated figure of \$3,780,008 in Q4 2017 to \$225,564 in the current period.

The Company had also recorded a tax expense of \$2,089,054 (Q4 2017 – \$nil) and a deferred tax provision of \$889,694 (Q4 2017 – \$nil) during the quarter, providing for the estimated tax payable and deferred tax liability resulting from the continued increase in unrealized gains from its investments.

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The net loss and comprehensive loss for the three months ended December 31, 2018 was \$3,204,312 (loss of \$0.03 and \$0.01 per share on a basic and diluted basis, respectively), as compared to a restated net income and comprehensive income of \$1,709,732 (earnings of \$0.05 and \$0.04 per share on a basic and diluted basis, respectively) for Q4 2017.

#### *Cash Flows*

Net cash generated from operating activities for the three months ended December 31, 2018 was \$151,013, as compared to cash flows used in operations of \$3,397,721 in Q4 2017. The Company cashed out certain of its cannabis investments during the quarter, while remaining prudent in our investment approach during the down market. The proceeds generated from these sales provided new sources of capital for management to pursue more strategic investments.

Net cash used in financing activities for Q4 2018 was \$241,584, comprised of proceeds from warrant exercises of \$133,563 (Q4 2017 – \$nil). These funds were offset by dividends of \$148,366 paid out to shareholders (Q4 2017 – \$55,054), and repurchase of shares under the Bid for \$226,781 (Q4 2017 – \$nil). During Q4 2017, the Company completed a private placement offering which raised net proceeds of \$12.7 million.

#### **Year Ended December 31, 2018**

#### *Results of Operations*

During Fiscal 2018, the Company generated investment revenue of \$16,720,653, as compared to a restated investment revenue of \$3,846,747 for Fiscal 2017. The investment revenue in Fiscal 2018 was comprised of realized gains on disposals of investments of \$11,028,165 (2017 – restated realized gains of \$453,242) and unrealized gains on investments of \$5,692,488 (2017 – restated unrealized gain of \$3,393,505).

During Fiscal 2018, other income totaled \$911,950, as compared to \$77,622 in 2017. Other income is comprised of interest income from loans and convertible debentures investments and advisory services. The increase in other income was primarily related to interest earned and accrued on loans and convertible debentures investments added since the beginning of Fiscal 2018.

Total operating expenses for Fiscal 2018 increased by \$2,858,921, to \$3,054,986 (2017 – \$196,065). The substantial increase in operating expenses was primarily attributed to non-cash stock-based compensation of \$1,512,785 (2017 – \$65,584) from vesting of options granted in Fiscal 2017 and in the early part of Fiscal 2018, professional fees of \$339,979 (2017 – \$58,496) and salaries and other employment benefits of \$1,027,743 (2017 – \$6,960), including a management bonus of approximately \$850,000 (2017 – \$nil). The increase in operating expenses reflects the growth in the Company's operations as it continues to target new investment opportunities within the Canadian and US cannabis industry. Operating income for Fiscal 2018 increased substantially from a restated amount of \$3,728,304 in 2017, to \$14,577,617 in Fiscal 2018.

The Company had also recorded a tax expense of \$2,089,054 (2017 – \$nil) and a deferred tax provision of \$1,864,694 (2017 – \$nil), providing for the estimated tax payable and deferred tax liability resulting from the continued increase in gains from its investments.

The net income and comprehensive income for Fiscal 2018 was \$10,590,795 (earnings of \$0.09 and \$0.09 per share on a basic and diluted basis, respectively), as compared to a restated net income and comprehensive income of \$1,658,028 (revised earnings of \$0.05 and \$0.04 per share on a basic and diluted basis, respectively) for 2017.

#### *Cash Flows*

Net cash used in operating activities for Fiscal 2018 was \$20,115,290, as compared to cash flows used in operations of \$3,302,817 in 2017. The substantially higher cash used in operations in Fiscal 2018 is due to the net additions of investments made, as investments had been reclassified and presented as an operating activity in Fiscal 2018, to depict a more accurate cash flow picture of the Company to align with its operations.

Net cash received from financing activities for Fiscal 2018 was \$11,722,017, comprised of proceeds of \$13,139,610 raised from the March 2018 financing, net of cash issuance costs of \$1,152,509, proceeds from option and warrant exercises of \$117,800 and \$576,602 (2017 – \$nil and \$nil), respectively. These funds were partially offset by dividends of \$562,025 paid to shareholders (2017 – \$152,107), and repurchase of shares under the Bid for \$397,461 (2017 – \$nil). In 2017, the Company completed two (2) private placement offerings which raised net proceeds of \$12.7 million.

# QUINSAM CAPITAL CORPORATION

## Management's Discussion and Analysis

For the year ended December 31, 2018

### Restatement

The Company had reassessed the accounting policy in valuing its investments in warrants and convertible debentures. Previously, the fair value of these investments was determined based on market information, where available and appropriate, as follows:

- For options and warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available or reliable, the options and warrants are valued at intrinsic value, which is equal to the higher of the closing trade price at the end of the reporting period of the underlying security less the exercise price of the options or warrants, and zero;
- Convertible debentures and loans are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at the end of each financial reporting period, the combined instrument is adjusted to fair value based on the higher of the fair value of the debt or the equity instruments that would be received if converted.

During the year ended December 31, 2018, it was determined that the fair value of warrants and conversion features of convertible debentures in the Company's investment portfolio should have been valued using option pricing models such as the Black-Scholes valuation and the Monte Carlo simulation models.

The Company believes that the revised policy provides more relevant financial information to users of the financial statements.

The effects of restatements on the statements of financial position as at December 31, 2017 and January 1, 2017, and the statement of income and comprehensive income for the year ended December 31, 2017 are summarized below. The adjustments between amounts previously reported and amounts restated had no material effect on the statements of cash flows and statements of changes in shareholders' equity.

### Statements of Financial Position

	December 31, 2017		
	Previously		Restated
	\$	\$	\$
<b><u>Assets</u></b>			
Current assets	9,290,312	-	9,290,312
Investments	10,113,650	291,907	10,405,557
<b>Total Assets</b>	<b>19,403,962</b>	291,907	<b>19,695,869</b>
<b><u>Liabilities</u></b>			
Current liabilities	88,613	-	88,613
<b><u>Shareholders' Equity</u></b>			
Share capital	13,251,814	-	13,251,814
Share-based payments reserve	246,446	-	246,446
Warrants reserve	3,510,745	-	3,510,745
Retained earnings	2,306,344	291,907	2,598,250
<b>Total Shareholders' Equity</b>	<b>19,315,349</b>	291,907	<b>19,607,256</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>19,403,962</b>	291,907	<b>19,695,869</b>



**QUINSAM CAPITAL CORPORATION**  
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**For the year ended December 31, 2018**

	January 1, 2017		
	Previously		Restated
	\$	\$	\$
<b><u>Assets</u></b>			
Current assets	43,243	-	43,243
Investments	2,946,522	321,516	3,268,038
<b>Total Assets</b>	<b>2,989,765</b>	<b>321,516</b>	<b>3,311,281</b>
<b><u>Liabilities</u></b>			
Current liabilities	24,625	-	24,625
<b><u>Shareholders' Equity</u></b>			
Share capital	2,013,464	-	2,013,464
Share-based payments reserve	180,862	-	180,862
Warrants reserve	-	-	-
Retained earnings	770,814	321,516	1,092,330
<b>Total Shareholders' Equity</b>	<b>2,965,140</b>	<b>321,516</b>	<b>3,286,656</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,989,765</b>	<b>321,516</b>	<b>3,311,281</b>

*Statement of Income and Comprehensive Income*

	Year ended December 31, 2017		
	Previously		Restated
	\$	\$	\$
<b><u>Net Investment Revenue</u></b>			
Net realized gains on disposals of investments	474,380	(21,138)	453,242
Net changes in unrealized gains on investments	3,401,975	(8,470)	3,393,505
	3,876,355	(29,608)	3,846,747
Other income	77,622	-	77,622
Expenses	(196,065)	-	(196,065)
<b>Income before Undernoted</b>	<b>3,757,912</b>	<b>(29,608)</b>	<b>3,728,304</b>
Consulting expense on share exchange agreement	(2,070,276)	-	(2,070,276)
<b>Net Income and Comprehensive Income</b>	<b>1,687,636</b>	<b>(29,608)</b>	<b>1,658,028</b>
<b><u>Net Income per Share</u></b>			
Basic	0.05	-	0.05
Diluted	0.04	-	0.04

**Liquidity and Capital Resources**

	December 31, 2018	December 31, 2017 (Restated)	December 31, 2016
	\$	\$	\$
Total Assets	48,351,400	19,695,869	2,989,765
Total Liabilities	4,918,547	88,613	24,625
Shareholders' Capital	43,432,853	19,607,256	2,965,140
Retained Earnings	12,627,021	2,598,251	770,814
Net Asset Value Per Share – Basic	0.37	0.21	0.11
Net Asset Value Per Share – Diluted	0.39	0.25	0.11

## QUINSAM CAPITAL CORPORATION

### Management's Discussion and Analysis

For the year ended December 31, 2018

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The Company relies upon various sources of funding for its ongoing operating and investing activities. These sources include proceeds from disposals of investments, interest and dividend income earned from investments, consulting fees, and capital raising activities such as debt and equity private placement financings.

During Fiscal 2018, the Company had paid dividends of \$562,025 to its shareholders, despite a shortfall of cash from operations. As disclosed in the Company's financial statements, when the Company raises funds from financings, it classifies this inflow as a "financing activity", whereas when these funds raised from financings are deployed, this outflow of net investments is classified as a deduction of operating cash flows. Therefore, in periods where new funds are raised and deployed in any material extent, the Company's financial statements will show negative operating cash flows, and vice versa.

During Fiscal 2018, the Company raised funds from financing of \$11,987,101 (net of issuance costs of \$1,152,509) and through turnovers with its investment portfolio, for a net deployment of \$19,945,806 invested in its portfolio.

The raising and deployment of funds are inextricably linked from a management point of view, as the Company will only deploy the funds after they have been raised. Therefore, the sustainability of paying dividends to shareholders is tied to the Company's ability over time to deploy funds to earn a quarterly return that is in excess of the payment of the quarterly dividend. In order to fund dividend payments, the Company has the discretion to use available cash or dispose of some of its public company investments for liquidity. Given the net positive return on investments from the first nine months of Fiscal 2018 and from the past two (2) fiscal years, the Company anticipates that future dividends will be sustainable and it will reevaluate the payment of dividends to shareholders, as required.

Management believes that the Company will be able to generate sufficient cash to fund its normal course of operations through the course of purchases and disposals of existing investments.

#### Liabilities

The Company's present liabilities are limited to trade payables incurred in the normal course of business.

#### Related Party Transactions

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

##### *Key management personnel compensation*

The remuneration of directors and other members of key management personnel during the years ended December 31, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Salaries, bonus and other benefits	1,017,243	-
Professional fees	178,744	6,960
Stock-based compensation	1,395,842	59,294
	<b>2,591,829</b>	<b>66,254</b>

During the year ended December 31, 2018, officers and directors of the Company were paid compensation benefits of \$164,243 (2017 – \$nil) for services rendered. A provision for management bonus of \$853,000 (2017 – \$nil), based on 5% of net investment income was charged to salaries, bonus and other benefits on a quarterly basis. As at December 31, 2018, the management bonus was included in accounts payable and accrued liabilities.

During the year ended December 31, 2018, Bryan Knebel, the former Chief Financial Officer ("CFO") of the Company, was paid consulting fees of \$10,500 (2017 – \$6,960) for accounting services provided to the Company up to his resignation in March 2018.

During the year ended December 31, 2018, Peter Bilodeau, the President and a director of the Company, was paid \$25,425 (2017 – \$nil) for consulting services provided to the Company, which are included in professional fees.

## QUINSAM CAPITAL CORPORATION

### Management's Discussion and Analysis

#### For the year ended December 31, 2018

On January 15, 2018, the Company and Branson Corporate Services Ltd. ("Branson"), where Keith Li, the CFO of the Company is employed, entered into a management services agreement, providing for CFO services to the Company, as well as other accounting and administrative services, which are included in professional fees. In consideration for the services provided, the Company agreed to pay a monthly fee of \$5,000, subsequently amended to a fee of \$8,000 per month effective July 1, 2018. During the year ended December 31, 2018, the Company was charged \$88,705 (2017 – \$nil) for services provided by Branson. As at December 31, 2018, \$9,040 (December 31, 2017 – \$nil) owing to Branson was included in accounts payable and accrued liabilities. Adam Szweras, a director of the Company, is also a director of Branson.

During the year ended December 31, 2018, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Adam Szweras is also a partner, provided \$54,114 (2017 – \$nil) of legal services to the Company, which are included in professional fees. As at December 31, 2018, \$61 (December 31, 2017 – \$nil) owing to Fogler was included in accounts payable and accrued liabilities.

During the year ended December 31, 2018, the Company granted 2,600,000 stock options (2017 – 4,500,000 options) to various officers and directors as follows:

<b>Date of grant</b>	<b>Number of options granted</b>	<b>Exercise price</b>	<b>Date of expiry</b>
	<b>#</b>	<b>\$</b>	
October 19, 2017	600,000	\$0.295	October 19, 2022
October 19, 2017	100,000	0.30	October 19, 2022
December 22, 2017	3,800,000	0.48	December 22, 2022
March 19, 2018	2,600,000	0.60	March 19, 2023

#### *Agreements with related parties*

On September 5, 2017, the Company and Foundation Markets Inc. ("FMI") entered into a private placement finder's fee agreement in relation to the October 2017 Offering, as disclosed in Note 8. Two (2) of the Company's directors are the President and the Chairman of FMI, respectively. On closing of the October 2017 Offering, FMI was paid a finder's fee of \$43,287 and was issued 147,242 finders' warrants exercisable at \$0.15 for a period of two (2) years.

On December 11, 2017, the Company and FMI entered into a consulting services agreement, whereby FMI provided fiscal advisory and consulting services to the Company. The Company paid a cash advisory fee of \$71,000 as compensation for the services. On closing of the December 2017 Offering, FMI was also issued 219,400 finders' warrants exercisable at \$0.25 for a period of three (3) years.

On April 20, 2018, the Company entered into a Letter of Intent ("LOI") with Lineage Grow Company Ltd. ("Lineage") to sell off its 35% interest in Herbiculture Inc. ("Herbiculture"), a medical marijuana dispensary located in the State of Maryland in the United States (the "Herbiculture Transaction"), for total consideration of USD \$720,000, to be satisfied by the issuance of 3,900,000 common shares of Lineage to the Company upon closing of the Herbiculture Transaction at a price of USD \$0.1846 per share.

On November 30, 2018, Quinsam and Lineage agreed to terminate the Herbiculture Transaction. As compensation, the Company received a termination fee of \$38,000 on December 5, 2018, through the issuance of 200,000 Lineage common shares at \$0.19.

#### *Investments on companies with common management personnel*

During the year ended December 31, 2018, the Company had invested in certain companies which have common officers and directors. As at December 31, 2018, the Company held investment positions in the following issuers with common officers and directors:

	<b>Types of Investments</b>	<b>Holdings</b>	<b>Fair Value</b>
		<b>#</b>	<b>\$</b>
Aura Health Inc. <sup>(1)</sup>	Common shares	300,000 units	75,000
Aura Health Inc. <sup>(1)</sup>	Warrants	150,000 units	6,201
Aura Health Inc. <sup>(1)</sup>	Convertible debentures	300 units	294,898
Lineage Grow Company Ltd. <sup>(1),(2),(3)</sup>	Common shares units	1,486,400 units	245,256

## QUINSAM CAPITAL CORPORATION

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For the year ended December 31, 2018

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Lineage Grow Company Ltd. <sup>(1),(2),(3)</sup>	Warrants	1,040,000 warrants	20,212
Nutritional High International Inc. <sup>(4)</sup>	Warrants	1,250,250 warrants	89,542
Nutritional High International Inc. <sup>(4)</sup>	Convertible debentures	750 units	540,129
			<b>1,271,238</b>

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(1) Keith Li is also the CFO of Aura Health Inc. and Lineage Grow Company Ltd.

(2) Peter Bilodeau is also the CEO, President and a Director of Lineage Grow Company Ltd.

(3) Adam Szweras is also the Corporate Secretary of Lineage Grow Company Ltd.

(4) Adam Szweras is also a Director of Nutritional High International Inc.

### Off-Balance Sheet Arrangements

As at December 31, 2018 and 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.

### Investor Relations

During the years ended December 31, 2018 and 2017, Quinsam's management handled the Company's investor relations activities.

### Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. The risk in cash is managed through the use of major financial institutions which have high credit qualities as determined by rating agencies. The Company's secondary exposure to credit risk is on other receivables. As at December 31, 2018, the Company had assessed there is no expected credit loss ("ECL"), as it fully expects to recover these other receivables.

#### *Foreign exchange risk*

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company invests from time to time into securities and loan investments issued and denominated in foreign currencies, notably in US dollars. The Company's primary exposure to foreign exchange risk is that investments in foreign securities may expose the Company to the risk of exchange rate fluctuations.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash at variable rates. The fair value of the Company's cash and convertible debentures and loan investments affected by changes in short-term interest rates will be minimal. The Company does not use any derivative instruments to reduce its exposure to interest rate risk.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and investments with reputable Canadian financial institutions.

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The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at December 31, 2018:

	Carrying amount	Year 1	Year 2 to 3	Year 4 to 5
	\$	\$	\$	\$
Accounts payable and accrued liabilities	964,799	964,799	-	-

#### *Market risk*

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices. A 1% change in closing trade price of the Company's investments portfolio would impact net income by \$453,231 based upon balances as at December 31, 2018.

#### **Capital Management**

The Company manages its capital, consisting of shareholders' equity, in a manner consistent with the risk characteristics of the assets it holds.

The Company's objectives when managing capital are:

- (a) to maintain sufficient liquidity to allow the Company to pursue business opportunities expeditiously; &
- (b) to earn investment returns while managing risk.

The Company's strategy remained unchanged for years ended December 31, 2018 and 2017.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential investments and acquisitions. Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements and there were no changes in its approach to capital management during the years ended December 31, 2018 and 2017.

#### **Significant Accounting Judgments and Estimates**

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities reported amounts of revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The areas which require management to make significant judgments, estimates and assumptions include, but are not limited to:

#### *Fair value of investment in securities not quoted in an active market or private company investments*

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position, including shares, warrants, convertible debentures and loans investments, cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

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*Fair value of financial derivatives*

Investments in warrants that are not traded on a recognized securities exchange do not have readily available market values. When there are sufficient and reliable observable market inputs, a valuation technique is used.

*Valuation of share-based compensation and share purchase warrants*

Management determines the costs for share-based compensation and share purchase warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment is used in applying the valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and share purchase warrants.

*Income taxes*

Income taxes and tax exposures recognized in the financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

*Expected credit losses on financial assets*

Determining an allowance for ECLs for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition.

**Significant Accounting Policies**

*Revenue*

Realized gains (losses) on disposals of investments and unrealized gains (losses) on securities classified as FVTPL are reflected in the statements of income and comprehensive income on the transaction date and are calculated on an average cost basis. For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income or expenses are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

Other investment income is recognized on the accrual basis and is considered operating income for cash flow purposes.

*Financial Instruments*

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

*Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories: (1) those to be measured subsequently at FVTPL; (2) those to be measured subsequently at fair value through other comprehensive income

## QUINSAM CAPITAL CORPORATION

### Management's Discussion and Analysis

For the year ended December 31, 2018

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("FVTOCI"); and (3) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are recorded in the statements of income and comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. The Company's financial assets include cash, investments, and receivables excluding any sales tax amounts. The Company's financial liabilities include accounts payable and accrued liabilities.

#### *Amortized cost*

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payment of principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

#### *Fair value through profit or loss*

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category also includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the statements of income and comprehensive income.

#### *Financial assets at fair value through other comprehensive income*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income. As at December 31, 2018, the Company did not have any financial assets at FVTOCI.

#### *Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in income and comprehensive income. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through the statements of income and comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

Investments are measured at FVTPL and are derecognized when the rights to receive cash flows from the investments have expired. When the Company holds units of equity and debentures that are convertible into the issuer's equity shares at the Company's option, the warrants component and the equity conversion feature are recognized using the relative fair value method, and subsequently measured at FVTPL based on the fair value of the shares.

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The Company's classification and measurements of financial assets and liabilities are summarized below:

	<b>IFRS 9</b>	
	<b>Classification</b>	<b>Measurement</b>
Cash	FVTPL	Fair value
Receivables	Amortized cost	Amortized cost
Investments	FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

*Determination of fair value*

The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of each reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the financial statements.

- i. Securities including shares, options and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period. These are included in Level 1 of the fair value hierarchy.
- ii. For options, warrants and conversion features which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used. Valuation models such as the Black-Scholes valuation model ("Black-Scholes") and the Monte Carlo simulation ("Monte Carlo") are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at the date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. These are included in Level 2 of the fair value hierarchy.
- iii. Convertible debts and loans issued by investee companies are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The fair value of convertible debentures is measured using valuation techniques such as Black-Scholes and Monte Carlo.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and assumptions provided by management is required in establishing fair values. Judgments include consideration of inputs such as credit risk, discount rates, volatility, probability of certain triggering events, and share price of private company borrowers. Changes in assumptions relating to these factors could affect the reported fair value of the financial instruments. These are included in Level 3 of the fair value hierarchy.

Private company investments

All privately-held investments (including options, warrants and conversion features) are initially recorded at the transaction price, being the fair value at the time of acquisition. At the end of each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below. These are included in Level 3 of the fair value hierarchy.

The determination of fair value of the Company's privately-held investments at other than initial cost, is subject to certain limitations. Financial information for private companies in which the Company has investments, may not be available and, even if available, that information may be limited and/or unreliable.



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Use of the valuation approach described below may involve uncertainties and determinations based on management's judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will also consider trends in general market conditions and the share performance of comparable publicly-traded companies when valuing privately-held investments.

The fair value of a privately-held investment may be adjusted if:

- i. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
- ii. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;
- iii. The investee company is placed into receivership or bankruptcy;
- iv. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
- v. Release by the investee company of positive/negative operational results; and
- vi. Important positive/negative management changes by the investee company that the Company's management believes will have a very positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustments to the fair value of a privately-held investment will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

In addition, the amounts at which the Company's privately-held investments could be currently disposed of may differ from the carrying value assigned.

#### *Foreign Currency Translation*

The Company invests from time to time on securities which are denominated in currencies other than Canadian dollars. On initial recognition, these investments are recorded by applying the foreign currency amount based on the spot exchange rate on the transaction date.

At the end of each reporting period, the investments are translated to the functional currency using the closing spot exchange rate. The resulting gain or loss is recorded as part of the net unrealized gain (loss) for the period in the statements of income and comprehensive income.

#### *Provisions*

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at December 31, 2018 and 2017, the Company had no material provisions.

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*Income Taxes*

Income tax expense comprises current and deferred income tax expense. Current and deferred taxes are recognized in net loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current income taxes

Current income taxes are recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred income taxes

Deferred income taxes are recorded for temporary differences at the date of the statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of a deferred income tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and the Company has the legal rights and intent to offset.

*Share Capital*

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve for warrants of the Company's equity.

*Share Issuance Costs*

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received, or at the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using a Black-Scholes valuation model. The fair value of equity-settled share-based compensation transactions are recognized as an expense with a corresponding increase in share-based payments reserve.

The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

For options that expire after vesting, the recorded value is transferred to retained earnings. Expired warrants are also transferred to retained earnings.

*Basic and Diluted Earnings (Loss) per Share*

Basic earnings (loss) per share ("EPS") is calculated by dividing the comprehensive income (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period, adjusted for shares held in escrow that are subject to contingent release based on conditions other than the passage of time. For all periods presented, the earnings (loss) attributable to common shareholders equals the reported earnings attributable to owners of the Company.

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Diluted EPS is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

*Related Party Transactions*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

*Changes in Accounting Policies*

The Company adopted the following new standards, effective January 1, 2018. These changes and amendments were made in accordance with the applicable transitional provisions. On adoption of these new standards and amendments, the Company had assessed that there was no material impact on the Company’s financial statements:

IFRS 2 – Share-Based Payments (“IFRS 2”)

IFRS 2 was amended to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The effective date of these amendments was January 1, 2018. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

IFRS 7 – Financial Instruments: Disclosure (“IFRS 7”)

IFRS 7 was amended to require additional disclosures on transition from IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) to IFRS 9 – Financial Instruments (“IFRS 9”). IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

IFRS 9 – Financial Instruments

IFRS 9 was issued by the IASB in July 2014 and replaces IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

The new classification of the Company’s financial instruments are as follows:

	<b>IFRS 9</b>	<b>IAS 39</b>
<b>Financial Assets</b>		
Cash	FVTPL	Loans and receivable
Receivables	Amortized cost	Loans and receivable
Investments	FVTPL	FVTPL
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	Amortized cost	Other liabilities

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Impairment of financial assets

The adoption of IFRS 9 has also fundamentally changed the Company’s accounting of impairment losses for financial assets by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. There were no impairment losses recognized in these financial statements as a result of the adoption of IFRS 9 as at the date of initial application.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) replaces IAS 18 – Revenue, IAS 11 – Construction Contracts, and some revenue-related interpretations. 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 model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”)

IFRIC 22 was issued on December 8, 2016 and clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt, and is applicable for annual periods beginning on or after January 1, 2018. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

*Recent Accounting Pronouncements*

At the date of authorization of these financial statements, the IASB and IFRS Interpretations Committee have issued the following new and revised Standards and Interpretations which are effective for annual periods beginning on or after January 1, 2019:

IFRS 16 – Leases (“IFRS 16”)

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

The Company will adopt IFRS 16 as of January 1, 2019. The Company had assessed that the adoption of this new standard will not have a material impact on the financial statements.

**Outstanding Share Data**

As at April 29, 2019, the number of common shares of the Company outstanding and the number of common shares issuable pursuant to other outstanding securities of Quinsam are as follows:

<b>Common Shares</b>	<b>Number Outstanding</b>
Issued and Outstanding	117,849,644
Issuable under Options	8,998,000
Issuable under Warrants	51,289,154

**Segmented Information**

The management of the Company is responsible for the Company’s entire investments portfolio and considers the business to have a single operating segment. The management’s investment decisions are based on a single, integrated investment strategy, and the performance is evaluated on an overall basis.

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The Company has a single reportable geographic segment, Canada, and all of the Company's management are based in Canada.

The internal reporting provided to management of the Company's assets, liabilities, and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments during the years ended December 31, 2018 and 2017.

#### **Subsequent Events**

Subsequent to December 31, 2018, 843,000 common shares of the Company repurchased under the Bid for \$241,098 were cancelled and returned to the Treasury.

On February 22, 2019, the Company paid a quarterly dividend of \$147,312 at \$0.00125 per share, to the shareholders of record on February 1, 2019.

#### **Risk Factors**

There are numerous and varied risks, known and unknown, that may prevent the Company from achieving its goals. If any of these risks occur, the Company's business, financial condition or results of operation may be adversely affected. In such case, the trading price of the Company's common shares could decline, and investors could lose all or part of their investment. The following is a summary of risks that could be applicable to the business of the Company:

##### Portfolio Exposure

Given the nature of the Company's activities, its results of operations and financial condition are dependent upon the market value of securities that comprise the Company's investments portfolio. Quinsam invests primarily in small-cap businesses which the Company believes exhibit potential for growth and sustainable cash flows, but which may not ever mature or generate returns the Company expects or may require a number of years to do so.

Junior exploration, biotechnology, technology and cannabis companies may never achieve commercial discoveries and productions. This may create an irregular pattern in the Company's revenue and profitability. Additionally, macro factors such as fluctuations in commodity prices and global political, economic and market conditions could have an adverse effect on one or more sectors to which the Company is exposed, and a disproportionate effect on the sectors as compared to the overall market, thereby negatively impacting one or more of the portfolio Investees concurrently.

##### Risks Related to the US Regulatory Environment

As a specialty investor focusing in the cannabis industry, the Company is making substantial investments in entities operating in a highly regulated industry which is rapidly evolving. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

Investees incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Business Units and, it may negatively affect the performance of the Company's investment portfolio.

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

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The Company is expected to have a substantial portion of its revenues derived from its investments in Investees that are engaged in the cannabis industry in certain states of the US, which industry is illegal under US federal law. Quinsam is indirectly involved in marijuana-related activities in the US, through the entities held in the Company's investments portfolio, which may engage in the cultivation or distribution of marijuana in the US. The enforcement of relevant laws is a significant risk.

Over half of the states in the US have enacted legislation to regulate the sale and use of medical marijuana without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical marijuana with strict limits on the levels of THC. Other US states had also legalized cannabis for adult use. Notwithstanding the permissive regulatory environment of medical or adult-use marijuana at the state level, marijuana continues to be categorized as a Schedule 1 controlled substance under the FCSA. As such, marijuana-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution, are illegal under US federal law. Strict compliance with state laws with respect to marijuana will neither absolve the Company and its Investees of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against them. Any such proceedings brought against the Investees may adversely affect the Company's financial performance.

Because of the conflicting views between state legislatures and the federal government of the US regarding marijuana, investments in marijuana businesses in the US are subject to inconsistent legislation, regulation, and enforcement. Unless and until the US Congress amends the FCSA with respect to marijuana or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of the Company in the US. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the US.

#### Regulatory Changes and Compliance

The Company's activities, as well as those of the Investees, are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required for certain of its Investees to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on these Investees' business and results of operations, which may negatively affect the performance of the Company's investment portfolio.

Certain Investees' operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Investees' operations. Changes to such laws, regulations and guidelines due to matters beyond the control of the Investees may cause adverse effects to the Company's operations.

Local, State and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require certain Investees the invest to incur substantial costs associated with bringing the operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Investees' operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's investment portfolio.

#### US Federal Laws on Marijuana Industry

**Marijuana is illegal under US federal laws and enforcement of relevant laws is a significant risk.** Therefore, the business operations of many of the cannabis-related securities that the Company invests in, are dependent on US state laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative

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authorization of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacture and sale of marijuana, which would negatively impact the return on the Company's investment portfolio.

The concepts of "medical marijuana" and "retail marijuana" do not exist under US federal law. The FCSA classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Investees.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

To the Company's knowledge, 33 States, the District of Columbia, Puerto Rico and Guam allow their residents to use medical marijuana as of the date of this MD&A. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The State laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by State-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Investees and their stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, State and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Investees to incur substantial costs associated with legal and compliance fees and ultimately require the Investees to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Investees and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Investees, which could have on the Company's investment portfolio.

#### There are risks associated with removal of U.S. Federal Budget Rider Protections

The US Congress has passed appropriations bills (the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It continued in effect up to September 30, 2018, the last day of fiscal year 2018. These protections were subsequently extended through December 7, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with a key amendment intact (Section 538) (the "Joyce Amendment"). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

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American courts have construed these appropriation bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

#### Local regulation could change and negatively impact on the Company's operations

Most US States that permit marijuana for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use marijuana businesses in their jurisdictions. If local municipalities where the Investees or their Licensed Operators have established facilities decide to prohibit marijuana businesses from operating, the Investees or their Licensed Operators could be forced to relocate operations at great cost to the Investees, and the Investees or their Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

#### Reliance on securing agreements with Licensed Producers

The regulatory framework in most States may restrict the Investees from obtaining a License to grow, store and sell marijuana products. As such, these Investees rely on securing agreements with Licensed Producers in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Producer to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition and operating results of the Investees, and indirectly, the operations of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Investees be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Investees would be materially adversely affected.

If the US federal government changes its approach to the enforcement of laws relating to marijuana, the Investees would need to seek to replace those tenants with non-marijuana tenants, who would likely pay lower rents. It is likely that the Investees would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the marijuana industry, and the Investees would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

The Investees may have advanced, and may continue to advance, significant funds to potential sellers in the form of promissory notes, which the Investees may not be able to collect if the sellers fail to profitably operate its business. There is no assurance that any or all of the amounts loaned will be recovered by the Investees.

#### Reliance on third-party suppliers, manufacturers and contractors

Some of the Investees may intend to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the US, these Investees' third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Investees' operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Investees' business and operational results, which could have on the Company's investment portfolio.

#### Cash Flows/Revenue

The Company generates revenue and cash flows primarily from proceeds from the disposition of its investments, in addition to a lesser degree income from interest, dividend and financial advisory services. The availability of these sources of funds and the amount of funds generated from these sources are dependent upon various factors, most of which are outside of the Company's direct control. The Company's liquidity and operating results may be adversely affected if access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to the Company, or if the value of the Company's investments decline, resulting in lesser proceeds of disposition and capital losses for the Company upon disposition.



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#### Share Prices of 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 control of the Company, including quarterly variations in the subject companies' results of operations, changes in earnings, analyst estimates, industry conditions and general market and economic conditions. Such fluctuations could adversely affect the market price of the Company's investments and significantly negatively impact upon the Company's operating results.

#### Private or Illiquid Securities

The Company invests in securities of private issuers with a near term plan to complete a going public transaction. Investments in private issuers may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for a private company investment or that the Company will otherwise be able to realize a return on such investments. The Company may also invest in illiquid securities of public issuers. A period of time may elapse between the time a decision is made to sell such securities and the time the Company is able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that the Company will be unable to realize the Company's investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy.

#### Dependence on Management

The Company is dependent upon the efforts, skill and business contacts of key members of management, for among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, the Company's continued success will depend upon the continued service of these individuals who are not obligated to remain employed with the Company. The loss of the services of any of these individuals could have a material adverse effect on the Company's revenues, net income and cash flows and could harm the Company's ability to maintain and grow existing assets and raise additional funds in the future.

#### Limited Market for Securities

There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

#### The Market Price of Securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares or Warrants to sell their securities at an advantageous price. Market price fluctuations in the shares and warrants may be due to the Company's operating results or its US Investees' operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the shares and warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares and warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the shares and warrants may be materially adversely affected.

#### Additional Financing Requirements

The Company anticipates ongoing requirements for funds to support the Company's growth and may seek to obtain additional funds for these purposes through public or private equity share offerings. There are no assurances that additional funding will be available to the Company at all, on acceptable terms or prices. Any additional equity financings may cause shareholders

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to experience dilution. Any limitations on the Company's ability to access the capital markets for additional funds could have a material adverse effect on the Company's ability to grow its investment portfolio.

#### Ability to Access Public and Private Capital

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. Since the Company had started making investments in entities operating in the cannabis market as a focused specialty investor, it has completed private placement financings, including the October 2017 Offering which raised \$2.4 million of capital, the December 2017 Offering which raised \$11.5 million, and the March 2018 Offering which raised \$13.1 million for the Company. Although the Company has accessed private financing in the past, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants, given that marijuana is illegal under US federal law. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company has never needed to access public equity capital in the US.

#### **Use of Non-GAAP Financial Measures**

This MD&A contains references to "net asset value per share" (basic and diluted) ("NAV") which is a non-GAAP financial measure. NAV is calculated as the value of total assets less the value of total liabilities divided by the total number of common shares outstanding as at a specific date. NAV (diluted) is calculated as total assets less total liabilities divided by the total number of common shares of the Company outstanding as at a specific date, calculated based upon the assumption that all outstanding securities of the Company that are convertible into or exercisable for common shares have been converted or exercised. The term NAV does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. There is no comparable GAAP financial measure presented in Quinsam's financial statements and thus no applicable quantitative reconciliation for such non-GAAP financial measure. The Company believes that the measure provides information useful to its shareholders in understanding our performance and may assist in the evaluation of the Company's business relative to that of its peers.

#### **Disclosure of Internal Controls over Financial Reporting**

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

In contrast to non-venture issuers this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

#### **Caution Regarding Forward-Looking Information**

Certain information contained in this MD&A constitutes forward-looking information, which is information regarding possible events, conditions or results of operations of the Company that is based upon assumptions about future economic conditions and courses of action and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, without limitation, our expectations regarding anticipated investment activities and results, the

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impact of changes in accounting policies and other factors on our operating results, and the performance of global capital markets and interest rates.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risks relating to investment performance and our ability to generate taxable income from operations, our ability to realize sufficient proceeds from the disposition of our investments in order to fund our obligations as they become due (which will be based upon market conditions beyond our control), market fluctuations, fluctuations in prices of commodities underlying our interests and equity investments, the strength of the Canadian, United States (the "US") and other economies, foreign exchange fluctuations, political and economic conditions in the countries in which the interests of the Company's portfolio investments are located, and other risks included elsewhere in this MD&A under the headings "Risk Factors" and "Financial Instruments" and in the Company's current annual information form and other public disclosure documents filed with certain Canadian securities regulatory authorities and available under Quinsam's profile at [www.sedar.com](http://www.sedar.com).

Readers are cautioned that the foregoing lists of factors are not exhaustive. Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking information contained in this MD&A is provided as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

#### **Management's Responsibility for Financial Information**

Management is responsible for all information contained in this MD&A. The audited financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the audited financial statements in all material aspects.

The Audit Committee has reviewed the audited financial statements and this MD&A with management of Aura. The Board of Directors has approved the audited financial statements and this MD&A on the recommendation of the Audit Committee.

#### **Additional Information**

Additional information relating to Quinsam, including its annual management information circular for the Company's most recently completed financial year, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**April 29, 2019**

Roger Dent  
Chief Executive Officer