THE TINLEY BEVERAGE COMPANY INC.

Management's Discussion and Analysis
of Financial Condition and Results of Operations
For the three months ended March 31, 2018

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The following Management's Discussion and Analysis ("MD&A") is current to May 30, 2018 and is management's assessment of the financial position and results of operation together with future prospects of The Tinley Beverage Company Inc. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018, as well as the audited consolidated financial statements for the year ended December 31, 2017. The unaudited condensed interim consolidated financial statements for the period ended March 31, 2018 had been prepared in compliance of International Accounting Standards 34 'Interim Financial Reporting', based on International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise.

This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Tinley's future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to Tinley's activities, including Tinley's press releases can be found on SEDAR at www.sedar.com.

1. Description of Business

The Tinley Beverage Company Inc. (the "Company" or "Tinley") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. On October 6, 2015, the Company completed a change of business to a pure-play cannabis beverage company (as hereinafter defined), and pursuant to the Articles of Amendment dated October 6, 2015, the Company changed its name to "The Tinley Beverage Company Inc.". The address of the Company's registered office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada. The Company's common shares are currently listed on the Canadian Securities Exchange under the trading symbol "TNY" and on the OTCQX® under the trading symbol "TNYBF".

The Company manufactures a line of liquor-inspired, alcohol-free, cannabis-infused beverages for use in California, United States ("US"). The Company also manufactures the "Hemplify" and "Tinley's Tonics" line of products, which are available in retail locations in California and online throughout the US.

As at May 30, 2018, the directors and officers of the Company were:

Jeffrey Maser	Chief Executive Officer and Director
David Berman	Chief Financial Officer
Andrew Stodart	Director
Theodore Zittell	Director
David Ellison	Director

2. Business Overview

Financing Developments

During the three months ended March 31, 2018, the Company issued 100,000 common shares as a result of the exercise of stock options, for cash proceeds of $30,000. All issued shares are fully paid.

During the three months ended March 31, 2018, 2,021,492 common shares were issued as a result of the exercise of warrants for cash proceeds of $505,373. All issued shares are fully paid.

On January 23, 2018, the Company granted 275,000 options to a number of its employees and consultants at an exercise price of $1.20. 200,000 options will expire on January 23, 2020, and 75,000 options will expire on January 23, 2021. The options vest immediately on grant.

On March 5, 2018, the Company's common shares have qualified to trade on the OTCQX® Best Market in the US. The Company's common shares were upgraded to the OTCQX® Best Market from the Pink® Open Market and began trading under the symbol "TNYBF".

On April 6, 2018, the Company closed a brokered private placement of 5,055,000 units at a price of $1.00 per unit, for gross proceeds of $5,055,000. Each unit consists of one (1) common share and one (1) warrant. Each warrant entitles the holder to purchase one common share at a price of $1.35 per common share, for a period of 24 months from closing of the offering. In conjunction of the brokered offering, the Company paid a cash commission of $404,400, and issued 404,400 Agent Unit Options ("Unit Option") exercisable at $1.00 for 24 months following closing which entitle the Agents to acquire one common share and one warrant, exercisable into one common share at $1.35 for a period of 24 months. The Agents also received a corporate finance fee, payable in 202,200 Agents' Fee Units, comprised of one common share and one warrant exercisable at $1.35 for 24 months.

On April 23, 2018, the Company granted 100,000 options to an employee at an exercise price of $0.87. The options will expire on April 23, 2023 and vest over 3 years as follows: 10,000 options vested immediately on grant, and 30,000 options vesting on each anniversary until fully vested.

On April 27, 2018, 35,000 warrants and 20,588 finders' warrants expired unexercised.

On May 11, 2018, the Company granted 150,000 options to its Advisory Board members at an exercise price of $0.72. The options will expire on May 11, 2023, and vest quarterly over 3 years until fully vested.

Business Developments

On January 16, 2017, the Company announced that its wholly-owned subsidiary, Hemplify Inc. had signed with LA Distributing Co. ("LA Distributing") for distribution of its Hemplify products throughout Los Angeles County and Orange County. LA Distributing is a leading wholesale distributor that serves over 2,000 businesses, specializing in identifying healthy and innovative beverages.

On February 14, 2017, the Company began accepting patients for the Tinley Collective ("Collective") which is a Central Organization Cooperation Corporation organized under the California Corporation Code designed to facilitate the association of qualified medical patients for the purpose of collectively procuring medical cannabis for its members, pursuant to Health and Safety Code. Collective provides its members with service pursuant to the Compassionate Use Act and Medical Marijuana Program Act. Tinley has entered into an exclusive contract with Collective to provide management and other services. Collective has also partnered with a collective in San Francisco which serves over 10,000 cannabis patients, to provide cannabis oil for Tinley's products. The Company is now operating under the revised cannabis regulations that came into effect in California on January 1, 2018 and, as a result, is not conducting any operating activities within or on behalf of the Collective.

On February 21, 2017, the Company made an initial shipment of two flavors of the Hemplify hemp-infused beverage to 10 Bristol Farms stores in Los Angeles and Orange County. Bristol Farms is one of Southern California's premier grocery store chains operating in 10 locations with 3 additional stores under the Lazy Acres banner.

On March 28, 2017, the Company retained a California-based consulting firm to grow Tinley's sales and manufacturing functions. The firm provided the scale and expertise needed to manage the Company's growing operations for its cannabis and hemp Cannabidiol ("CBD") beverages. The consulting engagement with this firm has been completed.

On June 21, 2017, the Company launched its creamy chocolate squeeze supplement. This Hemp Extract Squeeze supplement was designed to be mixed with Tinley's cannabis beverages to create chocolate rum and chocolate amaretto desserts and cocktails which would be the first product to be branded under the "Tinley Tonics" banner to be aligned with the Tinley-branded cannabis drinks. Unfortunately, the product was met with limited success and in no longer part of current production plans.

On December 1, 2017, the Company appointed David Berman as its Chief Financial Officer ("CFO"). Mr. Berman brings extensive experience in compliance and mergers and acquisitions for verticals including manufacturing, distribution, retail, mobile marketing and online sales.

On February 13, 2018, the Company entered into two lease agreements commencing March 1, 2018, for a 20,000 square feet facility in Long Beach, California for cannabis beverage production. The Company also announced that the temporary facility in Riverside County where Tinley's products will be manufactured by a licensed facility operator, in the interim, has been issued licenses for medicinal and adult use cannabis manufacturing.

On May 16, 2018, the Company announced that Mark Benadiba and Ben Knight have joined the Company's Advisory Board. Mr. Benadiba and Mr. Knight provide extensive knowledge from their experiences in the cannabis industry, as well as expertise in management and finance.

Retail Growth Strategy

In 2017, the Company announced that it was continuing to implement its retail distribution strategy:

1. The Company received an initial purchase order from luckyvitamin.com, a leading online health and wellness store owned by GNC.
2. Hemplify became available in Sprouts Chula Vista and Eastlake in San Diego County, California and the Company was engaged in discussions to seek further expansion in premium grocery stores.
3. The Company added additional salespeople in Southern California and retained a food brokerage firm in Northern California to expand its coverage of natural good and premium grocery stores throughout the state and Nevada.
4. The Company began a trial with a major convenience store chain and expanded that trial by an additional 25 stores. This brought the total number of stores in this chain to 33.

In February 2018, the Company released Hemplify under updated packaging. The Company also updated the berry flavor and added a lemon-lime flavor. The Company feels that these changes better target the premium, health-oriented consumers that have proven to be the key consumers of the product. The Company also diverted a portion of its sales resources to focus on cannabis dispensaries.

During the transition period, which lasted much of the quarter, the Company invested little in marketing or shelf merchandising. In many cases, the Company did not fill orders of product placed by retailers, instead filling them with the new product as part of the overall transition for all stores.

Development of Tinley'27 Cannabis-infused Beverages

In 2016, the Company began working with a Southern California-based liquor formulator on an initial lineup of cannabis-infused beverages. The initial products included a coconut rum, a cinnamon whisky, an Italian amaretto and a "ready-to-drink" margarita cocktail. All products are alcohol-free however made with the same extracts, essences and flavors as their alcoholic counterparts, and are also infused with high purity THC distillate. This new line of cannabis-infused beverages is being made available for use in jurisdictions where such products are permitted.

The Company had elected to delay production of its cannabis beverages to incorporate certain terpene technology that enables users to enjoy an uplifting, Sativa-like effect, as well as to comply with the significantly revised regulatory requirements for sale of cannabis products in California. This unique approach overcomes a challenge that is often faced by cannabis edibles, which typically deliver a more neutral, Indica-style effect.

The revised formulations enable Tinley's consumers to enjoy an experience that more closely resembles the social and psychoactive effects of alcoholic beverages. This more directly supports the consumer value proposition of the Tinley'27 alcohol-inspired product line. The technology has been successfully incorporated into Tinley's latest formulations, and the Company remains confident that it will go into production in the near future.

Further, in response to the evolving regulations in California, the Company completed a search for a facility in the State to house its interim bottling line. The interim bottling facility is being used to produce and bottle the Company's line of THC infused beverages, Tinley'27 and Tinley Cocktails, until the Company completes a build of its long-term, full-scale bottling plant in Long Beach. The interim bottling facility is also intended for licensing of third-party beverage producers. The interim bottling facility is located in Riverside County, and the facility received its permits for adult use ("recreational") and medicinal marijuana manufacturing in late February 2018. Tinley has entered into a binding agreement with the facility operator for licensing and production of the Company's products.

In April 2018, the facility operator signed a deal with CMX Distribution ("CMX") to carry the Tinley products. CMX is based in Costa Mesa, California, and distributes cannabis products throughout the State via a network of affiliate distributors. CMX is one of the first companies to receive both state and local distribution licenses in a major Southern California metropolitan area.

In April 2018, CMX also took delivery of initial batches of Tinley margarita and coconut rum. The batches were used primarily for product feedback, logistic/supply chain control and verification, and additional forms of structured and lifestyle product testing. In accordance with California cannabis regulations, these initial products must be distributed through licensed distributors, such as CMX and licensed dispensaries, including for the foregoing purposes.

CBD Product Progress

In October 2017, the Company disclosed that its Hemplify CBD product line was accepted for placement at a 14-store premium grocer, representing the Company's largest customer to date. The chain offers a variety of CBD products in locations in Los Angeles and throughout Southern California. The Company has also placed Hemplify in a 4-location natural grocery store and café chain, as well as in numerous independent grocers and convenience stores throughout Los Angeles and Orange Counties. It has also begun a trial with a Texas distributor, representing the Company's first "bricks and mortar" distribution outside California.

In October 2017, the Company also announced that Hemplify was renewed at all its key accounts and continued to add additional retailers. However, the Company noted that sell-through could remain uneven, consistent with most early-stage mainstream products. As a result, the Company leveraged consumer and buyer feedback on Hemplify to incorporate into its next-generation versions of the product. These products included an updated berry product and a new lemon-lime flavor, all launched under significantly updated packaging. The Company completed roll out of these products on shelves in March 2018.

In April 2018, the Company began allocating additional sales resources to placing Hemplify in cannabis dispensaries, in preparation for sales of its cannabis-based products in this channel, as well as due to the significant level of consumer awareness of CBD that exists in this channel.

In recognition of the Company's progression from a development-stage to ongoing production-stage venture, the Company has shifted several functions from outsourced consultants to full-time internal team members, primarily in sales and production functions. This includes the hiring of a full-time, senior production manager in April 2018, who previously served in a similar capacity in a large local brewery.

Long-Term Bottling Facility

In February 2018, the Company announced the signing of a lease for a 20,000 square feet structure in Long Beach, which is situated on 45,000 square feet of land approximately 16 miles from downtown Los Angeles.

The Company intends to retrofit the existing structure to install batching and bottling equipment that is uniquely designed for the needs of cannabis drinks. This equipment will accommodate the solubilization technology and processes that Tinley uses for its cannabis and terpene-infused, liquor-style beverages. The bottling line will also be designed for a variety of bottle, label and closure styles to accommodate future products as well as enable co-packing services for third-party brands that wish to build cannabis-infused versions of their products. The equipment will enable both carbonated and non-carbonated beverages, as well as those that contain perishable ingredients and that require clean-label claims.

Due to the central location of the property, Tinley also intends to use a portion of the building to build a licensed cannabis distributor. This distributor will be equipped to cater to the unique needs of beverage products including refrigeration and large-format packaging. The Company intends to operate the distributor in cooperation with existing local distributors and operators. The facility will also house a beverage R&D and internal testing center to enable continuous product innovation and quality assurance. The Company believes that this lineup of services will enable it to maintain control over all aspects of its supply chain, provide investors with exposure to a broader portfolio of beverage products and offer an end-to-end beverage development solution for third-party brands.

The Company recently completed an engineering session where equipment was identified that can achieve 10 million bottles per year capacity. The retail prices for Tinley's retail products are expected to range from $6 to $30 per bottle. The Company believes that this will provide ample capacity for it to offer co-packing and distribution services to third-party beverage companies to exploit any capacity on the line that is not used for Tinley's own beverages. The Company notes that there can be no assurance that customer demand will require the line to operate at capacity. However, the Company expects the cannabis beverage category to grow significantly and therefore is intending to be positioned to handle this level of demand in the event this product category growth comes to fruition.

The Company will now continue production in its interim bottling facility until the Long Beach facility is retrofitted and permitted for operations in accordance with California state regulations. This process is expected to take up to 12 months.

Territorial Expansion

The Company is pleased with the Canadian Government's recent decision to allow edibles and drinks within one year of the intended launch of recreational cannabis products, expected to occur as early as Summer 2018. As previously announced, the Company has been engaged in discussions with Canadian licensed producers and intends to finalize such agreements such that they can be modelled upon the Company's California operations and experience. The Company remains committed to prioritizing its California operations due to the State's market size and regulatory structure. The Company also views

Nevada as a priority expansion opportunity due to the State's large tourism industry, year-round warm climate and proximity to the Company's California operations.

3. Overall Performance

Selected Annual Information

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

	2017	2016	2015
	$	$	$
Sales	31,095	12,573	-
Operating loss	(2,221,354)	(2,328,587)	(775,795)
Net loss	(2,204,607)	(2,328,587)	(692,778)
Loss per share – basic and diluted	(0.030)	(0.049)	(0.044)
Total assets	4,874,773	4,237,901	1,315,527
Total liabilities	254,617	189,787	51,162
Total shareholders' equity	4,620,156	4,048,114	1,264,365

Selected Quarterly Financial Results

The Company's selected financial information for the eight most recently completed quarters are as follows:

	Q1 2018	Q4 2017	Q3 2017	Q2 2017
	$	$	$	$
Sales	4,027	(35,456)	16,271	34,295
Operating loss	856,226	913,821	469,518	488,416
Net loss	(858,543)	(911,416)	(468,140)	(477,203)
Loss per share – basic and diluted	(0.010)	(0.012)	(0.006)	(0.007)
Working capital	4,540,718	4,579,524	3,369,217	3,941,170

	Q1 2017	Q4 2016	Q3 2016	Q2 2016
	$	$	$	$
Sales	15,985	5,681	6,892	-
Operating loss	349,599	1,443,676	255,834	314,268
Net loss	(347,848)	(1,443,676)	(255,834)	(314,268)
Loss per share – basic and diluted	(0.005)	(0.029)	(0.006)	(0.007)
Working capital	3,903,029	3,885,614	323,282	541,121

Three Months ended March 31, 2018

Results of Operations

During the three months ended March 31, 2018 ("Q1 2018"), the Company generated sales of $4,027, as compared to sales of $15,985 for the three months ended March 31, 2017 ("Q1 2017"). The net decrease in sales is a result of Hemplify generally not being available on shelves for much of the quarter as old products were being replaced with new products. Accordingly, the Company conducted very little marketing and shelf maintenance during this period. The Company is now primarily focused on its cannabis-infused beverages.

During Q1 2018, the Company incurred total operating loss of $856,226, as compared to $349,599 in Q1 2017. The significant increase in operating expenses in the current quarter is primarily due to the increase in stock-based compensation, significant increase in product development (largely for the cannabis-infused beverages) and increased general and administrative costs related to the Long Beach lease, expanded staff and the Company's financing. During the quarter, the Company incurred general and administration expenses of $367,464 in Q1 2018 (Q1 2017 – $128,733) and product development costs of $118,382 (2017 – cost recovery of $11,297). Stock-based compensation of $278,100 (2017 – $83,057) was also recorded in Q1 2018.

Net loss for the three months ended March 31, 2018 was $858,543 ($0.010 per share on a basic and diluted basis), as compared to a net loss of $347,848 ($0.005 per share on a basic and diluted basis) for Q1 2017.

Cash Flows

Net cash used in operating activities for the three months ended March 31, 2018 was $969,896, as compared to net cash flows used in operations of $376,492 in Q1 2017. The higher net cash used in operations is due to deposits on the Long Beach lease, engineering costs related to Long Beach and growth initiatives consistent with the Company's strategy initiated in 2017.

Net cash used in investing activities for the three months ended March 31, 2018 was $23,635 (2017 – $nil), as a result of additions made on equipment required in the operations.

Net cash received from financing activities for the three months ended March 31, 2018 was $535,373, as compared to $282,858 of net cash flows from financing activities in Q1 2017. The financing cash inflows from Q1 2018 comprised of cash proceeds of $505,373 and $30,000 received from various warrants and options exercised during the quarter. This compares to cash proceeds of 264,213 and $18,645 received from exercises of warrants and options, respectively, during Q1 2017.

Working Capital and Liquidity Outlook

As at March 31, 2018, the Company had working capital of $4,540,718, as compared to working capital of $4,579,524 as at December 31, 2017.

As at March 31, 2018, the Company had total accessible cash and cash equivalents and liquid investment assets of $4,259,335 available for working capital and other operational purposes, comprised of $3,140,779 in cash and cash equivalents (December 31, 2017 – $3,584,780) and investments in short-term GICs and fixed-income securities valued at $1,118,556 (December 31, 2017 – $1,113,337). The GICs and the fixed-income securities will mature starting in the second half of 2018 and into 2019 but are cashable at an earlier date if necessary.

As at March 31, 2018, the Company had cash and cash equivalents of $3,140,779 (December 31, 2017 – $3,584,780) to settle current liabilities of $331,160 (December 31, 2017 – $254,617). All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end. Subsequent to March 31, 2018, the following financing activities occurred:

- On April 6, 2018, the Company closed a brokered private placement of 5,055,000 units at a price of $1.00 per unit, for gross proceeds of $5,055,000; and
- The Company issued 369,553 common shares as a result of the exercise of 369,553 warrants for total cash proceeds of $92,388, and 64,995 finders' warrants which were exercised for total cash proceeds of $11,049.

As at May 30, 2018, the Company had approximately $9 million in cash, including cash equivalents and liquid investments.

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.

As a result of the Company's operations in the US, the Company is properly subject to the Staff Notice and accordingly provides the following disclosure:

I. <u>All Issuers with U.S. Marijuana-Related Activities</u>

A. Nature of the Company Involvement in the U.S. Marijuana Industry

The Company will be offering cannabis-infused products within the State of California. Under California law, the Medical and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA") only allows license holders to engage in commercial cannabis activities. A pre-condition to obtaining a California commercial cannabis license is obtaining a valid license, permit, or authorization from a local municipal government. With a local license, permit, or authorization, an applicant can apply for a State temporary license, which will allow the applicant to operate for 120 days. During this time, the applicant may submit an application for an annual license.

At this time, the Company has not applied for a local license, permit, or authorization to conduct any commercial cannabis activities. Therefore, the Company will not be directly engaging in any commercial cannabis activities within the State of California until and if such time as such authorizations are received. The Company's products are currently being produced by a commercial cannabis manufacturer ("Manufacturer") that has obtained all required licenses to conduct commercial cannabis manufacturing in the State of California. The Manufacturer has a license from the local municipality and a temporary state application issued by Department of Public Health Manufactured Cannabis Safety Branch ("DPHMCSB"). The Company has entered into an Intellectual Property Agreement with the Manufacturer, and in accordance with the terms of said agreement, they will be manufacturing the Company's products in accordance with the applicable local and state laws and regulations.

If the Company intends to modify its operations such that commercial cannabis licensure will be required, the Company will provide an updated disclosure associated with the legal and regulatory concerns of such modified operations.

B. Marijuana Illegality

In the US, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 29 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, the Controlled Substances Act (the "CSA") makes it illegal under federal law to manufacture, distribute or dispense marijuana. 21 U.S.C § 801, et seq. Cannabis is categorized as a Schedule I controlled substance under the CSA and as such, violates federal law in the US. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment. Thus, enforcement of relevant laws is a significant risk.

C. Guidance from Federal Authorities

As a result of the conflicting views between state legislatures and the US federal government regarding cannabis, investments in cannabis businesses in the US are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all US district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the US, several US states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain priorities for the Department of Justice ("DOJ") relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that, in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

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

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

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

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

As the Sessions Memorandum demonstrates, the US approach to enforcement of cannabis violations of the CSA can change at any time. While there is some uncertainty at the federal level, on March 23, 2018, the omnibus spending bill signed into law by President Trump included an updated version of the Rohrabacher-Blumenauer amendment, which, as stated above, prohibits the DOJ from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. The amendment applies to medical cannabis but not recreational cannabis and does not change the designation of cannabis as a Schedule I controlled substance under the CSA. This protection is limited to medical cannabis only and the amendment will once again be up for renewal when the bill expires later this year on September 30, 2018.

While there are no explicit federal protections for adult-use commercial cannabis activity, on April 11, 2018, President Trump made a verbal commitment to Republican Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such bipartisan legislation has not yet been finalized, but Senate Garner went on to say, "[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position. ."

D. Related Risks

MAUCRSA establishes a highly regulated system for all commercial cannabis activities in the state of California. This system requires all commercial cannabis activity to be conducted by licensees who are subject to the laws and regulations of the system. At this time, the Company's products are being produced by the Manufacturer, which holds various licenses, including a Type 6 Manufacturing License, which permits it to manufacture the Company's products. The Manufacturer relies on a variety of third-party licensees to obtain ingredients and get the Company's products to authorized consumers. Each and every third-party licensee contracting with the Manufacturer is be subject to the stringent laws and regulations governing cannabis activities in the State of California. In addition to fines, the penalties for non-compliance range from 5-day license suspension to complete revocation of the license. This creates additional risk for the production and sale of the Company's products.

In addition to the risks associated with third-party licensees, there are also general concerns associated operating in the California cannabis industry. Some, but not all of these concerns are set forth below:

1. Banking – Due to federal laws against marijuana, most banks are unwilling to take deposits, issue credit cards, open bank accounts, or assist with payroll services for cannabis businesses. While efforts are underway to address the banking issue, cannabis businesses deal primarily with cash. This presents numerous risks related to security, managing cash flow and the inability to invest funds. The California Board of Equalization allows for cash payments of tax bills at county branches located throughout the state. Nevertheless, cash-related issues continue to present risks for investors. The Company presently maintains accounts at multiple major banks for redundancy.

2. Taxes – Under Internal Revenue Code Section 280E, cannabis businesses are prohibited from deducting their ordinary and necessary business expenses, except for some "costs of goods sold" by cultivators. This results in cannabis enterprises facing much higher federal tax rates than similar companies in other industries. While opinions differ, experts estimate from 40% to 70% as the effective federal tax rate imposed by Section 280E.

3. Food and Drug Administration – The FDA does not permit or allow any statement that cannabis or cannabinoid is intended to treat or cure any disease. Research and scientific studies are underway throughout the U.S.; however, no product may make statements of diagnosis, treatment, or cure for any disease without FDA approval.

4. Product Liability Claims – Insurance law and available products for cannabis operations, and product liability of cannabis, is a major concern for the industry. Investors should be aware that insurance policies may be limited, or claims may be challenged by insurance carriers.

5. Background Checks – California and some local jurisdictions require background checks for management and employees as well as applicants for licenses and permits. Although some cannabis-related convictions are not prohibited for obtaining licensing, convictions for other offenses may cause a delay or make a company ineligible for licensing.

6. License Issuance and Renewals – At this time, the Manufacturer has only obtained a temporary state license. There is no guarantee that the Manufacturer will obtain an annual license. Even if the Manufacturer obtains an annual license, it must be renewed annually and there is no guarantee that such license will be renewed each year.

E. Financing Considerations

Given the illegality of cannabis under US federal law, there is no guarantee that the Company will be able to access both public and private capital. Until now, the Company has been able to rely on public capital to fund continued operations.

F. Operating Exposure

The Company currently has no operations in Canada. All of the Company's cannabis-based operations are located within the State of California. In addition to the Company's cannabis-based operations discussed herein, the Company manufactures and sells a CBD-based beverage. This CBD-based beverage is manufactured and sold within the parameters set forth by the FDA. The Company estimates that approximately Five Percent (5%) of its business will be based on the production and sale of non-cannabis products.

G. Legal Advice, Compliance, and Potential Exposure

The Company is monitoring compliance with California Law on an ongoing basis. The Company has engaged California-based marijuana regulatory compliance counsel, who have substantial experience advising marijuana companies on how to comply with California law. The Company's counsel has been tasked with monitoring California law on an ongoing basis and ensuring that the Company's operations comply with all California marijuana laws. The Company has regularly scheduled calls with compliance counsel to discuss compliance matters. Nevertheless, there is no assurance that the Company or the Manufacturer will be able to maintain or remain in compliance with California or other state laws.

In connection with the Manufacturer's upcoming annual license application, the Company will provide the Manufacturer with Standard Operating Procedures, which shall include internal compliance procedures. While the Company will maintain and update its Standard Operating Procedures, there is no assurance the Company's Standard Operating Procedures will be sufficiently acceptable in the future. Moreover, even if the Manufacturer complies with each and every law and regulation, they may still be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment.

II. Involvement with Cultivation and Distribution

A. U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution

At this time, the Company's involvement in the California Cannabis Industry is limited to the contractual arrangement it has established with the Manufacturer. In addition to conducting manufacturing activities, the Manufacturer also conducts commercial cannabis cultivation. However, the Company is only contracted with the Manufacturer for manufacturing activities. Further, the Manufacturer uses cannabis purchased from third party licensees, rather than cannabis cultivated under its own licenses, to manufacture the Company's products. The Manufacturer is also contracted directly with a licensed cannabis distributor for delivery of the Company's products and does not conduct such distribution services itself. Therefore, the Company does not believe it is subject to the disclosure requirements for "U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution" set forth in the Staff Notice. If the Company's operations change in the future, it will provide the appropriate amended version of this disclosure. In the event the Company is subject to these disclosure requirements, the Company reserves the right to update this document accordingly.

B. U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution

As stated above, the Company has no direct involvement in the cultivation or distribution of cannabis or cannabis products. The Company is only indirectly involved in commercial cannabis manufacturing through the Manufacturer's manufacturing of the Company's products. Therefore, the Company believes that it is not subject to the disclosure requirements for "*U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution"* set forth in the Staff Notice. The Company reserves the right to amend these disclosures in the event that it determines that it is subject to these disclosures.

III. U.S. Marijuana Issuers with Material Ancillary Involvement

A. Reasonable Assurances

The DPHMCSB lists the Manufacturer as a temporary state license holder. Further, the Company has been informed by the Manufacturer's attorney that they are operating in compliance with all applicable laws and regulations. On this basis, the Company is informed and believes that the Manufacturer "is in compliance with applicable licensing requirements and the regulatory framework enacted by [California]."

Note: The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal laws in the states where it conducts operations. As of May 30, 2018, the Company has not received any notices of violation, denial or non-compliance from any US authorities.

The following is the summary of the Company's statements of financial position as at March 31, 2018:

	Subsidiaries (US)	Total
	$	$
Current assets	**561,463**	561,463
Non-current assets	**53,418**	53,418
	614,881	614,881
Current liabilities	**95,481**	95,481
Non-current liabilities	**-**	-
Total liabilities	**95,481**	95,481

The liabilities exclude all liabilities and intercompany transactions between subsidiaries and the Company, as a Canadian parent company.

The following is the summary of operations from US cannabis-related activities for the three months ended March 31, 2018:

	Subsidiaries (US)	Total
	$	$
Revenue	**4,027**	4,027
Cost of goods sold	**(6,344)**	(6,344)
Operating expenses	**(329,644)**	(329,644)
Net loss from operations	**(331,961)**	(331,961)

The operating expenses exclude share-based payments incurred at the corporate office in Canada.

4. Related Party Transactions and Key Management Compensation

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives and non-executive directors, officers and any employees. Compensation provided to key management personnel during the three months ended March 31, 2018 and 2017 were as follows:

	Three months ended	Three months ended March 31, 2017
	$	$
Short-term employee benefits, including salaries and consulting fees	**117,044**	105,488
Share-based compensation	**47,550**	54,557
Professional fees	**-**	4,844
	164,594	164,888

(i) During the three months ended March 31, 2018, the Chief Executive Officer ("CEO") of the Company was paid consulting fees of $39,000 (2017 – $39,000) for services rendered. As at March 31, 2018, an amount of $102,927 (December 31, 2017 – $86,592) owing to the CEO for reimbursement of expenses was included in accounts payable.

(ii) During the three months ended March 31, 2018, the CFO of the Company was paid consulting fees of $16,800 (2017 – $nil) for services rendered. As at March 31, 2018, an amount of $6,328 (December 31, 2017 – $5,630) owing to the CFO for compensation on services rendered was included in accounts payable.

(iii) During the three months ended March 31, 2018, directors considered to be part of key management were paid fees of $61,244 (2017 – $47,063) for services rendered. As at March 31, 2018, $nil (December 31, 2017 – $6,500) of this amount was included in accounts payable.

Other related party transactions

(iv) During the three months ended March 31, 2018, directors received stock-based compensation of $47,550 (2017 – $223,247).

5. Financial Risk Management

Fair value

The carrying amount of cash and cash equivalents, trade receivables, short-term investments and accounts payables on the unaudited condensed interim consolidated statements of financial position approximate their fair value due to the relatively short-term maturity of these financial instruments.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian and US chartered banks and in various liquid guaranteed interestbearing instruments which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2018, the Company had a cash and cash equivalents balance of $3,140,779 (December 31, 2017 – $3,584,780) to settle current liabilities of $331,160 (December 31, 2017 – $254,617).

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at the reporting date.

Foreign currency risk

The Company operates in Canada and the US and is exposed to foreign exchange risk with respect to USD. The Company raises funds in Canadian dollars for its operations in the US. Foreign exchange risk arises on cash and trade payables from operations in the US. The Company believes that its results of operations and cash flows would be affected by a sudden change in foreign exchange rates. The Company mitigates this risk by maintaining sufficient USD-denominated cash to meet its USD-denominated obligations. As at March 31, 2018, the Company has cash and cash equivalents of USD $1,492,174 (December 31, 2017 – USD $505,444) available to use against trade and other payables of USD $97,640 (December 31, 2017 – USD $44,109).

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a 12-month period:

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable that are denominated in USD. As at March 31, 2018, had the Canadian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the impact on the Company's comprehensive loss for the three months ended March 31, 2018 would have been approximately $179,650 higher/lower respectively as a result of foreign exchange gains (losses) on translation of USD-denominated financial instruments.

6. Capital Management

When managing capital, the Company's objective is to ensure it continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the beverage production.

The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

As at December 31, 2017, the Company considers its capital to be share capital, shares to be issued, reserve for warrants, reserve for share-based payments, and accumulated other comprehensive loss, totaling $4,606,636 (December 31, 2016 – $4,048,114).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements and there were no changes in the Company's approach to capital management during the three months ended March 31, 2018 and the year ended December 31, 2017.

7. Summary of Significant Accounting Policies

Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2017 for a detailed description of significant accounting policies.

New accounting standards and recent pronouncements

The Company adopted the following amendments effective January 1, 2018. The amendments were adopted in accordance with the applicable transitional provisions. There was no material impact on the Company's unaudited condensed interim consolidated financial statements:

- IFRS 9 *'Financial Instruments'* ("IFRS 9") was issued by IASB in July 2014 and replaces IAS 39 *'Financial Instruments: Recognition and Measurement'*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value through profit and loss. 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. Final amendments released in July 2014 also introduced a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets.

- IFRS 15 '*Revenue from Contracts with Customers'* ("IFRS 15") was issued by the IASB in May 2014 and replaces IAS 18 *'Revenue'*, IAS 11 *'Construction Contracts'* and some revenue-related interpretations. IFRS 15 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.

At the date of authorization of the unaudited condensed interim consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company had not early adopted:

- IFRS 16 *'Leases'* ("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 recognises 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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

Disclosure of Outstanding Share Data May 30, 2018

	Authorized	**Outstanding**
Voting or equity securities issued and outstanding	Unlimited Common Shares	90,827,034 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 3,435,500 Common Shares of the Company; Warrants to acquire up to 5,661,602 Common Shares of the Company.

Off-Balance Sheet Arrangements

As at March 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.

Commitments

On March 1, 2018, the Company entered into two new lease agreements for a new 19,760 square feet bottling facility in Long Beach, California for cannabis beverage production. The term of the lease is for 5 years and 3 months, ending May 31, 2023, with an option to renew for two (2) additional 36-month periods. Monthly base rent is USD $39,000 and is payable commencing June 1, 2018. In conjunction with the lease, the Company has paid a security deposit of $130,478 (USD $104,000) and advance rents of $146,788 (USD $117,000) covering the period from inception to May 31, 2018.

As at March 31, 2018, the security deposit of $134,098 (USD $104,000) and rent advances of $100,573 (USD $78,000) were included in prepaid expenses on the unaudited condensed interim consolidated statements of financial position.

As at March 31, 2018, the Company is committed to minimum annual lease payments for its bottling facility as follows:

	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
	$	$	$	$	$
Lease obligations	3,017,196	502,866	1,206,878	1,206,878	100,574

Subsequent Events

Subsequent to March 31, 2018, 369,553 common shares were issued as a result of the exercise of 369,553 warrants for total cash proceeds of $92,388, and 64,995 finders' warrants which were exercised for total cash proceeds of $11,049. All issued shares are fully paid.

On April 6, 2018, the Company closed a brokered private placement of 5,055,000 units at a price of $1.00 per unit, for gross proceeds of $5,055,000. Each unit consists of one (1) common share and one (1) warrant. Each warrant entitles the holder to purchase one common share at a price of $1.35 per common share, for a period of 24 months from closing of the offering. In conjunction of the brokered offering, the Company paid a cash commission of $404,400, and issued 404,400 Agent Unit Options ("Unit Option") exercisable at $1.00 for 24 months following closing which entitle the Agents to acquire one common share and one warrant, exercisable into one common share at $1.35 for a period of 24 months. The Agents also received a corporate finance fee, payable in 202,200 Agents' Fee Units, comprised of one common share and one warrant exercisable at $1.35 for 24 months.

On April 23, 2018, the Company granted 100,000 options to an employee at an exercise price of $0.87. The options will expire on April 23, 2023 and vest over 3 years as follows: 10,000 options vested immediately on grant, and 30,000 options vesting on each anniversary until fully vested.

On April 27, 2018, 35,000 warrants and 20,588 finders' warrants expired unexercised.

On May 11, 2018, the Company granted 150,000 options to a number of its Advisory Board members at an exercise price of $0.72. The options will expire on May 11, 2023, and vest quarterly over 3 years until fully vested.

8. 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 materially 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:

Limited operating history in its new area of business

The Company has a limited operating history in its new area of business, is in the early-stage development and must be considered as a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenue. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company also has no history of earnings.

Because the Company has a limited operating history in emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Additional financing

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

Volatile global financial and economic conditions

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

Competition

The beverage industry is highly competitive. The Company will compete with numerous other businesses, many of which possess greater financial and marketing resources than the Company. The beverage business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition and results of operations.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

The products sold by the Company are subject to regulation governing food, dietary supplement, controlled substances and related products

The Company's activities 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 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 the business, results of operations and financial condition of the Company.

While cannabinoids, commonly found in hemp oil, can also be commonly found in certain strains of marijuana, which faces significant restrictions on use and distribution under the United States Controlled Substances Act (the "US CSA"), the Company was not sourcing any derivatives from marijuana as at year end for its hemp products.

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the US CSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the FDA will not regulate the use of hemp oil or components of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of (1994) ("DSHEA") or would otherwise be permitted for use under the DSHEA. The FDA has stated that cannabidiol, a component of hemp oil, is precluded from the definition of a dietary ingredient as it is the subject of an Investigational New Drug application.

On April 19, 2018, the FDA advisory committee unanimously recommended supporting the approval of the new drug application for Epidiolex, a CBD product for the treatment of seizures associated with Lennox-Gastaut syndrome and Dravet syndrome in patients two years of age and older. Upon the approval of Epidiolex, it is possible that FDA may begin taking enforcement action against companies selling CBD products, although it is unknown what actions and when will be taken.

The Company relies on the supply of hemp stalk oil extracts, which is imported into the US from other countries. The United States Drug Enforcement Administration ("DEA") and the US Customs and Border Protection Agency will not permit the entry of hemp extract into the US if it contains any amount of THC which is a marijuana derivative and, therefore, a Schedule I drug. Currently, the definition of "marijuana" in the US CSA does not include the plant's "mature stalks", which are used to create hemp (which only contains trace amounts of THC and has no psychoactive effect). Hemp stalk oil is not scheduled under the US CSA and therefore, is also not under the enforcement authority of the DEA. Currently, the DEA does not take jurisdiction over hemp stalk oil products, but controls hemp cultivation, and companies that wish to cultivate hemp in the US must apply for a permit with the DEA. If in the future DEA takes jurisdiction to regulate hemp stalk oil products, the Company may become subject to additional licensing requirements, which may require additional capital. There is no assurance that the Company will be able to obtain any such licenses, or be eligible to apply for such licenses, which would adversely affect the Company's business.

Products containing cannabis and hemp CBD may currently not be manufactured, distributed or sold in Canada unless such activity is undertaken in accordance with the Access to Cannabis for Medical Purposes Regulations ("ACMPR") or other appropriate regulatory exemptions. The Company is monitoring changes to Canada's regulations with respect to both medical and recreational cannabis and may seek to pursue opportunities to distribute its products in Canada as such regulatory changes permit.

Risks associated with increasing competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations the Company.

Risks inherent in an agricultural business

A part of the Company's business revolves around purchasing hemp extract, an agricultural product, although the Company will not itself grow or sell hemp. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company intends to manufacture its products indoors under climate-controlled conditions, carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, discontinuation of products, adverse impact on the Company's reputation with its clients and consumers generally and could have a material adverse effect on its results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company is establishing procedures to test finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Dependence on suppliers and skilled labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Operating risk and insurance coverage

The Company's insurance coverage is intended to address all material risks to which it is exposed and is adequate and customary in its current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company's shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

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.

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

9. Cautionary Note Regarding Forward Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are 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 suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of the Company to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve the business objectives of the Company, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Internal Control over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

During the three months ended March 31, 2018 and from the most recent year-end, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and CEO, and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the year covered by this MD&A, management of the Corporation, with the participation of the President and CEO, and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and CEO, and CFO, have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and CEO, and CFO, as appropriate to allow timely decisions regarding required disclosure.

10. Management's Responsibility for Financial Information

Management is responsible for all information contained in this report. The unaudited condensed interim consolidated 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 report is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects. Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and assets are safeguarded.

The Audit Committee has reviewed the unaudited condensed interim consolidated financial statements with management. The Board has approved the unaudited condensed interim consolidated financial statements on the recommendation of the Audit Committee.

May 30, 2018

Jeffrey Maser
Chief Executive Officer