

## **EMPOWER CLINICS INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

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## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **For the three and nine months ended September 30, 2019 and 2018**

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The following Management's Discussion and Analysis ("MD&A") for Empower Clinics Inc., together with its wholly owned subsidiaries ("Empower" or "the Company") is prepared as of November 14, 2019, and relates to the financial condition and results of operations for the three and nine months ended September 30, 2019 and 2018. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements ("consolidated financial statements") and related notes for the three and nine months ended September 30, 2019 and 2018, which have been prepared using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS" or "GAAP").

The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The nine months ended September 30, 2019 and 2018 are referred to as "YTD 2019" and "YTD 2018", respectively. The years ended December 31, 2018 and 2017, are also referred to as "fiscal 2018" and "fiscal 2017", respectively. All amounts are presented in United States dollars, the Company's presentation currency, unless otherwise stated. References to "C\$" are to Canadian dollars.

Statements are subject to the risks and uncertainties identified in the "Risks and Uncertainties", and "Cautionary Note Regarding Forward-Looking Statements" sections of this document.

We are publicly traded on the Canadian Securities Exchange ("Exchange") under the symbol "CBDT", quoted on the OTCQX under the symbol "EPWCF" and quoted on the Frankfurt Stock Exchange under the symbol "8EC.F 8EC.MU, 8EC.SG". Continuous disclosure materials are available on our website at [www.empowerclinics.com](http://www.empowerclinics.com), and on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Nature of Operations and Going Concern**

As at September 30, 2019, the Company has an accumulated deficit of \$10,801,288 (December 31, 2018 - \$9,369,941). The Company's operations are mainly funded with debt and equity financing, which is dependent upon many external factors, and thus funds may be difficult to raise when required. Management continues to evaluate the need for additional financing and is of the opinion that additional financing will be available to continue its planned activities in the normal course. Nonetheless, there is no assurance that the Company will be able to raise sufficient funds in the future to complete its planned activities.

The foregoing indicates the existence of a material uncertainty that may cast substantial doubt as to whether the Company would continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

The Company's consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume the realization of assets and discharge of liabilities in the normal course of business. The consolidated financial statements do not give effect to any adjustments that would be necessary should the Company not be able to continue as a going concern. Such adjustments could be material.

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#### **Q3 2019 CONSOLIDATED FINANCIAL HIGHLIGHTS**

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- 5,807 patient visits generating revenue of \$663,003, compared to 1,864 patient visits generating \$279,850 for Q3 2018.
- Net loss of \$504,531 or \$0.00 per share, compared to \$378,657 or \$0.01 per share for Q3 2018.
- Despite the addition of 6 clinics with the acquisition of Sun Valley, operating expenses declined to \$2,343,660, compared to \$2,523,318 for the nine months ended September 30, 2018 due to aggressive headcount cuts and facility changes.
- Cash used in operating activities for the nine months ended September 30, 2019 was \$1,819,670 or \$0.02 per share, compared to \$3,129,583 or \$0.06 per share for the nine months ended September 30, 2018.
- Cash at September 30, 2019 of \$178,578.
- Working capital deficit at September 30, 2019 of \$3,396,730.

#### **Q3 2019 KEY DEVELOPMENTS**

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##### **Focus on CBD Product Sales**

Empower has commenced selling its proprietary line of cannabidiol (“CBD”) based products called SOLLIEVO, *Italian for Relief*, and the Sun Valley Science brand through its network of company-owned clinics in the United States. Empower’s patient base and customers will be able to purchase high margin derivative products, including CBD lotion, tinctures, spectrum oils, capsules, lozenges, patches, e-drinks, topical lotions, gel caps, hemp extract drops and pet elixir hemp extract drops. Patients and customers will be able to access Empower’s home delivery and e-commerce platform through its e-commerce store at <https://www.sunvalleyhealth.com/shop/>

##### **Intention to Launch CBD Extraction Facility**

The Company intends to open a fully functioning hemp-based CBD extraction facility in greater Portland, Oregon in 2019, with the first extraction system expected to have the capacity to produce 6,000 kilograms of extracted product per year. The 5,000 sq. ft. facility in Sandy, Oregon has now been secured through a 5-year lease agreement and preparations are underway to begin licensing and permit requirements to commence operations in 2019. The Company received its hemp-handlers license from the Oregon Department of Agriculture on August 6, 2019 allowing the new next phase of build-out, architectural design and building permit applications to commence.

The Company has entered into a Letter of Intent (“LOI”) to form a Joint Venture Partnership (“JV”) with Heritage Cannabis Holdings Corp (CSE: CANN) (“Heritage”). Terms of the LOI have Empower and Heritage each with a 50% ownership of the JV. Heritage will install extraction units and related downstream extraction equipment inside Empower’s existing licensed hemp processing facility in Sandy, Oregon. In addition, Heritage will train and supervise the staff on the proprietary methods of extraction and oil production that it produces in Canada. The JV will be equally funded by both companies with Heritage investing an initial \$500,000 for start-up funds, as the build out completes and the JV secures high quality hemp supply from local growers.

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Once operational, the JV will begin producing proprietary branded products for Empower's corporately owned physician staffed health clinics in Washington State, Oregon, and Arizona. These clinics include Sun Valley Certification Clinics Holdings LLC ("Sun Valley"), a subsidiary of Empower, which has direct marketing access to over 165,000 patients and growing as Sun Valley expands its franchised network nationwide. The JV intends to promote and potentially produce products and formulations as a result of partnerships that Heritage brings. We intend to manufacture the propriety Sollievo branded products and any new formulations the Company creates in the Sandy, Oregon facility.

#### **Acquisition of Sun Valley Clinics**

Empower has completed the acquisition of the business of Sun Valley, including its interests in certain affiliates, by way of a share acquisition. Sun Valley operates a network of professional medical cannabis and pain management practices, with five clinics in Arizona, one clinic in Las Vegas, a tele-medicine platform serving California, and a fully developed franchise business model for the domestic and international medical cannabis industry.

The current Sun Valley clinic locations are:

- 4218 W Dunlap Ave, Phoenix, AZ
- 12801 W Bell Rd #145, Surprise, AZ
- 4015 E Bell Rd #130, Phoenix, AZ
- 2011 E University Dr, Mesa, AZ
- 7074 E Speedway Blvd, Tucson, AZ
- 2550 S Rainbow Blvd, Las Vegas, NV

The Company is consolidating its clinic operations under one consistent brand by merging the existing clinic operations of Sun Valley in Arizona and Nevada with the existing physical and mobile clinic operations of Empower Clinics in Washington State and Oregon State under the brand of Sun Valley Health with the website [www.sunvalleyhealth.com](http://www.sunvalleyhealth.com).

#### **Franchise Program**

As part of the Sun Valley acquisition, the Company is launching a nationwide Sun Valley Health franchise model allowing for easy and fast nationwide scalability that will increase the distribution of Sollievo and Sun Valley CBD products, to access many more patients and consumers in new and developing markets for the Company. Franchisees will retain rights to specific territories to open and operate Sun Valley Health clinics and sell CBD products in clinics and to local sales regions. Empower receives upfront franchise fees, ongoing clinic royalties, product royalties and ownership of patient database information.

During Q3 2019, the Company launched the nationwide Sun Valley Health franchise program and has received its first signed franchise applications and has sent out preliminary Franchise Disclosure Documents (FDD) to perspective franchise applicants.

#### **CBD Market Demand**

The passing in the United States of the US\$867 billion Agriculture Improvement Act (the "Farm Bill") has legalized hemp and hemp-based products. Recent reports and studies from the Brightfield Group indicate the approval of the Farm Bill could create a US\$23.7 billion industry by 2023.

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#### **Increased Patient Access**

With a rapidly expanding company-owned clinic network and significant expansion opportunity with the successful acquisition of Sun Valley Clinics and the roll-out of the Sun Valley franchise model, Empower anticipates it will grow its total patient list substantially in the years ahead. This is expected to provide greater opportunity for treatment analysis using artificial intelligence (AI) data collection and analysis. The objective is to utilize the current 165,000 patients and data associated with their consultations with our physicians, to potentially begin to determine measurable and quantifiable data on medical cannabis treatment option efficacy.

#### **Market Leading Technology**

Empower utilizes a market-leading patient electronic management and POS system that is HIPAA compliant and provides insight to patient care. The Company supports remote patients using its tele-medicine portal, enabling patients who are unable to come to a location to benefit from a doctor consultation.

### **OVERVIEW OF THE BUSINESS**

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The Company is a British Columbia incorporated Canadian company which operates a growing network of physician-staffed medical certification clinics with a primary focus on enabling patients to improve and protect their health.

The new Empower Clinics is a growth focused, vertically integrated CBD Life Sciences company committed to improving patients' lives with products, technology and health systems, through a network of medical clinics across the US.

It is expected that Empower's proprietary product line "Sollievo" will offer patients a variety of delivery methods of doctor recommended CBD based products in its clinics, online and at major retailers. With over 165,000 patients in its database, an expanding clinic footprint, a focus on new technologies, including tele-medicine, and an expanded product development strategy, Empower is undertaking new growth initiatives to be positioned as a vertically integrated, diverse, market-leading service provider for complex patient requirements in 2019 and beyond.

The Company currently operates 9 physical clinics locations and multiple mobile clinics in the State of Oregon that in combination serve patients across the states of Oregon, Washington, Arizona, Nevada and operates a tele-medicine platform to serve patients in California.

As part of the Sun Valley acquisition, the Company is launching a franchise model allowing for easy and fast nationwide scalability that will increase the distribution of Sollievo, Sun Valley Science CBD products and premium wellness products and supplements, to access many more patients and consumers in new and developing markets for the Company. Franchisees will retain rights to specific territories to open and operate Sun Valley Health clinics and sell CBD products in clinics and to local sales regions. Empower receives upfront franchise fees, ongoing clinic royalties, product royalties and ownership of patient database information.

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The Company owns the proprietary formulations for the Sollievo line of products and the Company intends to invest in developing these formulations to become a market leading hemp-derived CBD based product distributor. Distribution of products will naturally fit into the Company's clinic strategy with the development of retail-like kiosks and professional product display counters in clinics and as a standard feature in franchises nationwide. E-commerce will be an important distribution channel going forward providing patients and general consumers the opportunity to access and purchase Company products online. Sollievo products include lotions and balms, tinctures, gel caps, pain patches and an e-drink, all at various phases of R&D and production.

The Company has developed a proprietary software platform to manage patients through the medical certification process that is a HIPAA compliant Electronic Health Record system and patient management portal. It provides improved management of patients while improving the ability of our doctors, admins and staff to treat and serve patients needs. The tele-medicine platform allows patients to register and select an appointment time to conduct a private consultation with one of our physicians, remotely through a secure video link, thereby extending the reach of our clinic operations beyond the physical clinic. We believe going forward, greater demand for professional consultations will evolve the service offering for Company owned clinics and for franchisees throughout our network.

E-commerce platforms for Sollievo and Sun Valley CBD product lines present a developing opportunity for the Company and our network of future franchise partners. The passing in the United States of the US\$867 billion *Agriculture Improvement Act* has legalized hemp and hemp-based products. Recent reports and studies from the Brightfield Group indicate the approval of the Farm Bill could create a US\$23.7 billion industry by 2023. Online distribution channels supported by strong social media presence, influencer strategies and the ability to reach a wide-array of consumers, will provide the Company new growth opportunities with greater overall brand awareness.

Empower will open its first CBD extraction facility in greater Portland, Oregon. The Company took possession on June 1, 2019 and we are sourcing financing to commence the build-out of a new 5,000 square foot leased building to contain the first operating extraction systems capable of producing up to 20kg per day of high-quality spectrum oil, isolate and/or distillate. The facility is strategically located in the agricultural plains of Mt. Hood, Oregon with over 200 licenced hemp farms in the neighbouring counties. Over time, the facility has the potential to be scaled to add multiple extraction, post-production and product manufacturing systems.

On August 6, 2019, the Company was awarded its hemp-handlers license from the Oregon Department of Agriculture, allowing the Company to move to the next phase of facility build-out and to start extraction operations.

On September 7, 2019, the Company entered into an LOI to form a JV with Heritage. Terms of the LOI have Empower and Heritage each with a 50% ownership of the JV. Heritage will install extraction units and related downstream extraction equipment inside Empower's existing licenced hemp processing facility in Sandy, Oregon. In addition, Heritage will train and supervise the staff on the proprietary methods of extraction and oil production that it produces in Canada. The JV will be equally funded by both companies with Heritage investing an initial \$500,000 for start-up funds, as the build out completes and the JV secures high quality hemp supply from local growers.

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## OUTLOOK

The Company will continue to be active and opportunistic with respect to mergers and acquisitions opportunities, with the goal of advancing its business plan and to increase shareholder value where possible. Additionally, the Company may seek to acquire third-party channel partners to increase its patient base, margin per patient, and to increase shareholder value through these operations and/or assets.

The Company is in active discussions to secure hemp bio-mass supply agreements from licensed producers in Oregon and Arizona with the objectives of locking in raw material supply agreements to support the new extraction facilities.

In addition, the Company is in active discussion with various product brands, brokers and retail sales outlet to secure short and long-term sales contracts to support the revenue growth objectives for our hemp-derived CBD extract and CBD based products.

Currently, the market for both clinics and CBD based products in the United States remains highly fragmented with very few nationwide competitors. The Company seeks to take advantage of this by using its capital-light expenditure model to open franchised clinics, to create highly valuable patient relationships in new markets, further develop a wide-array of CBD formulations and product lines for nationwide distribution and own and operate hemp-derived CBD extraction facilities with the first location secured in Sandy, Oregon, strategically located in the S.W. region of Portland, Oregon surrounded by over 200 hemp farms.

## REVIEW OF QUARTERLY RESULTS

Amounts presented in thousands except per share amounts and patient visits:

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	YTD 2019	YTD 2018
<b>FINANCIAL RESULTS:</b>										
Net revenues	663	591	153	197	280	312	302	291	1,407	894
Income (loss)	(505)	(1,457)	(399)	1,343	(379)	(3,915)	(839)	(815)	(2,360)	(5,133)
Income (loss) per share:										
Basic	(0.00)	(0.01)	(0.01)	0.01	(0.00)	(0.06)	(0.02)	(0.02)	(0.02)	(0.09)
Diluted	(0.00)	(0.01)	(0.01)	0.01	(0.00)	(0.06)	(0.02)	(0.02)	(0.02)	(0.09)
Cash dividends declared	-	-	-	-	-	-	-	-	-	-
Total assets	4,943	5,760	2,417	514	1,546	1,038	1,359	630	4,943	1,546
<b>OPERATING RESULTS:</b>										
Patient visits	5,807	4,299	1,198	1,314	1,864	2,187	2,242	1,893	11,304	6,293

The Company has a limited operating history, which can make it difficult for investors to evaluate the Company's operations. As a result, the prior periods shown in the above table are not necessarily comparable and should not be relied upon as an indication of future performance.

The Company is expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions.

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*Review of Consolidated Financial Information for Q3 2019 compared to Q3 2018*

	<b>Q3 2019</b>	<b>Q3 2018</b>
Clinic revenues	<b>\$ 663,003</b>	\$ 279,850
Direct clinic expenses	<b>(55,397)</b>	(88,956)
Earnings from clinic operations	<b>607,606</b>	190,894
Operating expenses	<b>(1,042,785)</b>	(91,534)
Legal and professional fees	<b>(321,835)</b>	(495,774)
Depreciation and amortization expense	<b>(79,495)</b>	(8,634)
Share-based payments	<b>(7,388)</b>	-
Loss from operations	<b>(843,897)</b>	(405,048)
Accretion expense	<b>(91,432)</b>	-
Interest income	<b>1,905</b>	-
Interest expense	<b>(53,430)</b>	(2,378)
Gain on change in fair value of warrant liability	<b>512,415</b>	-
Gain on change in fair value of conversion option	<b>126,542</b>	-
Restructuring	<b>(169,606)</b>	-
Other expense, net	<b>(12,972)</b>	(28,769)
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (504,531)</b>	<b>\$ (378,657)</b>

Clinic revenues

Revenues were \$663,003, compared to \$279,850 during Q3 2018 as the Company received 5,807 patients spending on average \$114, compared to 1,864 patients spending on average \$150 during Q3 2018. The increase in clinic revenues and patient count is primarily due to the addition of the Sun Valley clinics, beginning May 1, 2019.

The Company receives revenue streams from patient visits to existing clinics throughout the network, and the Company has expanded into CBD product sales and the sale of premium wellness products. The Company expects to expand its revenue streams as the Company patient base grows, as branded CBD products are further rolled out and, the CBD extraction and product production facility becomes fully operational.

Direct clinic expenses

Direct clinic expenses were \$55,397, compared to \$88,956 during Q3 2018. These costs represent physician and clinic support staff expenses that are required to operate the clinics and provide patient consulting services. These expenses declined despite the increase in revenues due to improved operational controls to align labor cost with direct patient consultations. The Company employs a diverse mix of physicians and practitioners.

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#### Operating expenses

Clinic operating expenses were \$976,483, compared to \$91,534 during Q3 2018. Total operating expenses were \$1,042,785 as compared to \$91,534 comprised of:

- Costs of \$66,302 incurred for start-up of Sun Valley Franchising program.
- Compensation expense of \$58,007 in non-cash share-based payments to the CEO as compared to compensation expense of \$nil in non-cash share-based payments to the former CEO during Q3 2018.
- Operating costs related to Sun Valley which was acquired on May 1, 2019.

#### Legal and professional fees

Legal and professional fees were \$321,835, compared to \$495,774 during Q3 2018. The Company expects professional service fees to drop markedly over time as many are related to successful prior litigation or "one time" events such as the fees associated with the RTO that completed in April 2018.

#### Depreciation expense

Depreciation and amortization expense was \$79,495, compared to \$8,634 during Q3 2018. The increase relates primarily to the depreciation on the right-of-use asset resulting from the adoption of IFRS 16 effective January 1, 2019.

#### Share-based payments

Share-based payments expense was \$7,388, compared to \$nil during Q3 2018. The share-based payments expense is the fair value of share options recognized as an expense during the quarter based on the fair value determined by the Black Scholes option pricing model valuation.

#### Accretion expense

Accretion expense was \$91,432, compared to \$nil during Q3 2018, in connection with the Company's convertible debentures. The increase is due to the issuance of convertible debentures during April and May 2019, thereby leading to higher accretion in Q3 2019.

#### Interest income

Interest income increased to \$1,905, compared to \$nil during Q3 2018, owing to the increase in cash.

#### Interest expense

Interest expense increased to \$53,430, compared to \$2,378 during Q3 2018, owing to increased interest expense on the lease liability resulting from the adoption of IFRS 16 effective January 1, 2019.

#### Gain on change in fair value of warrant liability

The Company recorded a gain on the change in the fair value of the warrant liability of \$512,415, compared to \$nil during Q3 2018. The share purchase warrants are required to be revalued at every quarter end and the gain resulted from the decrease in the Company's share price during Q3 2019, which is a variable in determining the fair value of the warrant liability per the Black-Scholes valuation model.



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#### Gain on change in fair value of conversion option

The Company recorded a gain on the change in the fair value of the conversion option of \$126,542, compared to \$nil during Q3 2018. The conversion option is required to be revalued at every quarter end and the gain resulted from the decrease in the Company's share price during Q3 2019, which is a variable in determining the fair value of the conversion option.

#### Restructuring

The Company recorded restructuring expense of \$169,606, compared to \$nil during Q3 2018. The amount relates to a final termination settlement reached with the former CEO and other outgoing employees.

#### Other expense

The Company recorded other expense of \$12,972, compared to \$28,769 during Q3 2018. The amount relates primarily to foreign exchange losses due to the decrease in the US dollar relative to the Canadian dollar during Q3 2018.

#### Review of Consolidated Financial Information for YTD 2019 compared to YTD 2018

	YTD 2019	YTD 2018
Clinic revenues	\$ 1,406,872	\$ 894,477
Direct clinic expenses	(177,560)	(301,392)
Earnings from clinic operations	1,229,312	593,085
Operating expenses	(2,343,660)	(2,523,318)
Legal and professional fees	(755,514)	(850,655)
Depreciation and amortization expense	(197,906)	(43,169)
Share-based payments	(479,508)	(892,417)
Loss from operations	(2,547,276)	(3,716,474)
Listing fee	-	(1,143,660)
Accretion expense	(207,031)	(214,680)
Interest income	4,771	-
Interest expense	(129,089)	(86,803)
Loss on disposal of property and equipment	(114,516)	-
Gain on change in fair value of warrant liability	673,289	-
Gain on change in fair value of conversion option	190,968	-
Restructuring	(169,606)	-
Other expense, net	(61,089)	(28,769)
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (2,359,579)</b>	<b>\$ (5,132,848)</b>

#### Clinic revenues

Revenues were \$1,406,872, compared to \$894,477 during YTD 2018 as the Company received 11,304 patients spending on average \$124, compared to 6,293 patients spending on average \$142 during YTD

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2018. The increase in clinic revenues and patient count is primarily due to the addition of the Sun Valley clinics beginning May 1, 2019.

The Company receives revenue streams from patient visits to existing clinics throughout the network, and the Company has expanded into CBD product sales and the sale of premium wellness products. The Company expects to expand its revenue streams as the Company patient base grows, as branded CBD products are further rolled out and, the CBD extraction and product production facility becomes fully operational.

#### Direct clinic expenses

Direct clinic expenses were \$177,560, compared to \$301,392 during YTD 2018. These costs represent physician and clinic support staff expenses that are required to operate the clinics and provide patient consulting services. These expenses declined despite the increase in revenues due to improved operational controls to align labor cost with direct patient consultations. The Company employs a diverse mix of physicians and practitioners.

#### Operating expenses

Operating expenses were \$2,343,660 compared to \$2,523,318 during YTD 2018 and includes fully burdening the inclusion of the Sun Valley acquisition and Sun Valley Health Franchising start-ups costs. Key items include the following:

- Lower operating costs in Oregon and Washington state as a result of aggressive headcount cuts and facility changes.
- Compensation expense of \$266,856 in non-cash share-based payments to the CEO as compared to compensation expense of \$892,417 in non-cash share-based payments to the former CEO during YTD 2018.
- Lower rent expense due to the adoption of IFRS 16 which resulted in a reclassification of rent expense from operating expenses to depreciation expense and interest expense.

#### Legal and professional fees

Legal and professional fees were \$755,514, compared to \$850,655 during YTD 2018. The Company expects professional service fees to continue to be incurred as growth events are completed such as the Sun Valley Clinics acquisition and the required Business Acquisition Report that was filed, the Company also completed the Sun Valley Health franchise audit, an annual requirement of franchising.

#### Depreciation expense

Depreciation and amortization expense was \$197,906, compared to \$43,169 during YTD 2018. The increase relates primarily to the depreciation on the right-of-use asset resulting from the adoption of IFRS 16 effective January 1, 2019.

#### Share-based payments

Share-based payments expense was \$479,508, compared to \$892,417 during YTD 2018. The share-based payments expense is the fair value of share options recognized as an expense during the year based on the fair valued determined by the Black Scholes option pricing model valuation.

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#### Listing fee

Listing fee expense was \$nil, compared to \$1,143,660 during YTD 2018, in connection with the Company's acquisition with Adira Energy Ltd., which did not result in any charges during YTD 2019.

#### Accretion expense

Accretion expense was \$207,031, compared to \$214,680 during YTD 2018, in connection with the Company's convertible debentures. The decrease is due to conversion of convertible debentures during April 2018 in connection with the Company's acquisition of Adira Energy Ltd., thereby leading to lower accretion in YTD 2019. This decrease was partially offset by the issuance of convertible debentures during April and May 2019, thereby leading to higher accretion in Q3 2019.

#### Interest income

Interest income increased to \$4,771, compared to \$nil during YTD 2018, owing to the increase in cash.

#### Interest expense

Interest expense increased to \$129,089, compared to \$86,803 during Q3 2018, owing to the issuance of convertible debentures during April and May 2019 and increased interest expense on the lease liability resulting from the adoption of IFRS 16 effective January 1, 2019.

#### Loss on disposal of property and equipment

The Company recorded a loss of \$114,516, compared to \$nil during YTD 2018, related to leasehold improvements for the Chicago clinic when the lease was terminated in May 2019.

#### Gain on change in fair value of warrant liability

The Company recorded a gain on the change in the fair value of the warrant liability of \$673,289 compared to \$nil during YTD 2018. The share purchase warrants are required to be revalued at every quarter end and the gain resulted from the decrease in the Company's share price during YTD 2019, which is a variable in determining the fair value of the warrant liability per the Black-Scholes valuation model.

#### Gain on change in fair value of conversion option

The Company recorded a gain on the change in the fair value of the conversion option of \$190,968, compared to \$nil during YTD 2018. The conversion option is required to be revalued at every quarter end and the gain resulted from the decrease in the Company's share price during YTD 2019, which is a variable in determining the fair value of the conversion option.

#### Restructuring

The Company recorded restructuring expense of \$169,606, compared to \$nil during YTD 2018. The amount relates to a final termination settlement reached with the former CEO and other outgoing employees.

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#### Other expense

The Company recorded other expense of \$61,089, compared to \$28,769 during YTD 2018. The amount relates primarily to foreign exchange losses due to the decrease in the US dollar relative to the Canadian dollar during YTD 2018.

## **LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES**

### **Liquidity**

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations. The Company's strategy for managing liquidity is based on achieving positive cash flows from operations to internally fund operating and capital requirements.

Factors that may affect the Company's liquidity are continuously monitored. These factors include the number of patient visits, average patient spend per visit, operating costs, capital costs, income tax refunds, foreign currency fluctuations, seasonality, market immaturity and a highly fluid environment related to state and federal law passage and regulations.

In the event that the Company is adversely affected by any of these factors and, as a result, the operating cash flows are not sufficient to meet the Company's working capital requirements there is no guarantee that the Company would be able to raise additional capital on acceptable terms to fund a potential cash shortfall. Consequently, the Company is subject to liquidity risk.

The Company will need to procure additional financing in order to fund its ongoing operation. The Company intends to obtain such financing through equity financing, and there can be no assurance that the Company can raise the required capital it needs to build and expand as expected, nor that the capital markets will fund the business of the Company. Without this additional financing, the Company may be unable to achieve positive cash flow and earnings as quickly as anticipated, these uncertainties cast a significant doubt about the Company's ability to continue as a going concern.

At September 30, 2019, the Company had a working capital deficit of \$3,396,730, as follows:

<i>As at</i>	<b>September 30, 2019</b>	December 31, 2018
Cash	\$ 178,578	\$ 157,668
Accounts receivable	67,300	-
Prepaid expenses	71,667	29,475
Total Current Assets	<b>317,545</b>	187,143
Accounts payable and accrued liabilities	<b>1,262,106</b>	1,554,892
Share subscriptions	-	61,167
Notes payable	<b>767,085</b>	610,444
Due to related parties	-	12,575
Convertible debentures payable	<b>724,705</b>	274,466
Secured loan payable	<b>750,307</b>	717,460
Current portion of lease liability	<b>210,072</b>	-
Total Current Liabilities	<b>3,714,275</b>	3,231,004
Working Capital	\$ <b>(3,396,730)</b>	\$ (3,043,861)

## EMPOWER CLINICS INC.

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

#### Cash Flow

		YTD 2019		YTD 2018
Net cash used in operating activities	\$	(1,819,670)	\$	(3,129,583)
Net cash used in investing activities		(629,636)		(100,227)
Net cash provided by financing activities		2,470,216		3,509,602
Increase in cash	\$	20,910	\$	279,792

#### Review of cash flow YTD 2019 compared to YTD 2018:

Cash used in operating activities was \$1,819,670, compared to \$3,129,583 during YTD 2018:

- Net loss was \$2,359,579, compared to \$5,132,848. Included in net loss are non-cash items of \$876,701 for YTD 2019 as compared to \$2,932,197 for YTD 2018.
- Movements in accounts receivables decreased cash by \$66,934, compared to increasing cash by \$10,541 during YTD 2018.
- Movements in prepaid expenses decreased cash by \$22,439, compared to decreasing cash by \$589,463 during YTD 2018.
- Movements in accounts payable and accrued liabilities decreased cash by \$247,419, compared to decreasing cash by \$350,010 during YTD 2018.

Cash used in investing activities was \$629,636, compared to \$100,227 during YTD 2018, as a result of cash spend on the acquisition of Sun Valley.

Cash provided by financing activities was \$2,470,216, compared to cash provided by financing activities of \$3,509,602 during YTD 2018:

- Common shares issued for cash increased cash by \$1,825,214, compared to \$2,801,996 during YTD 2018.
- Advances from convertible debentures increased cash by \$717,851, compared to \$373,504 during YTD 2018.
- Cash acquired in the acquisition of Sun Valley increased cash by \$94,090, compared to \$nil during YTD 2018 related to the acquisition of Adira Energy Ltd.
- Advances from notes payable increased cash by \$33,842, compared to \$345,000 during YTD 2018.
- Share issue costs decreased cash by \$70,097 compared to \$nil during YTD 2018.
- Payment of lease liability decreased cash by \$136,156 resulting from the adoption of IFRS 16 effective January 1, 2019.

## EMPOWER CLINICS INC.

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

#### Capital Resources

The capital of the Company consists of consolidated equity, notes payable, convertible debentures and secured loan payable, net of cash.

<i>As at</i>		<b>September 30, 2019</b>		December 31, 2018
Equity	\$	<b>213,713</b>	\$	(2,996,220)
Notes payable		<b>767,085</b>		760,715
Convertible debentures		<b>724,705</b>		274,466
Secured loan payable		<b>750,307</b>		717,460
		<b>(2,455,810)</b>		(1,243,579)
Less: cash		<b>(178,578)</b>		(157,668)
	\$	<b>(2,634,388)</b>	\$	(1,401,247)

The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. The Company's board of directors identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated.

The Company's objectives when managing capital are to pursue and complete the identification and evaluation of assets, properties or businesses with a view to acquisition. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares or adjust the amount of cash.

The Company's investment policy is to invest excess cash in investment instruments at high credit, quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

#### OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations or arrangements with respect to any obligations under a variable interest equity arrangement.

#### RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

The Company's related parties include key management personnel and any transactions with such parties for goods and/or services that are made on regular commercial terms. During the three and nine months ended September 30, 2019 and 2018, the Company did not enter into any transactions with related parties outside of compensation to key management personnel as disclosed below.

## EMPOWER CLINICS INC.

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

Key management are those personnel having the authority and responsibility for planning, directing, and controlling the Company. Salaries and benefits, bonuses, and termination benefits are included in operating expenses and share-based payments are recorded as share-based payment expense or share capital.

Key management compensation includes:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Salaries and benefits	\$ 143,767	\$ -	\$ 465,113	\$ 50,000
Share-based payments	-	-	472,120	891,417
	\$ 143,767	\$ -	\$ 922,273	\$ 942,417

Included in salaries and benefits for the three and nine months ended September 30, 2019 is share based compensation of \$58,007 and \$266,853 (three and nine months ended September 30, 2018 - \$nil and \$892,417) related to common shares awarded to the CEO.

As at September 30, 2019, \$nil (December 31, 2018 - \$12,575) is due to related parties for final settlement of the purchase of Presto operations. Following the dismissal of legal actions with the former President and director of its subsidiary companies, as disclosed in the December 31, 2018 annual audited consolidated financial statements, the Company determined that there is no longer an obligation with respect to the final settlement and as such, the amount has been credited to operations expense. The outstanding balance was non-interest bearing, unsecured and due on demand.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of September 30, 2019. The Company's significant accounting policies are described in note 3 of the Company's consolidated financial statements for the years ended December 31, 2018 and 2017 and note 3 to the September 30, 2019 unaudited condensed interim consolidated financial statements.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised. Management has made the following critical judgements and estimates:

#### **Critical judgements in applying accounting policies**

Critical judgements made by management in applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

## **EMPOWER CLINICS INC.**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

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#### Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the US dollar. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

#### Assessment of indicators of impairment

At the end of each reporting period, the Company assesses whether there are any indicators, from external and internal sources of information, that an asset or cash generating unit ("CGU") may be impaired, thereby requiring adjustment to the carrying value. The Company identified the sustained decrease in market capitalization as an indicator of impairment during the period ended September 30, 2019.

As a result of these impairment indicators, the Company assessed the intangible assets and assets held for sale CGUs for impairment and concluded the recoverable value of each CGU was greater than its carrying value and no impairment was required.

#### Revenue recognition as a result of adopting IFRS 15

##### *Determination of performance obligations*

The Company applied judgement to determine if a good or service that is promised to a customer is distinct based on whether the customer can benefit from the good or service on its own or together with other readily available resources and whether the good or service is separately identifiable. Based on these criteria, the Company determined the primary performance obligation relating to its sales contracts is the delivery of service to its patients.

##### *Transfer of control*

Judgement is required to determine when transfer of control occurs relating to the sale of the Company's services to its patients. Management based its assessment on a number of indicators of control, which include, but are not limited to whether the Company has present right of payment, and whether the physical possession of the goods, significant risks and rewards and legal title have been transferred to the customer.

#### **Key sources of estimation uncertainty**

Significant assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period that may result in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

#### Current and deferred taxes

The Company's provision for income taxes is estimated based on the expected annual effective tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences. Changes to the expected annual effective tax rate and differences between the

actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company's provision for income taxes in the period changes are made and/or differences are identified.



## **EMPOWER CLINICS INC.**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

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In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on patient visits are internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles.

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

#### Equity-settled share-based payments

Share-based payments are measured at fair value. Options and warrants are measured using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and are expensed to earnings or loss from operations over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

#### Contingencies

Due to the nature of the Company's operations, various legal and tax matters can arise from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements for the period in which such changes occur.

## **CHANGES IN ACCOUNTING STANDARDS**

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The accounting policies applied in the preparation of the Company's annual consolidated financial statements for the years ended December 31, 2018 and 2017, are consistent with new standards and amendments to standards, except for the following:

#### Shares held in escrow

The Company has issued common shares held in escrow as a part of a compensation arrangement. The fair value of the escrowed shares is recognized as compensation expense with a corresponding credit to reserves, as the common shares vest. Upon release from escrow, the amounts previously recognized in reserves are recorded as an increase to share capital. The Company revises its estimated period over which the compensation expense is recorded if subsequent information indicates this period differs from previous estimates. Any change is accounted for prospectively as a change in estimate.

## EMPOWER CLINICS INC.

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

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#### Leases

The Company adopted IFRS 16 using the modified retrospective approach on January 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 - *Leases* and IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*.

On transition, the Company elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as lease under IAS 17. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), lease contracts for which the underlying asset is of low value (low-value assets). The transition and impact are further disclosed in note 3 to the September 30, 2019 unaudited condensed interim consolidated financial statements.

#### **OUTSTANDING SHARE DATA**

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The authorized capital of the Company consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at the date of this MD&A:

Type of Security	Number Outstanding
Common Shares	137,697,430
Stock Options	10,450,000
Warrants	48,342,142

#### **RISKS AND UNCERTAINTIES**

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For a detailed listing of the risk factors faced by the Company, please refer to the Company's MD&A for the year ended December 31, 2018.

#### **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

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This MD&A contains certain information that may constitute "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking statements**") which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as "expect," "likely", "may," "will," "should," "intend," or "anticipate", "potential", "proposed", "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The forward-looking statements included in this MD&A are made only as of the date of this MD&A.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- licensing risks;
- regulatory risks;
- change in laws, regulations and guidelines;
- market risks;
- expansion of facilities;
- history of net losses; and
- competition.

## **EMPOWER CLINICS INC.**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

(In United States dollars, except where noted)

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Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the medical cannabis industry and the general expectations of the Company concerning the medical cannabis industry and concerning the Company are based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believe to be reasonable. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third party information.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this MD&A under "*Business Overview*" as well as statements regarding the Company's objectives, plans and goals, including future operating results, economic performance and patient acquisition efforts may make reference to or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. See "Risk Factors" for further details. The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. You should not place undue reliance on forward-looking statements contained in this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.