

**Omni Commerce Corp.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the three and nine months ended January 31, 2020**  
**(Expressed in Canadian Dollars)**

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**March 25, 2020**

*This Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Omni Commerce Corp. ("Omni" or the "Company") for the three and nine months ended January 31, 2020 and all other material events up to the date of this report. The following discussion should be read in conjunction with the Company's January 31, 2020 condensed interim consolidated financial statements and related notes and the April 30, 2019 annual audited consolidated financial statements and related notes. Omni's public disclosure documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).*

*The financial data included in the discussion provided in this report has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"). All dollar amounts are in Canadian dollars, unless otherwise noted.*

*The Company's certifying officers are responsible for ensuring that the condensed unaudited interim consolidated financial statements and MD&A do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company's officers certify that the unaudited condensed interim consolidated financial statements and MD&A fairly present, in all material respects, the financial condition, results of operations and cash flows, of the Company as the date hereof.*

## **OVERVIEW**

### ***Dreamfields Transaction***

On September 18, 2019, the Company entered into a definitive transaction agreement (the "Dreamfields Definitive Agreement") with Dreamfields Brands, Inc. ("Dreamfields"), a California-based vertically-integrated cannabis manufacturing, distribution, branding, sales and events company. The Dreamfields Definitive Agreement provides that, subject to the satisfaction of certain conditions precedent, including applicable regulatory and stock exchange approvals, at the Effective Time (as defined below) and concurrently with the Dreamfields Merger (as defined below), the securityholders of Dreamfields will exchange their Dreamfields Shares (as defined below) for Proportionate Voting Shares (as defined below) or Subordinate Voting Shares (as defined below), as applicable, resulting in the reverse takeover of the Company by Dreamfields (the "Reverse Takeover"), pursuant to which the business of Dreamfields will become the business of the Company (the "Change of Business"). The Reverse Takeover will represent the Company's entry into the cannabidiol (CBD) and cannabis sectors. In connection with the Reverse Takeover, the Company is expected to change its name to "Dreamfields Brands, Inc.", or such other name as determined by Dreamfields and that is acceptable to the regulatory authorities (the "Name Change"), and make application to the Canadian Securities Exchange (the "CSE") for the listing thereon of the Subordinate Voting Shares (the "Relisting").

### ***The Reverse Takeover***

Pursuant to the terms of the Dreamfields Definitive Agreement, at the time of the filing with the Secretary of State of the State of California of an agreement of merger between a wholly-owned California subsidiary of the Company ("Omni Subco") and Dreamfields (the "Effective Time"), Omni Subco will merge with and into Dreamfields (the "Dreamfields Merger"), with Dreamfields continuing as the surviving corporation governed by the Laws of the State of California as a wholly-owned subsidiary of the Company. In connection with the Dreamfields Merger, each share in the common stock of Dreamfields (each, a "Dreamfields Share"), other than those Dreamfields Shares held by a shareholder who demands and perfects dissenters' rights for such Dreamfields Shares, will be converted into and become a right to receive 0.1516 of a Proportionate Voting Share, provided that all Canadian and any other non-U.S. securityholders of Dreamfields will exchange each of their Dreamfields Shares for one (1) Subordinate Voting Share.

The closing of the Reverse Takeover (the "Closing") was anticipated to occur in Q4 of 2019, and is subject to the satisfaction of various conditions precedent prior to the Effective Time, including: (i) the Company effecting the Consolidation (as defined below); (ii) the Company completing the Share Structure Amendment (as defined below); (iii) the Company effecting the Name Change; (iv) Dreamfields completing the acquisition of all of the securities of DF Holdings Group LLC ("DF Holdings"); (v) Dreamfields delivering to the Company financial statements for each of Dreamfields and DF Holdings; (vi) the reconstitution of management and the board of directors of the Company (the "Omni Board"); and (vii) the Company and Dreamfields obtaining all necessary consents, approvals and other authorizations of any regulatory authorities, shareholders or third parties required for the transactions contemplated by the Dreamfields Definitive Agreement, including, but not limited to, the approval of the TSX Venture Exchange

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(the "TSX-V") and the majority of the Company's minority shareholders for the delisting (the "Delisting") of its common shares (each, an "Omni Common Share"), the CSE for the Relisting, and the approval of the Company's shareholders, the Omni Board and the necessary corporate approvals of Dreamfields, as applicable, for various matters relating to the Reverse Takeover and Change of Business.

On January 30, 2020, the parties entered into a second amending agreement to further extend the Outside Date from January 31, 2020 to February 7, 2020. All other terms of the Transaction Agreement remain in full force and effect.

On February 18, 2020, the parties further extended the Outside date to March 13, 2020. The Transaction Agreement has been amended to provide that Dreamfields will pay a break fee to the Company in the amount of USD \$50,000 if Dreamfields terminates the Transaction Agreement prior to delivering the requisite financial statements to Omni. The break fee will become mutual after Dreamfields has delivered the requisite financial statements to the Company, such that the break fee will be payable by whichever party terminates the Transaction Agreement due to the closing of the transaction not having occurred on or before the Outside Date. All other terms of the Transaction Agreement remain in full force and effect.

The Company further amended the Outside date from March 13, 2020 to April 10, 2020. The amendments to the Transaction Agreement were effected by way of a fourth amending agreement to the Transaction Agreement. The Transaction Agreement has also been amended to reflect that the break fee has been increased from USD \$50,000 to USD \$100,000 (the "Break Fee"). The Break Fee is payable by Dreamfields if it terminates the Transaction Agreement prior to delivering the requisite financial statements to the Company, or by either party if, after Dreamfields has delivered the requisite financial statements to the Company, such party terminates the Transaction Agreement due to the closing of the transaction not having occurred on or before the Outside Date. All other terms of the Transaction Agreement remain in full force and effect.

Subject to applicable regulatory and stock exchange approvals, finder's fees will be payable upon Closing to Star Jasmine LLC, an arm's length finder, in the amount of 1,000,000 post-Consolidation Omni Common Shares, as exchanged for Subordinate Voting Shares (the "Finder's Shares"). The Finder's Shares will be subject to the applicable statutory hold period in Canada and such additional restrictions on transfer as determined by the regulatory body, Omni or Dreamfields.

### ***Consolidation***

Prior to the Effective Time, Omni will complete a consolidation of the Omni Common Shares on the basis of one (1) post-consolidation Omni Common Share for each five (5) pre-consolidation Omni Common Shares (the "Consolidation"). As there are presently 40,443,657 Omni Common Shares outstanding, there are expected to be approximately 8,088,731 Omni Common Shares outstanding following the completion of the Consolidation, but prior to giving effect to the completion of the Reverse Takeover and the Share Structure Amendment.

### ***Name Change and Share Structure Amendment***

In connection with the Reverse Takeover, the Company will also effect the Name Change and amend its articles and notice of articles (the "Share Structure Amendment") to: (i) amend the terms of the existing Omni Common Shares such that they will be reclassified as Class A Subordinate Voting Shares (each, a "Subordinate Voting Share"), each of which Subordinate Voting Shares will entitle the holder to one (1) vote; and (ii) create a new class of shares consisting of an unlimited number of Class B Proportionate Voting Shares (each, a "Proportionate Voting Share"), each of which Proportionate Voting Shares will entitle the holder to 6.5952 votes and be convertible into 6.5952 Subordinate Voting Shares, all in accordance with the terms of the Dreamfields Definitive Agreement. Following Closing, it is estimated that an aggregate of 24,588,731 Subordinate Voting Shares and 10,538,028 Proportionate Voting Shares will be issued and outstanding.

### ***Shareholder meeting***

At the Company's 2019 annual and special meeting of shareholders (the "Meeting") held on Thursday, November 28, 2019 in Vancouver, British Columbia. All resolutions proposed and voted on at the Meeting, as set out in the

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Company's notice of meeting and management information circular, dated October 28, 2019, were approved and passed by shareholders. Holders of 6,908,390 common shares (representing approximately 17.08% of the outstanding common shares of the Company) were present in person or by proxy and voted at the Meeting.

On December 2, 2019, shareholders approved resolutions:

- approving a new omnibus incentive plan (the "New Incentive Plan");
- authorizing and approving the delisting (the "Delisting") of the Company's common shares from the TSX Venture Exchange (the "TSXV"); and
- authorizing and approving an amendment (the "Share Structure Amendment") of the notice of articles and articles of the Company to amend the rights and restrictions of the existing class of common shares and re-designating such class as "Class A subordinate voting shares", and to create a new class of "Class B proportionate voting shares".

The resolution approving the Delisting was approved by a majority of the minority of shareholders of the Company. Notwithstanding the approval of the New Incentive Plan, the Delisting and the Share Structure Amendment by shareholders of the Company, the board of directors of the Company may, without any further notice or approval of the shareholders of the Company, decide not to proceed with the adoption of the New Incentive Plan, the Delisting or the Share Structure Amendment.

The Company will now work with Dreamfields to close the Dreamfields Transaction, the next steps in which include, the application to the TSXV to complete the Delisting, the application to the Canadian Securities Exchange for the relisting of Company's shares thereon, the consolidation of the Company's issued and outstanding common shares on a 5:1 basis, and the closing of the merger between a wholly-owned California subsidiary of the Company and Dreamfields, resulting in the reverse takeover of Omni by Dreamfields.

## **CHANGES TO THE BOARD OF DIRECTORS**

On September 6, 2019, the Company appointed Michael Hopkinson to the board of directors of the Company. Mr. Hopkinson is a US licensed CPA in the state of New Hampshire with over 20 years of US tax and public company experience. Having spent over 11 years working primarily for the accounting industry's Big 4, Mr. Hopkinson's experience has been extensive in the mining, pharmaceutical and real estate business sectors. In the Cannabis sector Mr. Hopkinson currently serves and has served as Chief Financial Officer (CFO) for 1933 Industries Ltd. (August, 2015 to November, 2018) and The Weekend Unlimited Inc. (September, 2018 to present).

On October 29, 2019, the Company appointed Peter M. Clausi to the board of directors of the Company. Mr. Clausi, B.A., J.D., is an experienced lawyer, investment banker, shareholder rights activist and public company executive. He is currently the Chief Executive Officer of GTA Financecorp Inc. (formerly, GTA Resources and Mining Inc.), Chief Executive Officer of CBLT Inc. (cobalt, gold and copper across Canada), an independent director and audit committee member of Camrova Resources Inc. (minority interest in producing copper and cobalt mine in Mexico) and an independent director of Searchlight Resources Inc. (polymetallic properties mostly in Saskatchewan and Ontario). Mr. Clausi has also been a guest lecturer at three Ontario MBA programs, and was an instructor at the Law Society of Upper Canada's bar admission course for over 10 years. On December 20, 2019, the Company appointed Peter M. Clausi as the interim Chief Executive Officer and President of the Company.

On February 24, 2020, the Company appointed John Veltheer to the board of directors of the Company, effective immediately. John has extensive experience in expediting reverse takeovers on Canadian stock exchanges. Having spearheaded the listings of Enthusiast Gaming Holdings Inc. (TSX: EGLX) and Sixth Wave Innovations Inc. (CSE: SIXW) in the last 6 months, his experience will be valuable in helping Omni and Dreamfields Brands, Inc. complete their anticipated reverse takeover in a timely fashion. Mr. Veltheer is a lifetime entrepreneur and has been involved at the board of director level of numerous start-up companies. A generalist with highly effective management skills that focus on leading by example, clear communication and delegation.

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On March 16, 2020, the Company appointed Alex McAulay to the board of directors of the Company, effective immediately. Mr. McAulay CPA, CA is an entrepreneur and experienced public-company CFO and director. Mr. McAulay's company, ACM Management Inc., is focused on providing fractional CFO services and regulatory guidance to public companies in Canada and the US. Alex has served as the CFO of several listed companies and has assisted many issuers in navigating the public markets.

On December 20, 2019, the Company announced the resignation of Anthony Srdanovic as the Chief Executive Officer, Chairman of the board of directors and a director of the Company.

### **GOING CONCERN**

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and settle its obligations in the normal course of business. During the nine months ended January 31, 2020, the Company incurred a net loss of \$1,375,670 (2019 - \$1,236,898) and as at January 31, 2020, had an accumulated deficit of \$15,998,046 (April 30, 2019 - \$14,622,376). As at January 31, 2020, the Company has working capital of \$1,405,727 (April 30, 2019 - \$2,134,282). The Company has not generated significant cash inflows from operations and pursuant to the decision to exit the luxury branded goods business, no longer has any revenue generating operations. These conditions cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate profitability and positive cash flow. These consolidated financial statements do not give effect to the adjustments that would be necessary should the Company be unable to continue as a going concern and to realize its assets and liquidate its liabilities and commitments at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

### **FINANCIAL AND OPERATIONAL HIGHLIGHTS**

For the three and nine months ended January 31, 2020, the Company recognized a net loss of \$186,483 and \$1,375,670, respectively, compared to net losses of \$546,156 and \$1,236,898 for the three and nine months ended in 2019. The increase in loss for the nine months can be attributed to share-based compensation expense of \$634,826 recorded in the current period which was not incurred in the previous periods netted by a reduction in costs as the Company has identified a suitable transaction with Dreamfields and is working to close this transaction and is not incurring advisory costs in pursuit of a transaction as in the previous year. This reduction in expenses is seen in the decrease in the comparative three month period.

For the three and nine months ended January 31, 2020, consulting fees were \$47,140 and \$148,640, respectively, compared to \$232,000 and \$595,172 for the three and nine months ended in 2019. The decrease due to a reduction in advisory costs as the Company has identified a suitable transaction with Dreamfields and is working to close this transaction.

For the three and nine months ended January 31, 2020, management fees were \$32,500 and \$92,500, respectively, compared to \$nil for the three and nine months ended in 2019. The increase from the prior period is attributed to a classifying management fees separately from consulting fees in the current period. The total management fees and consulting fees are lower in the current period.

For the three and nine months ended January 31, 2020, marketing expenses were \$509 and \$2,442 respectively, compared to \$4,058 and \$26,686, for the three and nine months ended in 2019. The decrease from the prior period can be attributed to a reduction in the marketing efforts as the Company was halted and was going through the process of identifying a suitable transaction.

For the three and nine months ended January 31, 2020, office and miscellaneous expenses were \$17,097 and \$36,631, respectively, compared to \$50,970 and \$134,193, for the three and nine months ended in 2019. The decrease from the prior period can be attributed to a reduction in office space as the Company downsized to reduce costs.

For the three and nine months ended January 31, 2020, professional fees were \$170,723 and \$538,693, respectively,

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compared to \$43,260 and \$230,803, for the three and nine months ended in 2019. Professional fees are attributed to legal work necessary to transition the Company from the TSX-V to the CSE and for legal work regarding finalizing the Dreamfields transaction.

For the three and nine months ended January 31, 2020, lease amortization expense was \$nil and \$16,428, respectively compared to \$nil for the three and nine months ended in 2019. With the adoption of IFRS 16 leases, the company now capitalizes their lease obligations and recognizes an asset which is amortized into the statement of loss and comprehensive loss. On November 1, 2019, the Company entered into a sub-lease agreement where another party took on the lease obligation and recorded a gain on sub-lease of \$3,929.

During the three and nine months ended January 31, 2020, the Company recorded stock-based compensation of \$nil and \$634,826 respectively, related to options issued during the period.

For the three and nine months ended January 31, 2020, transfer agent and regulatory fees were \$5,74 and \$27,751, respectively, compared to \$3,342 and \$18,506 for the three and nine months ended in 2019. The increase was due to the costs related to delisting on the TSX-V and applying to the CSE exchange.

For the three and nine months ended January 31, 2020, travel and accommodation expense was \$4,622 and \$10,907, respectively, compared to \$14,281 and \$52,844 for the three and nine months ended in 2019. The decreased costs over the prior period can be attributed to less activities associated with finding a suitable target company to complete a reverse takeover with as the target has already been identified in the current period.

During the three and nine months ended January 31, 2020, the Company recorded a gain of \$343 and a loss of \$857 related to the mark-to-market losses on its marketable securities.

During the nine months ended January 31, 2020, the Company reversed \$50,000 in bad debt provisions recognized in the prior year as the Company renegotiated the overdue loan receivable. For the nine months ended January 31, 2020, the Company recorded \$4,195 in interest income.

During the three and nine months ended January 31, 2020, the Company recorded a gain of \$87,290 and \$87,290, respectively, in other income related to recovery of expenses and gain on settlement of accounts payable.

## QUARTERLY RESULTS

Selected financial information for the eight most recently completed quarters are as follows:

|                  | Revenue     | Earnings/<br>(Loss) | Basic and Diluted<br>Loss/Share |
|------------------|-------------|---------------------|---------------------------------|
| January 31, 2020 | \$ -        | \$ (186,483)        | \$ (0.00)                       |
| October 31, 2019 | \$ -        | \$ (1,030,483)      | \$ (0.03)                       |
| July 31, 2019    | \$ -        | \$ (168,861)        | \$ (0.00)                       |
| April 30, 2019   | \$ -        | \$ (489,729)        | \$ (0.01)                       |
| January 31, 2019 | \$ -        | \$ (546,156)        | \$ (0.01)                       |
| October 31, 2018 | \$ -        | \$ (330,713)        | \$ (0.01)                       |
| July 31, 2018    | \$ -        | \$ (360,029)        | \$ (0.01)                       |
| April 30, 2018   | \$ (14,054) | \$ (2,156,897)      | \$ (0.08)                       |

Omni has seen fluctuating revenues over the last eight quarters; this is a result of the Company undergoing a refocus of its core business and as such, historical financial information are not comparable on a quarter-to-quarter basis.

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## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's primary source of funding continues to be through the issuance of equity securities for cash. The Company's access to financing is always uncertain.

In order to finance the acquisition of assets or a business and to fund corporate overhead, the Company has historically been dependent on investor sentiment remaining positive towards the Company's business industry, and towards Omni in particular, so that funds can be raised through the sale of the Company's securities. Many factors have an influence on investor sentiment, including a positive climate from investors to the Company's business industry, a company's track record and the experience and calibre of a company's management. There is no certainty that equity funding will be available at the times and in the amounts required to fund the Company's activities. The financial statements do not include any adjustments that might result from these uncertainties.

|  | <b>Three months ended January 31,</b> |              | <b>Nine months ended January 31</b> |                |
|--|---------------------------------------|--------------|-------------------------------------|----------------|
|  | <b>2020</b>                           | <b>2019</b>  | <b>2020</b>                         | <b>2019</b>    |
| Cash used by operating activities - net          | \$ (120,633)                          | \$ (346,667) | \$ (793,444)                        | \$ (1,480,345) |
| Cash (used) generated in investing activities    | 26,414                                | -            | 8,691                               | (230,040)      |
| Cash (used) generated by financing activities    | -                                     | 11,000       | -                                   | 345,920        |
| (Decrease) increase in cash and cash equivalents | (94,219)                              | (335,667)    | (784,753)                           | (1,364,465)    |
| Cash and cash equivalents, beginning of period   | 1,509,265                             | 2,870,621    | 2,199,799                           | 3,899,419      |
| Cash and cash equivalents, end of period         | 1,415,046                             | 2,534,954    | 1,415,046                           | 2,534,954      |

As at January 31, 2020, the Company had working capital of \$1,405,727 as compared to a working capital of \$2,134,282 at April 30, 2019. The decrease can be attributed to the general overhead expenditures incurred and the Company pursuing a suitable transaction.

The Company has no commitments for capital expenditures.

Cash outflow from operating activities was lower in the current period due to decrease corporate activity and changes in non-cash working capital items (e.g. decrease in accounts receivables and prepaid), net of corporate expenses.

Cash used in investing activities was higher in the current period due to \$28,914 restricted cash was received that relates to two GICs held as collateral for the Company's credit cards.

Cash inflow in financing activities was \$nil compared to prior period due to no private placements being done in the current period.

## **SHAREHOLDER'S EQUITY**

As at January 31, 2020 and as at the date of this report, the Company had 40,443,657 common shares issued and outstanding and 3,842,500 stock options outstanding.

On October 29, 2019, the Company granted stock options to certain directors of the Company to purchase an aggregate of 3,750,000 common shares in the capital of the Company at an exercise price of \$0.19 per share for a period of two years from the date of grant.

During the period ended January 31, 2020, the Company returned to treasury 154,545 common shares.

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As at January 31, 2020 and as at the date of this report, the Company had the following stock options outstanding and exercisable:

| Number of options | Exercise Price | Expiry Date        |
|-------------------|----------------|--------------------|
| 17,500            | \$ 2.00        | September 21, 2020 |
| 37,500            | \$ 0.90        | June 10, 2021      |
| 17,500            | \$ 0.90        | October 17, 2021   |
| 20,000            | \$ 0.85        | December 6, 2021   |
| 3,750,000         | \$ 0.19        | October 28, 2021   |
| 3,842,500         |                |                    |

## **REGULATORY DISCLOSURES**

### **OFF-BALANCE SHEET ARRANGEMENTS**

At the date of this report, the Company had no off-balance sheet arrangements.

### ***Proposed Transactions***

The Company does not have any proposed transactions as at January 31, 2020, other than as disclosed elsewhere in this document.

### **FINANCIAL INSTRUMENTS AND RISK**

#### **Fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liabilities either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company's primary financial instruments are classified as follows:

| <u>Financial instruments</u>             | <u>Classifications</u> |
|--|------------------------|
| Cash and cash equivalents                | FVTPL                  |
| Marketable securities                    | FVTPL                  |
| Restricted cash                          | FVTPL                  |
| Investments                              | FVTPL                  |
| Accounts payable and accrued liabilities | Amortized Cost         |

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The fair value of these assets and liabilities approximates their respective carrying amounts due to their short-term nature.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

***Credit Risk***

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss to the Company by failing to meet its obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and amounts receivable. The Company limits its exposure to credit risk with respect to cash and cash equivalents by holding it with major Canadian financial institutions. At January 31, 2020, cash equivalents are comprised of \$132,350 (April 30, 2019 - \$nil) held in investment accounts or lawyer trust accounts, with cash available on demand, and \$1,273,235 (April 30, 2019 - \$2,199,799) in various business accounts held in a major Canadian financial institution. The Company's amounts receivable consists primarily of GST receivables and are not subject to significant credit risk.

***Liquidity Risk***

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2020, the Company had a cash and cash equivalents balance of \$1,415,046 (April 30, 2019 - \$2,199,799) to settle current liabilities of \$127,563 (April 30, 2019 - \$273,161). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

***Market Risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity and equity prices.

(i) Interest rate risk

The Company has cash and cash equivalent balances and no interest-bearing debt. The Company is satisfied with the credit ratings of its banks. As of January 31, 2020, the Company did not hold any investments bearing interest. The Company believes it has no significant interest rate risk.

(ii) Foreign currency risk

As at January 31, 2020, the Company had the Canadian equivalent of cash and cash equivalents totaling \$15,393 (April 30, 2019 - \$12,712) and accounts payable totaling \$510 (April 30, 2019 - \$10,251) denominated in US dollars. Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the US dollar would not materially affect the loss from operations.



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**RELATED PARTY TRANSACTIONS**

The Company has determined that key management personnel consists of the Company's Board of Directors and its corporate officers. During the period ended January 31, 2020 and 2019, the Company incurred the following amounts charged by directors and officers and companies controlled and/or owned by directors and officers of the Company:

|   | Nature of transactions | 2020       | 2019       |
|---|------------------------|------------|------------|
| <b><u>Key management personnel:</u></b> |                        |            |            |
| Companies controlled by the former CEO  | Management             | \$ -       | \$ 324,000 |
| A company controlled by a director      | Director compensation  | 4,000      | -          |
| CEO                                     | Management             | 92,500     | -          |
| A company controlled by the CFO         | Management             | 45,000     | -          |
| Total                                   |                        | \$ 141,500 | \$ 324,000 |

Short-term employee benefits include salaries and fees incurred within the period end of the statement of financial position date and other annual employee benefits.

At January 31, 2020, accounts payable and accrued liabilities included \$nil (April 30, 2019 - \$2,574) owing to a company controlled by a director and \$47,716 (April 30, 2019 - \$47,716) due to a company controlled by a former executive.

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand.

## **CAPITAL MANAGEMENT**

The capital of the Company consists of items included in shareholder's equity. The Company's objectives for capital management are to safeguard its ability to support the Company's normal operating requirements on an ongoing basis.

The Company manages its capital structure and adjusts considering changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at January 31, 2020, the Company expects its capital resources will support its normal operating requirements for the next three months. There are no externally imposed capital requirements to which the Company has not complied.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Management must make judgments given the various options available as per accounting standards for items included in the consolidated financial statements. Judgments involve a degree of uncertainty and could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual events differ from a judgment made. A summary of items involving management judgment include, but are not limited to:

- (i) Recognition of deferred income tax assets – The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized.
- (ii) The determination of the Company's functional currency – The functional currency determination will be based on management's assessment of the primary economic environment in which the entities operate.
- (iii) Assessment of the Company's ability to continue as a going concern – The assessment involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

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- (iv) Assessment of the Company's separate line of businesses as discontinued operations - judgement is applied in determining whether disposal groups or cash generating unit represent a component of the entity, the results of which should be recorded in discontinued operations in the consolidated statements of operations and comprehensive loss and cash flows.
- (v) Fair value of investments – the Company measures its investments at fair value. Management uses their judgment to select a variety of methods and make assumptions that are not always supported by quantifiable market prices or rates. Judgment is required in order to determine the appropriate valuation methodology under this standard and subsequently in determining the inputs into the valuation model used. These judgments include assessing the future earnings potential of investee companies, appropriate earnings multiples to apply, adjustments to comparable multiples, liquidity and net assets. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required.

***Critical Accounting Estimates***

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

- (i) Share-based payments – The fair value of share-based payments is determined using the Black-Scholes option pricing model. This option pricing model requires the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant.

**RECENT ACCOUNTING PRONOUNCEMENTS**

***New Accounting Standards Adopted***

On May 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less), leases with certain variable lease payments and leases of low-value assets.

The Company applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease liabilities related to its lease commitments for its office leases. The lease liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as at May 1, 2019, the date of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets will be measured at the lease liabilities amount. The Company has implemented the following accounting policies permitted under the new standard:

- leases of low dollar value will continue to be expensed as incurred; and
- the Company will not apply any grandfathering practical expedients.

As at May 1, 2019, the Company recognized \$189,210 in right-of-use assets and \$189,210 in lease liabilities as summarized below.

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|   |            |
|---|------------|
| Minimum lease payments under operating leases as of May 1, 2019             | \$ 249,595 |
| Effect from discounting at the incremental borrowing rate as of May 1, 2019 | (60,385)   |
|   | <hr/>      |
| Lease liabilities recognized as of May 1, 2019                              | 189,210    |
| Right-of-use assets recognized as of May 1, 2019                            | \$ 189,210 |

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The lease liabilities were discounted at a discount rate of 10% as at May 1, 2019.

New accounting policy for leases under IFRS 16

The following is the accounting policy for leases as of May 1, 2019 upon adoption of IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

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The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

## **RISK FACTORS**

*An investor should carefully consider the following risk factors in addition to the other information contained in this MD&A. The risks and uncertainties below are not the only ones related to the Company. There are additional risks and uncertainties that the Company does not presently know of or that the Company currently considers immaterial which may also impair the Company's business operations. If any of the following risks actually occur, the Company's business may be harmed and its financial condition and results of operations may suffer significantly.*

Following the Change of Business pursuant to the Reverse Takeover with the Target, the Company will become a U.S. Marijuana Issuer (as this term is defined in CSA Staff Notice 51-352 (as defined herein)) and will be subject to significant additional risks with respect to its operations in the United States.

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* ("CSA Notice 51-352"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company anticipates being involved in after the Reverse Takeover. In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risk factors, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of U.S. federal or state government policy changes with respect to cannabis-based businesses or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation.

### ***U.S. Federal Regulatory Framework***

In the U.S., 33 states and Washington D.C. have legalized Medical Cannabis, while 11 states and Washington D.C. have also legalized adult-use Recreational Cannabis. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the *Controlled Substances Act* (the "CSA"). Under the CSA, a Schedule I drug or substance has a high potential for abuse and has no accepted medical use or safety standards in the U.S. for use under medical supervision. Because of its classification as a Schedule I controlled substance, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between some state laws and federal law in that many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

The U.S. federal government's approach to enforcement of federal prohibitions has trended toward non-enforcement in states that have legalized cannabis and have created a robust regulatory regime in respect of same.

On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis programs. The Cole Memorandum, while not legally binding, provided useful guidance and assisted in managing the tension between state and federal laws concerning state-regulated cannabis businesses. The Cole Memorandum was a general statement of the DOJ's policy of non-enforcement of the federal prohibition on cannabis-based businesses that could be relied upon with some measure of confidence by the public.

However, on January 4, 2018, the Cole Memorandum was revoked by former Attorney General Jeff Sessions. Mr. Sessions also issued a one-page memorandum known as the "Sessions Memorandum", confirming the rescission of the Cole Memorandum and explaining that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the former Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

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While the Sessions Memorandum does emphasize that cannabis is a Schedule I controlled substance, and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of cannabis-related offenses is now a DOJ priority, nor does it guide or instruct U.S. Attorneys to prosecute such cases. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute cannabis related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence.

The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump administration. The U.S. federal government has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use cannabis, even if state law sanctioned such sale and disbursement. From a legal perspective, the criminal risk today remains identical to the risk on January 3, 2018.

In addition to the Cole Memorandum, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") issued a memorandum on February 14, 2014 (the "FinCEN Memorandum") outlining the pathways for financial institutions to bank state-sanctioned cannabis businesses in compliance with federal enforcement priorities. Under these guidelines, financial institutions must submit a suspicious activity report ("SAR") in connection with all cannabis related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These cannabis related SARs are divided into three categories – cannabis limited, cannabis priority, and cannabis terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively.

Former Attorney General Sessions' revocation of the Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. As a result, in the United States, it is difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution.

Although the Cole Memorandum has been rescinded, one legislative safeguard for the cannabis industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the "Rohrabacher-Blumenauer Amendment") to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating in compliance with state and local law. Since October 1, 2017, the U.S. federal government has been temporarily appropriated under a series of continuing budget resolutions. On May 17, 2018, the U.S. House of Representatives Appropriations Committee approved the inclusion of the Rohrabacher-Blumenauer Amendment (previously, the Rohrabacher Farr Amendment), which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019, known as the "Joyce Amendment".

Despite the legal, regulatory, and political obstacles the cannabis industry currently faces, the industry has continued to grow in the U.S. It was anticipated that the federal government would eventually repeal the federal prohibition on cannabis and thereby leave the States to decide individually whether to permit regulated cannabis cultivation, production and sale, just as states have the authority to make regulations and policies governing the distribution of alcohol or tobacco.

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

Until the U.S. federal government amends the CSA with respect to cannabis, there can be no assurance that it will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state laws. Such potential proceedings could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens; or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. 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 favour of the Company.

On November 7, 2018, Jeff Sessions resigned as Attorney General. Further, the Democrats win of the House of Representatives in 2018 resulted in the removal of Pete Sessions as Head of the House Rules Committees. Pete Sessions in his role as Head of the House Rules Committee had previously blocked several cannabis reform measures from being voted upon.

Newly appointed Attorney General, William Barr, confirmed in written responses to questions from U.S. senators that he will not pursue a policy of enforcement in respect of cannabis-based businesses that comply with state regulations. Rather, Barr said: "As discussed at my hearing, I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum". Barr also clarified that he has "not closely considered or determined whether further administrative guidance would be appropriate." For the time being, it does not appear he will pursue active enforcement of the cannabis industry.

#### ***California Regulatory Framework***

In 1996, California was the first state to legalize medical cannabis through Proposition 215, the *Compassionate Use Act* of 1996 ("CUA"). The CUA legalized the use, possession and cultivation of medical cannabis by patients with a physician recommendation to use cannabis for treatment of conditions such as: cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which cannabis provides relief.

In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients. In September 2015, the California legislature passed three bills collectively known as the "*Medical Cannabis Regulation and Safety Act*" ("MCRSA"). The MCRSA established a licensing and regulatory framework for medical cannabis businesses in California. The system created multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the "*Adult Use of Marijuana Act*" ("AUMA") creating an adult-use cannabis program for adults 21 years of age or older. AUMA had some conflicting provisions with MCRSA, so in June 2017, the California State Legislature passed Senate Bill No. 94, known as *Medicinal and Adult Use Cannabis Regulation and Safety Act* ("MAUCRSA"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the State of California. The four agencies that regulate marijuana at the state level are the California Department of Consumer Affairs' Bureau of Cannabis Control ("BCC"), California Department of Food and Agriculture, California Department of Public Health, and California Department of Tax and Fee Administration.

To legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires license holders to operate in cities with cannabis licensing programs. Therefore, cities in California are allowed to determine the number of licenses they will issue to cannabis operators or can choose to outright ban marijuana. MAUCRSA went into effect on January 1, 2018.

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There is no assurance of success or profitability under the new legal and regulatory structure in California.

The Company has not determined the extent to which the provisions of MAUCRSA will impact the Company, its business and its current and future operations. While California has legalized the sale of cannabis for medical use outside of cooperatives or collectives and the sale of cannabis for non-medical and for-profit business activities, the regulations relating to how cannabis businesses will be required to operate in the future in California are uncertain. Accordingly, there is no way to currently anticipate what the legal climate surrounding the Company's anticipated business plan will be at any point in the future and there is no assurance that the Company will operate profitably or generate revenues or profits that will permit the payment of dividends on or any increase in the value of its common shares.

## **RISK FACTORS OF THE COMPANY'S OPERATIONS**

### ***COVID-19 Pandemic***

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business at this time.

### ***Speculative nature of the Company's business interests***

As of the date hereof, certain of the Company's business interests are speculative in nature and certain matters have not yet been finalized, including the acquisition of all of the outstanding shares of DreamFields Brands Inc. (the "Target") and the resulting reverse take-over of the Target (the "Reverse Takeover"). Completion of the Reverse Takeover will be subject to the satisfaction of various conditions precedent, as more particularly set out in "Overview – DreamFields" above. The Company and the Target have entered into a definitive agreement in respect of the Reverse Takeover as of the date hereof and the Reverse Takeover and the Company's entry into the cannabidiol (CBD) and cannabis sectors may not occur in a timely matter or at all.

### ***Limited operating history***

The Company will be subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. 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 the early stage of operations.

### ***Under Canada and U.S. regulations, there are restrictions on the type and form of marketing that can be undertaken with respect to cannabis products, which could materially impact sales performance.***

The development of the Company's future business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada and U.S. regulatory authorities. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. The regulatory environments in which the Company operates may in the future also further restrict the type and form of marketing which could limit the Company's ability to compete for market share. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

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*The adult use and medical cannabis industry are relatively new in Canada and the U.S., and this industry may not continue to exist or grow as anticipated*

The Company will be operating its business in the relatively new cannabis industry. In addition to being subject to general business risks, the Company's business involves an agricultural product and a regulated consumer product and therefore the Company will need to build brand awareness in this industry through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote the Company's brand and products as effectively as intended, or at all. Competitive conditions, consumer preferences, patient requirements and spending patterns in this new industry are relatively unknown and may have unique circumstances that differ from existing industries.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

*The Company may be unable to attract or retain key personnel with sufficient experience in the cannabis industry and may prove unable to attract, develop, and retain additional employees required for the Company's development and future success*

The Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the Company's management structure may be strained as the Company pursues growth opportunities in the future. The loss of the services of a key management personnel or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all.

***Risks relating to reliance on management***

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While formal agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

***Risks relating to medical cannabis in Canada***

Cannabis is not an approved drug or medicine in Canada. The Government of Canada does not endorse the use of cannabis, but Canadian courts have required reasonable access to a legal course of cannabis when authorized by a healthcare practitioner.

The *Cannabis Act* (Canada) regulating adult use cannabis in Canada came into force on October 17, 2018. Regulatory changes by the federal, provincial governments in Canada are certain to occur, with unknown results to the business of the Company.

***There is no assurance that the Company will obtain and retain any relevant licenses***

State licenses in the U.S. are subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licenses or any failure to maintain licenses would have a material adverse impact on the business, financial condition and operating results of the Company. Should any state in which the Company considers a license important not grant, extend or renew such license or should it renew such license on different terms, or should it decide to grant more than the anticipated number of licenses, the business, financial condition and results of the operation of the Company could be materially adversely affected.



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*The cultivation of cannabis includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others*

The Company's future business involves the growing of cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that any such growing will be completed indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

*The cultivation of cannabis may involve reliance on third party transportation which could result in supply delays, unreliability of delivery and other related risks*

In order for customers of the Company to receive their product, the Company may rely on third party transportation services. This could cause logistical problems for the timely delivery of product and such logistical problems cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance.

Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach could impact the Company's future ability to continue operating under its licenses or the prospect of renewing its licenses.

*The Company may compete for market share with other companies, which may have longer operating histories and more financial resources, manufacturing and marketing experience than the Company*

The Company does and expects to continue to face intense competition from other companies operating in the same industry, some of which competition can be expected to have longer operating histories and more financial resources, manufacturing and marketing experience than the Company. In addition, there is potential that the medical and recreational cannabis industries will undergo consolidation, creating larger companies with financial resources, manufacturing and marketing capabilities, and product offerings that are greater than those of the Company. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed on terms it considers acceptable or at all. Increased competition by larger, better-financed competitors with geographic advantages could materially and adversely affect the Company's business, financial condition and results of operations.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of cannabis for medical purposes in some form or another. Increased international competition and/or limitations placed on the Company by current regulators may lower the demand for the Company's products on a global scale.

***Unfavourable publicity or consumer perception***

The legal cannabis industry in the U.S., Canada, and internationally is at an early stage of its development. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Public opinion and support for medical and recreational cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and recreational cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

The Company believes its business will be highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of cannabis products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory

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proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for cannabis products, and the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

The Company's ability to gain and increase market acceptance of its proposed cannabis business may require substantial expenditures on investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful and their failure may have an adverse effect on the Company.

***The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company***

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and state/provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company may not be able to accurately predict its future capital needs and it may not be able to secure additional financing***

The Company may need to raise significant additional funds in order 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 in order 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. Holders of Common Shares will have no pre-emptive rights in connection with such further issues of equity securities and the Board will have the discretion to determine if an issuance of equity securities is warranted, the price at which such issuance is effected and the other terms of issue.

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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.

***Ability to access private and public capital***

The Company has historically relied entirely on access to both public and private capital in order to support its continuing operations, and the Company expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, Canadian based issuers involved in the U.S. legal cannabis industry have been successful in raising substantial amounts of private and public financing. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's business would be materially and adversely affected. U.S. federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company. The Company's involvement in the medical and recreational cannabis industry may be illegal under the applicable federal laws of the United States and may be illegal under other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the assets of the Company.

***Conflicts of interest may arise between the Company and its directors and officers as a result of other business activities undertaken by such individuals***

The Company may be subject to various potential conflicts of interest because of the fact that some of its directors and executive officers may be engaged in a range of business activities. In addition, the Company's directors and executive officers may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company and subject to any contractual restrictions restricting such activities. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with business interests that interfere with their ability to devote time to the Company's business and affairs, which could adversely affect Company operations. These business interests could require significant time and attention of the Company's executive officers and directors.

Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws and policies of the Company. For example, a director who has a material interest in a matter before the Board or any committee on which he or she serves is required to disclose such interest as soon as the director becomes aware of it and absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. In accordance with applicable laws, the directors of the Company are required to act honestly and in good faith with a view to the best interests of the Company.

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The Company may be subject to litigation in the ordinary course of its business. The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources of the Company, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand.

***Risks related to volatility in currency exchange rates***

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business revenue could be earned in U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results.

***Anti-money laundering laws and regulations***

The Company is subject to a variety of laws and regulations in Canada and the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. *Currency and Foreign Transactions Reporting Act* of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act* of 2001 (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended, and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

***Banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes***

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA.

***Change in laws, regulations and guidelines***

The Company's business operations are directly and indirectly affected by a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also including laws and regulations relating to consumable products health and safety, the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations, which could require participants to incur substantial costs associated with compliance or alter certain aspects of its business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plans and result in a material adverse effect on certain aspects of its operations.

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***Product liability***

The Company will face 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. The Company may be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's 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's 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 products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company intends to have detailed procedures in place for testing finished products, there can be no assurance that any problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of the 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 regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***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.

***Uninsurable risks***

The medical and adult use cannabis business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

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***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 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 to deal with this growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

***Enforcement of legal rights***

In the event of a dispute arising from the Company's U.S. operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of applicable securities laws. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

***Success of quality control systems***

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service provider's) quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Company's business and operating results.

***Risks concerning banking in the U.S.***

The U.S. federal prohibitions on the sale of cannabis may result in the Company and its partners being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company. Additionally, similar risks are associated with potentially large amounts of cash at its business locations. These locations require heavy security with respect to the holding and transportation of cash. The guidance provided in the FinCEN Memo may change depending on the position of the U.S. government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

***Limited market for securities***

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

***Canadian securities regulatory matters***

The Company's involvement in the U.S. cannabis industry may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It was reported in Canada that the Canadian Depository for Securities Limited was considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the U.S. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S., despite media reports to the contrary, and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time. If such a ban were to be

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implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (the "MOU") with Aequis NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S.

The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of common shares to make and settle trades. In particular, the common shares would become highly illiquid until an alternative was implemented as investors would have no ability to effect a trade of such shares through the facilities of a stock exchange.

***Investment in cannabis based businesses***

The Company recognizes there are certain risks in its investment with a cannabis based business. Marijuana is classified as a Schedule I controlled substance under U.S. federal law and as such, marijuana related practices or activities, including the cultivation, possession or distribution of marijuana, are illegal under U.S. federal law. There remains a conflict between state and federal law related to marijuana with certain U.S. states permitting its use and sale within a regulatory framework.

The U.S. Department of Justice has recently rescinded the Cole Memorandum which had given guidance that it will generally not enforce federal prohibitions on marijuana in U.S. states that have authorized this conduct so long as the U.S. state has implemented a strong and effective regulatory program. Future enforcement decisions will now be up to individual U.S. Attorneys in their respective states, who are free to decide which cases to prosecute by weighing all relevant considerations, including federal law enforcement priorities set by the Attorney-General, the seriousness of the crime, the deterrent effect of federal prosecution and the cumulative impact of particular crimes on the community.

The Company considers it unlikely that local federal prosecutors will take action in those states where the legalization of cannabis has been implemented as a result of a majority vote of the state's electorate or by an act of the respective state's legislature. There may be action taken against those who are acting outside state regulations, and this type of enforcement is only beneficial to those businesses operating within local regulations.

The Company conducts extensive due diligence in its investment in the cannabis based business and ensures strict compliance of state policies governing this industry. Given current political trends, however, and that a complete federal repeal on the prohibition of cannabis is considered unlikely in the near-term. The Company intends to abide by the following industry best practices (and to ensure it invests in companies that follow same) to ensure compliance with state laws to lower the risk that the DOJ will pursue enforcement against the Company:

- ensure that its operations are compliant with all licensing requirements as established by the applicable State, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licensing obtained;
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking systems and necessary procedures to ensure that such compliance systems are effective in tracking inventory and preventing diversion of hemp and/or cannabis or hemp and/or cannabis products into jurisdictions where such products are not permitted by applicable law;
- ensure that its business activity is not used as a cover or pretense for trafficking of other illegal

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- drugs, is not engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- ensure that its business and products comply with applicable cannabis laws and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

***California legislation may become onerous***

The process associated with acquiring a state license in California may become onerous and there are no assurances that the Company will be granted any state licenses at all. Previously, all applicants for a state license were required to show proof of compliance with local laws; however, pursuant to MAUCRSA, applicants may show prior compliance with local law prior to state licensure, but the burden has shifted to the city or county to alert the state within sixty (60) business days if such applicant is not in compliance with local laws. Although the Company believes it is currently, and will continue to be, in compliance with applicable state and local laws, there is no assurance that any city or county will not alert the state of any issues regarding the Company's compliance. Further, because there are different licenses for different types of commercial cannabis-related activities, even if the Company is granted one or more licenses, there are no assurances that it will be granted all the licenses it will need to implement the Company's business plan.

Applicable legislation imposes state taxes on California's cannabis industry, and authorizes local jurisdictions to assess taxes and fees on such activities. There currently is no way to predict the tax regime that will apply when (and if) such legislation becomes effective.

MAUCRSA imposes an excise tax to be paid by the end-consumer and the dispensary; and a cultivation tax to be paid by cultivators on all harvested cannabis that enters the commercial market, in addition to any sales and use tax at the state and local level. The tax regime that is applicable to the Company's business, regardless of where the Company is in its development, will have a direct impact on its operations and profitability and, in extreme cases, may make pursuing the Company's expected business plan a futile endeavor.

Some of the Company's planned business activities, while believed to be compliant with applicable U.S. state and local laws, are illegal under U.S. federal law.

Although certain states and territories of the U.S. authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the CSA. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

Since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, the Company may be deemed to be aiding and abetting illegal activities through its future operations. The enforcement of relevant U.S. federal laws is a significant risk.

***The Company is operating at a regulatory frontier; the cannabis industry is a new industry that may not succeed.***

Should the federal government in the U.S. begin prosecuting those dealing in medical or other cannabis under applicable law, there may not be any market for the Company's products and services in the U.S. Cannabis is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit the Company to succeed. The Company is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures. The Company may incur significant tax liabilities if the IRS continues to determine that certain expenses of cannabis businesses are not permitted tax deductions under section 280E of the Tax Code. Section 280E of the Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (including cannabis) which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from under payment of taxes due to



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the lack of deductibility of otherwise ordinary business expenses, the deduction of which is prohibited by Section 280E. Although the IRS issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

***There is uncertainty surrounding the current U.S. Presidential Administration and its influence and policies in opposition to the cannabis industry as a whole***

There is significant uncertainty surrounding the policies of President Donald Trump and the Trump Administration or the policies of any future Presidential Administration about recreational and medical cannabis.

On January 4, 2018, former Attorney General Jeff Sessions and the DOJ issued the Sessions Memo. The effect of the Sessions Memo has been to rescind the guidance issued on August 29, 2013 relative to medical cannabis enforcement under the Cole Memorandum. The effect of the Cole Memorandum's rescission remains to be seen. On the same day of the Sessions Memorandum's release, numerous government officials, legislators and federal prosecutors in states with medical and recreational cannabis statutes announced their intention to continue the Cole- Memorandum -era status quo despite the DOJ's decision to rescind it. The impact that this lack of uniformity between state and federal authorities could have on individual state cannabis markets and the businesses that operate within them is unclear and the enforcement of relevant federal laws is a significant risk.

There is no certainty as to how the DOJ, Federal Bureau of Investigation and other government agencies will handle cannabis matters in the future. There can be no assurances that the Trump administration would not change the current enforcement policy and decide to strongly enforce the federal laws. The Company regularly monitors the activities of the current administration.

***U.S. federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance***

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

***The Company's business operations may come under additional scrutiny by governmental and non-governmental agencies***

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

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*The property of the Company may be seized and the operations of the Company shut down*

The U.S. federal government, through both the DEA and IRS, has the right to actively investigate, audit and shutdown marijuana growing facilities, processors and retailers. The U.S. federal government may also attempt to seize the Company's property. Any action taken by the DEA and/or the IRS to interfere with, seize, or shut down the Company's operations will have a material adverse effect on the Company's business, operating results and financial condition.

***Regulatory risks***

The U.S. cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may impact on actual results.

Participants in the U.S. cannabis industry will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The U.S. cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of the Company and which cannot be reliably predicted.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's business would be materially and adversely affected. U.S. federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of cannabis related legislation could adversely affect the Company.

**MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the period ended July 31, 2019.

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Company's internal control over financial reporting during the period ended January 31, 2020, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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*Limitations of Controls and Procedures*

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

**FORWARD-LOOKING STATEMENTS**

Certain information set forth in this document includes forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including but not limited to: general economic and business conditions; cash flow projections; currency fluctuations; risks relating to our ability to obtain adequate financing for future activities; the nature of our future activities; and other general market and industry conditions as well as those factors discussed in prior management discussion and analysis, available on SEDAR at [www.sedar.com](http://www.sedar.com).

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. The Company's actual results, programs and financial position could differ materially from those expressed in or implied by these forward-looking statements and accordingly, no assurance can be given that the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive from them. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements.

The Company believes that the expectations reflected in these forward looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and as such forward looking statements contained into this report should not be relied upon. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward looking statements contained in this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to assumptions about general business and economic conditions, the availability of financing for the Company, and the ability to identify and secure a quality asset or a business with a view of completing a transaction subject to receipt of shareholder approval and acceptance by regulatory authorities.

The Company's forward-looking statements and information are based on the assumptions, beliefs, expectations and opinions of management as of the date of this MD&A. The Company will update forward-looking statements and information if and when, and to the extent required by applicable securities laws. Readers should not place undue reliance on forward-looking statements. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

**ADDITIONAL SOURCES OF INFORMATION**

Additional information relating to Omni Commerce Corp. can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).