# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2018

**December 27, 2018**

This management's discussion and analysis ("**MD&A**"), which is current to December 27, 2018, is management's assessment of the operations and the financial results of Nutritional High International Inc. ("**Nutritional High**", "**NHII**" or the "**Company**"). This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three months ended October 31, 2018, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All figures are in Canadian dollars unless stated otherwise.

This discussion contains forward-looking statements that are historical in nature and involves risks and uncertainties. Forward-looking statements are not a guarantee as to Nutritional High's future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

**The Company currently does, and is expected to continue to, derive its revenues from the cannabis industry in certain states in the United States, which industry is illegal under Federal Law in the United States. NHII is directly involved (through its licensed wholly-owned subsidiaries) in the medical or adult-use cannabis industry in the States of Oregon and California. The Company also has material ancillary involvement in U.S. marijuana in the states of Colorado, Washington and California. Lastly, the Company had indirect involvement in U.S. cannabis in the States of Florida, Arizona, and Nevada. See "*Issuers with U.S. Cannabis-Related Assets*".**

**Almost half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the *Controlled Substances Act* (the "U.S. CSA") in the United States and as such, is in violation of federal law in the United States. Despite the current state of the federal law and the U.S. CSA, certain states have legalized the recreational use of cannabis, including Oregon and California, where the Company has a direct involvement in U.S. cannabis.**

**As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law must be applied. Notwithstanding the paramountcy of federal law in the United States, enforcement of such laws may be limited by other means or circumstances, which are further described in this document. *See "Enforcement of United States Federal Laws and United States Enforcement Proceedings*". Unless and until the United States Congress amends the U.S. CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, which may adversely affect the current and future operations of the Company in the United States. As such, there are a number of significant risks associated with the Company's existing and future operations in the United States, and such operations may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States or any other jurisdiction. See "*Risk Factors*".**

**For the reasons set forth above, the Company's existing interests and operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. There are a number of significant risks associated with the business of the Company. See "*Issuers with U.S. Cannabis-Related Assets*" and "*Risk Factors*".**

## Description of Business

Nutritional High International Inc. ("**Nutritional High**" or the "**Company**" or "**NHII**") is a publicly traded company incorporated in Canada on July 19, 2004, under the *Canada Business Corporations Act*. The Company is focused on the manufacture and wholesale distribution of branded cannabis oils, extracts and edible products for medical and adult use purposes where permitted by US state law, Canada and other legal and regulated jurisdictions.

The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company is listed on the Canadian Securities Exchange ("**CSE**") under the trading symbol "EAT". The Company is also listed on the OTCQB Marketplace under U.S. symbol: "SPLIF", and the Frankfurt Stock Exchange under the symbol: "**2NU**".

The Company manufactures and processes cannabis-based vaping, concentrate, and infused edible products and manages a distributor of cannabis products. Such products include vaporizer cartridges, cannabis oil syringes, and cannabis-infused products ("**CIP**") products such as chocolates, lozenges and mints, among others. The Company has developed its own proprietary cannabis products including oil vape cartridges, syringes, dab jars and mints under the "FLĬ" brand and in California, distributes numerous other branded cannabis products through a distributor it manages. The Company is exploring additional cannabis-infused product types to be potentially offered in the future, including but not limited to, gummies, tablets, topicals and beverages.

A key aspect of the Company's corporate strategy is identifying potentially high-value product and geographic market segments and developing brand offerings to penetrate these opportunities.

The Company's corporate strategy is focused on developing and acquiring products (including formulae and recipes), and brands for its CIP lines ("**Cannabis-Infused Products Segment**"), for sale by the Company where it has secured the required licensing, or for use by licensed operators ("**Licensed Operators**") who have entered into royalty or packaging agreements with the Company.

The Company is currently operating in California and Oregon and its brands are offered for sale in Colorado through a third-party entity licensed by that State. The Company is also in the process of expanding to Nevada, Washington and Canada. The Company currently operates distribution and manufacturing facilities in California and owns a manufacturing facility in Oregon. The Company may also seek agreements with existing licensed operators in various other U.S. states to manufacture and sell its "FLÏ" branded products, including cannabis oil vape cartridges, syringes, and other oil products, as well as "FLÏ" branded cannabis infused chocolates. To this end, in Colorado, the Company works with Palo Verde LLC, an independent third-party processer licensed by the State of Colorado to manufacture cannabis extracts and infused products. Palo Verde produces the Company's brands under a license agreement, and leases facilities and equipment from the Company.

The Company continues to develop additional extract products such as shatter and expects to launch a number of edible products including coated products, gummies and a number of innovative products not presently on the market in states where the Company is operating.

The Company has developed and launched its flagship line of products under the brand name "FLÏ" internally using its own resources, with the help of third-party consultants. The product lines include liquid concentrate for bulk sales, vape pen cartridges, cannabis oil filled syringes, chocolates, lozenges, mints and other consumer focused concentrate and edible products.

Cannabis extracts are manufactured using Nutritional High's process that employs a mix of mechanical separation, cold ethanol extraction and short path distillation. The versatility of the process allows the processor to vary final product characteristics to fit specific requirements in terms of terpene and cannabinoid profiles.

As at December 27, 2018, the members of Company's management and Board of Directors consisted of:

| Name | Position |
|---|---|
| Jim Frazier | Chief Executive Officer and Director |
| Tom Siciliano | President |
| Sonia Agustina | Chief Financial Officer |
| Adam Szweras | Secretary, Director and Co-Chair of the Board |
| David Posner | Director and Co-Chair of the Board |
| Aaron Johnson | Director |
| Brian Presement | Director and Compensation Committee Chair |
| Billy Morrison | Director and Chief Technology Officer |
| Andres Tinajero | Director and Audit Committee Chair |
| Alex Storcheus | Senior VP, Corporate Development |
| Jeremy Pace | Senior VP, Operations |

**Key Developments: Fiscal 2019 up to the date hereof**

**Management**

In December 2018, the Company announced the following additions to its management team:

- Appointment of Mr. Tom Siciliano as President, effective December 10, 2018
- Appointment of Mr. Michael DiNapoli as Chief Financial Officer, effective January 1, 2019.

**Product Development and Intellectual Property**

**FLÏ™**

The forefront of the Company's strategy includes product innovation and creative development in the Edibles and Concentrates segment, centered around high quality and sustainable consumer experience. Management has executed on that strategy with a focus on superior taste, texture, overall consumer experience and quality control (particularly in terms of consistency in dosing and potency). The Company's in-house flagship FLI brand was launched in December 2016 with the production of liquid concentrate for bulk sales to other infused product manufacturers. In Fiscal 2018 and subsequent, Nutritional High has achieved significant milestones in the development and sale of consumer focused FLI products.

***Vape Cartridge and Syringe***

The Company's first consumer focused concentrates, FLI Select, Premium and High Terp Vape Cartridges were launched by Palo Verde LLC in September 2017, in the State of Colorado, followed shortly by Syringes in all three variations. Currently all six sub categories are also being developed in Oregon, and the California market is being serviced with Select and High Terp products. Select products are made with strain-specific cannabis oil that tests at a minimum of 90% THC with total cannabinoids reaching around 94%. Premium Products are made with distillate that is infused with flavored terpenes ranging in the 80-90% THC. High Terp Products are made with distillate that is infused with strain-specific terpenes and tests at a minimum of 80% THC with total cannabinoids reaching around 85%.

***Chocolate Bar***

FLI Chocolate Bars was first introduced and manufactured in Colorado by Palo Verde LLC. Each bar is 3.5oz and contains ten servings each containing 10mg of THC, totaling 100mg of THC per bar. The bars are currently sold in four distinct flavors: Premium Milk Chocolate, Dark Chocolate Sea Salt, Milk Chocolate Caramel, and Dark Chocolate Blueberry. As the Company's manufacturing capabilities in California and Oregon expand, FLI branded Chocolate Bars will be introduced for sale in these states.

***Chocolate Shot and Space Joint***

The Company has continued its innovation and developed FLI branded Chocolate Shot and Space Joint (infused pre-rolls), which will be manufactured by Palo Verde LLC in Colorado followed by an expected roll out in other states. The Chocolate Shot is an infused chocolate edible product that will be available in 5mg and 10mg THC doses. This is a culmination of extensive in-house research and development that has resulted in a specifically engineered product designed to remain in a liquid form regardless of environmental conditions including extreme heat or cold. The Space Joint is a pre-rolled cannabis product featuring top-shelf flower and flavored distillate, created with best-in-class inputs and the product has consistently tested at THC levels between 30% - 40%.

***Mini Mints***

In October 2018, the Company developed and launched FLI branded Mini Mints in California. Developed in collaboration between the Company's manufacturing facility FLI Labs NorCal and Calyx, this product represents the true benefits of a vertically integrated network in terms of enhancing product ideation and speed to market. Calyx identified mints as a fast growing vertical where they have seen demand increase significantly. FLI Labs NorCal developed an infused edible mint product which due to its compact nature and creative flavor profile, is expected to garner significant market response and a solid consumer experience. Its currently produced in 5mg THC doses per mint with 20 mints per package and is available in four distinct flavors: Cool Mint, Fresh Mint, Sour Apple and Sunny Citrus.

***Dab Sticks***

The Company continues to make consistent progress on its proprietary Dab Stick technology and its first shipment is received from the Company's manufacturing partner, for filling and sale in short order.

The Dab Stick is a dispenser for viscous liquid substances, capable of carrying approximately ½ gram of cannabis oil extract designed with the retail consumer and adult use user in mind. The oil vessel is capable of dispensing oil in very small metered doses, which ensures consistency between each dose of oil dispensed and providing desired consumer experience. The first Dab Stick prototype was successfully completed in July 2017 and Patent applications were filed in US and Canada in October 2017. While there have been similar products introduced in the California market (and have been subsequently discontinued), Dab Stick uses a revolutionary patent pending process which solves technical failings of such past discontinued products. It allows the user to select an exact amount of oil to dispense, which provides a controlled and consistent flow in a multitude of operating conditions. The product is also designed with a view to being able to easily integrate empty vessels into filling equipment. The prime advantage of the Dab Stick, versus other commercially available methods of dispensing concentrate products is the ability to regulate pressure inside the vessel for controlled dosage, avoiding leakage and product spoilage.

**JMEDS**

On November 21, 2018 the Company entered into an asset purchase agreement with Bright Green Lights LLC ("JMEDS"), a California-based corporation that holds certain patents for extraction and formulation for US$714,000. The purchase price is payable US$200,000 in cash and US$400,000 in common shares of the Company. The remaining US$114,000 will be paid in cash upon successful revenue generation of US$250,000 per month for three consecutive months. The Company also entered into a patent licensing agreement with Jeffrey Kolsky, founder and director of JMEDS, as well as an option to purchase all of the licensed patents, know-how and derivative rights.

JMEDS produces high quality cannabis-infused strain specific lozenges and sugar-free mints distributed across California. Having commenced operations in 2005, JMEDS is a pioneer of "micro dosed" infused products and is one of California's longest operating and most respected edible companies. The founder and director of JMEDS was awarded a patent in 2014 for medical cannabis lozenges and compositions. This Intellectual Property is licensed to Pasa Verde under the licensing agreement. The trademark will be transferred to NH Nevada LLC on closing of the acquisition. The patent provides "a method for optimizing the therapeutic effects provided by CBD on the one hand, and the psychotropic effects provided by THC on the other hand, in a sublingual medicament." The patent specifically protects a propriety method to produce "a concentrated extract of cannabis in which the concentration of CBD is known, and the concentration of THC is known … wherein the amount of CBD is as high as possible and where the amount of THC is precisely controlled, forming lozenges, and administering the medicament."

The acquisition of JMEDS will enable Nutritional High to expand its product portfolio into Lozenges with a brand that has already secured its reputation as one of the category leaders. The Company's pre-existing high scale capabilities in manufacturing and distribution in California provides Nutritional High with the perfect platform to significantly expand JMEDS' market share state wide, and eventually to other states where the Company operates.

**Market Development**

**California: Calyx Brands ("Calyx")**

In March 2018, the Company acquired the assets of Calyx. Calyx is a leading distributor of cannabis and cannabis derived products holding a temporary distributor license from the State of California.

For the three months ended October 31, 2018, Calyx continues to grow significantly under Nutritional High's leadership and the Company recognized revenue approximately of $5.7 million from Calyx from sales of cannabis-related products. This represents an increase of 37% over Q4 2018 and 239% over Q3 2018. The consistent growth trajectory of its revenue and market reach is in line with previous expectations from management.

Calyx continues to rapidly expand on its California-wide distribution strategy. Servicing 450+ licensed dispensaries with 14+ of the market leading brands in edibles, concentrates and flower, Calyx has solidified its position among the largest distributors in the California cannabis market. Management fully expects the growth trajectory of its revenue and market reach to continue in subsequent quarters and is heavily focused on Calyx's distribution infrastructure to maximize efficiencies as it scales forward.

**California: FLI Labs NorCal**

In July 2018, the Company acquired Pasa Verde LLC **("Pasa Verde"**) which owns and operates FLI Labs NorCal ("FLI Labs NorCal"), a 17,600 square foot Cannabis extraction and manufacturing facility located in Sacramento's Green Zone. Pasa Verde leases the FLI Labs NorCal facility and holds a Temporary Type 6 License with the California Department of Public Health.

FLI Labs NorCal commenced operations in late September 2018 with the primary mandate of exclusively manufacturing a wide range of products in California for the Company's flagship FLI Brand and other Nutritional High partner brands. Currently FLI branded vape cartridges, syringes, mini mints and premium concentrate (dab jars) along with JMEDS lozenges and sugar free mints are in production. Future roll out will include FLI branded chocolate bars, chocolate shots, dab sticks and infused joints, Xanthic power drink mixes and Nu Energy press tablets, among others. The Company expects to launch these products in early 2019.

The acquisition and successful start of production in its own facility has enabled the Company to create a robust vertical integration in manufacturing and distribution in the largest Cannabis market in the world, creating a much higher velocity of innovation, production and market penetration for FLI and other Nutritional High partner brands.

**Nevada: Green Therapeutics**

In September 2018, the Company entered into a formal Membership Interest Purchase Agreement ("**MIPA**") to acquire 75% of Nevada based Green Therapeutics LLC ("**Green Therapeutics**") for a purchase price of USD $18 million, along with a put and call option to buy the remaining 25% interest. In conjunction, the Company will also purchase an 8.9-acre parcel of land owned by Meridian Companies LLC, a Nevada limited liability company for a sum of $1,519,000. The property is zoned for cannabis cultivation, and a facility will be erected by Green Therapeutics.

Green Therapeutics is one of Nevada's premier innovators and established producer/processors servicing dispensaries across the State. They currently offer a range of products including ultra-premium flower, extracts, vape cartridges and topical products under its leading brands - Tsunami, Provisions and GT Flowers. Their current asset base includes:

- Five Nevada Licenses: 2 cultivation and 2 production facilities in Clark County & North Las Vegas;
- 8,000 sq. ft. of licensed and operational cultivation/production facility in Clark County;
- Licensed 5,400 sq. ft. production laboratory in North Las Vegas with UPLC and GC testing capabilities;
- Approved 8.9-acre cultivation license in North Las Vegas to be applied towards the development of a 40,000 sq. ft. new high-tech green house facility;
- Expansion capacity to cultivate and process over 45,440 pounds of cannabis annually.

This acquisition will create significant market advantages for Nutritional High, including but not limited to:

- Synergies in brand and intellectual property: Nutritional High will secure the intellectual property rights to Tsunami and Provisions brand of products (excepting certain rights in the State of Michigan), enabling its local manufacturing and sales in California, Colorado, Oregon and other states. Simultaneously, sales of FLI branded products will commence in the State of Nevada through Green Therapeutics' existing manufacturing and distribution base.
- Potential for the Company to achieve full vertical integration in the critical Nevada market. Green Therapeutics has also applied for retail cannabis licenses in several locations throughout the State and in December 2018, received conditional approval towards a store license allowing it to operate one retail cannabis store within the Douglas County.

**Oregon: La Pine**

Nutritional High has commenced the production of various in-house FLI branded SKU's in Oregon including vape cartridges and syringes in November 2018, furthering the Company's west coast manufacturing reach. It also expects to roll out its chocolate bars across the state of Oregon as early as calendar Q1 2019, followed by its innovative chocolate shots. Nutritional High is currently working with a leading distributor in the Oregon market to drive sales and distribution State wide.

The La Pine facility owned by the Company is made up of three contiguous parcels of land totaling 18,295 square feet (0.42 acres) with 4,662 square feet of manufacturing and office space and 540 square feet of mezzanine storage space. Located in the City of La Pine 30 miles from picturesque Bend, Oregon, the facility is well situated to service the Portland market as well as other centers throughout the State.

**Canada: Abba Medix**

The Company continues its agreement with Canada House Wellness Group Inc.'s wholly-owned subsidiary Abba Medix Corp. ("**Abba**") to create a joint venture to manufacture cannabis oil extracts and cannabis-infused products in Canada under the Access to Cannabis for Medical Purposes Regulations (Canada) ("**ACMPR**"). The Joint Venture is structured as a 50/50 partnership and will see Nutritional High and Abba build-out a production facility at Abba's Pickering facility to house a cannabis oil extraction operation focused on producing oils and extracts currently permitted under ACMPR.

The companies are looking forward to completing the facility build-out and servicing the Canadian medical cannabis market with alternative, more convenient and dose-controlled consumption methods. Post the legalization of recreational cannabis in Canada on October 17, 2018, the Joint Venture will now seek to service the Canadian recreational market as well.

**Illinois: The Clinic Effingham**

In the State of Illinois, Nutritional High retailed cannabis products to medical marijuana patients through a 50% membership interest in NH Medicinal Dispensaries LLC, which received a medical cannabis dispensary license under CUMCPPA, operating as The Clinic Effingham ("**TCE**") in Effingham, Illinois. TCE consistently generated revenues since its grand opening in September 2016, with sales of US$ 2.6 million for the twelve months ended July 2018. This has been due to strongly increasing patient numbers and high patient retention rates, which are a result of a diligent patient outreach program undertaken by the dispensary's staff.

In October 2018, the Company sold its 50% membership interest in NH Medicinal Dispensaries LLC to its joint venture partner, ILDISP, LLC ("ILDISP") for a purchase price of USD $3,500,000, in cash. The sale reflects Nutritional High's growing focus on California, Nevada and the US west coast making the southern Illinois dispensary no longer core to the business. The Company will use the net proceeds of the transaction towards expanding production and new product launches in California and Oregon combined with expansion of Nevada based Green Therapeutics.

**Washington**

Nutritional High continues in its licensing and leasing arrangement with Mt. Baker Greeneries, LLC ("**Mt. Baker Greeneries**"). The Company has leased a facility with an option to purchase and has subleased the premises to Mt. Baker Greeneries which operates a two-tier cultivation and processing facility, pursuant to an agreement entered into on October 16, 2017. Mt. Baker Greeneries is a Licensed Operator in Washington and intends to sell vape cartridges to dispensaries and expects to launch the sale of other cannabis-infused products such as cannabis infused capsules, disposable vape pens, dab sticks, and various edible products developed by the Company.

The Company entered into an Asset Purchase Agreement (the "APA") on December 16, 2018, and amended on December 26, 2018, with a Washington limited liability company ("the seller") superseding the binding LOI entered on August 10, 2018 (Note 26). The Purchase Price has been modified from US$3,750,000 to US$3,675,000, which will be settled as follows:

(i) US$150,000 deposit (paid), which shall be refundable if closing does not occur;
(ii) US$525,000 cash due on closing; and
(iii) US$3,000,000 in shares to be issued as follows: US$2,000,000 in shares upon closing, US$500,000 in shares 6 months after closing, and US$500,000 in shares 9 months after closing. The shares will be issued based on a 20-day VWAP of the shares prior to each issuance.

**Colorado: Palo Verde**

Nutritional High leases property and equipment to Palo Verde, a Licensed Operator in Colorado. The Company has also provided operating loans to Palo Verde and has licensed them to manufacture FLI branded products in Colorado. Nutritional High is a landlord and a lender to the Licensed entity that produces the FLI brand products in Colorado. The licensing agreement requires Palo Verde to meet or exceed the Company's brand quality and standards.

Palo Verde currently manufactures multiple FLI branded product categories including vape cartridges, syringes, chocolate bars, chocolate shots and space joints (infused pre-rolls). Future roll out includes dab sticks, dab jars and additional edibles. Palo Verde is also in the process of re-building its in-house sales and distribution team from ground up to step change its state-wide market reach in both the recreational and medical cannabis space.

**Brand Partnerships**

**Xanthic**

In May 2018, Nutritional High and Xanthic Biopharma Inc. ("**Xanthic**") entered into a binding letter of intent for the production and distribution of Xanthic branded water-soluble cannabis-infused powders in California. Xanthic will partner with Nutritional High's vertically integrated FLI Labs NorCal and Calyx to distribute Xanthic's patent pending products, namely its Hydration, Energy, Rescue and Recovery drinks. The Company expects to roll out these products in the California market as early as calendar Q1 2019.

The partnership with Xanthic allows the Company entry into the cannabis beverage market, which has demonstrated a robust growth trend in California, Colorado, Washington, and Oregon and is expected to persist in the future. Concurrently, the Company can act as a success catalyst for its brand partners like Xanthic by leveraging its integrated network to ensure plant to dispensary continuity allowing swift market penetration and share in the world's largest recreational and medical cannabis market.

Xanthic has completed a business combination with Green Growth Brands Ltd. ("**GGB**") in November 2018, a company focused on pursuing cannabis opportunities in various US States. GGB is led by renowned retailer Peter Horvath and the Green Growth Brands team is full of retail renegades with decades of experience building successful brands.

**NeutriSci**

In May 2018, Nutritional High and NeutriSci International Inc. ("**NeutriSci**") the innovator and pioneer behind Neuenergy®, entered into a binding Memorandum of Understanding (the "**MoU**") to develop, manufacture and distribute THC and CBD infused sublingual tablets utilizing NeutriSci's patent pending technology, proprietary

ingredients and formulations. Subject to the negotiation of a definitive agreement, NeutriSci and Nutritional High will develop products which will be manufactured and distributed by Nutritional High in US states which permit the sale of cannabis infused products. The Company expects to roll out these products in the California market as early as calendar Q1 2019, followed by other jurisdictions.

The partnership with NeutriSci broadens the Company's product portfolio to include a very innovative and effective cannabis energy product. Today, Neuenergy® contains a unique patented combination of blueberries (pterostilbene) and naturally derived caffeine and is a revolutionary energy tablet designed to deliver enhanced focus and mental clarity with no sugar, no calories and no crash associated with typical energy products. The new tablets will combine the benefits of NeutriSci and Nutritional High's existing technologies and ingredient mixes. The tablets will be quick dissolving and will offer a measured dose of pure THC or CBD oil, combined with the powerful bio-availability & antioxidant properties of pterostilbene.

**Strategic Investments**

**Aura Health Inc.**

The Company has made strategic investments into Aura Health Inc ("**Aura**") which owns and operates medical cannabis clinics in various US states and plans to penetrate international markets. On December 4, 2018, the Company converted its US$120,000 promissory note plus accrued interest in exchange for 4,028,272 Aura units. Each Unit consists of one common share and one-half Aura warrant exercisable at $0.075 for a period of 24 months. The Company subsequently exercised all warrants for proceeds of $151,060 and was issued 2,014,136 Aura Common Shares. The Company's ownership interest in Aura was subsequently increased approximately 29%.

Nutritional High formed an international joint venture with Aura in October 2018 with the goal of developing a framework to take the Company's extraction and edibles technology and products to European and Israeli markets, where Aura has currently pivoted its focus. At the essence of the venture, Nutritional High will work to outfit Aura with the knowledge and expertise to extract cannabis oil utilizing Nutritional High's cold ethanol process and other extraction methods. Aura will develop health and wellness products which, in turn, may be licensed to Nutritional High for distribution in the United States. Management will work together in the coming months to develop the business plan and financial metrics for this partnership.

**Financing, Capital Markets and Real Estate**

**$4.2 million Senior Secured Convertible Debenture**

In August 2018, Nutritional High closed a non-brokered private placement, consisting of $4.2 million of senior secured convertible debenture units. Each convertible debenture unit is comprised of one senior secured convertible debenture with the face value of $1,000 and 1,429 common share purchase warrants exercisable at $0.80 for 36 months from the closing date. The debentures mature in August 2021.

**Equipment Sale and Leaseback**

The Company secured a sale and leaseback financing with Veterans Capital Corp. **("Veterans")** and ASC Lease Income, LLC (the "**Buyers**") pursuant to which up to US $2,000,000 was made available on a drawdown basis.

In November 2018, the Company drew down US $1,179,534 related to the financing of certain equipment at its FLI Labs NorCal Facility located in Sacramento, California, and its La Pine, Oregon, facility. In addition, Nutritional High issued 421,263 common share purchase warrants to Veterans, that entitles them to purchase one common share in the capital of Nutritional High at a price of $0.70 per common share for a period of 24 months from the date of issuance.

The equipment lease facility provides Nutritional High flexibility and additional capital to better serve FLI Labs NorCal, the La Pine facility, as well as other operations, acquisitions and partnerships.

**Sale of Luther Property in Sacramento, California**

In November 2018, the Company sold its 9,000 square foot real estate property located in Sacramento, California (the "**Luther Property**"), acquired for US$775,000, for gross proceeds of US$1,400,000 (less US$84,000 payable in commission).

The Luther Property was no longer a strategic imperative since Nutritional High acquired Pasa Verde LLC that operates its licensed and operating FLI Labs NorCal Facility. The Company expects to use the proceeds for other projects including the acquisition of a 75% interest in Green Therapeutics LLC in Nevada and to secure additional distribution warehousing in southern California.

**Debt Settlement**

On November 21, 2018, the Company issued 364,816 Units to settle $163,816 of debt at a deemed price of $0.45 per unit. Each unit is comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.80 per common share for a period of 24 months after the closing date.

**Options**

Subsequent to period-end, a total of 1,415,000 options expired unexercised and 300,00 options were forfeited and unvested. A total of 448,711 options were exercised for gross proceeds of $48,582.

**Warrants**

Subsequent to period end, 1,297,054 warrants were exercised for gross proceeds of $216,005 and 303,881 underlying warrants were issued through the exercise of brokers' units, and 40,200 warrants expired. A total of 603,281 warrants were issued at exercise prices ranging between $0.70-$0.80 and expiring between November 7, 2020 to December 6, 2020.

**Selected Annual and Quarter-End Information**

Summarized selected financial information is as follows:

| | **Year ended July 31, 2018** | **Year ended July 31, 2017** | **Year ended July 31, 2016** |
|---|---|---|---|
| | $ | $ | $ |
| Total sales | 5,814,558 | - | - |
| Cost of goods sold ("COGS") | (5,051,418) | - | - |
| Gross Profit | 763,140 | - | - |
| Interest income | 40,828 | 194,348 | 72,953 |
| License income | 3,287 | - | - |
| Rental income | - | 660,222 | 515,324 |
| Consulting income | - | - | 20,000 |
| Total revenue (net of COGS) | 807,255 | 854,570 | 608,277 |
| Net income (loss) | (9,706,316) | (5,006,075) | (2,309,297) |
| Net comprehensive income (loss) | (9,849,593) | (4,948,862) | (2,303,684) |
| Income (Loss) per share (basic) | (0.036) | (0.022) | (0.02) |
| Income (Loss) per share (diluted) | (0.036) | (0.022) | (0.02) |
| Total assets | 27,261,555 | 8,130,581 | 2,686,449 |
| Total liabilities | 16,534,442 | 2,076,767 | 2,310,944 |

| | Three months ended October 31, 2018 | Three months ended October 31, 2017 |
|---|---|---|
| | $ | $ |
| Total sales | 5,763,680 | - |
| Cost of goods sold ("COGS") | (4,639,122) | - |
| Gross Profit | 1,124,558 | - |
| Interest income | 1,093 | 66,319 |
| Rental income | - | 241,782 |
| Total revenue (net of COGS) | 1,125,651 | - |
| Total operating expenses | 4,251,613 | 1,681,015 |
| Total other items | (4,538,633) | 269,396 |
| Net income (loss) | 1,191,178 | (1,642,310) |
| Net comprehensive income (loss) | 1,111,617 | (1,676,245) |
| Income (Loss) per share (basic) | 0.004 | (0.007) |
| Income (Loss) per share (diluted) | 0.003 | (0.007) |

**Operating results for three months ended October 31, 2018 compared to three months ended October 31, 2017**

For the three months ended October 31, 2018, the Company recognized sales of $5,763,680 (2017 - $Nil) of which primarily derived from the Company's distribution operation, Calyx Brands, in California and cost of goods sold was $4,639,122 (2017 - $Nil) for the three months ended October 31, 2018, resulting in a gross profit of $1,124,558 (2017 - $Nil) or 19.5% of revenue. Historically, revenue was derived from interest and rental income. Beginning fiscal Q3 2018, the Company began generating revenue from product sales in the State of California through Calyx (acquired in March 2018) and Pasa Verde (acquired in July 2018).

For the three months ended October 31, 2018, rental income from Palo Verde was $Nil compared to $241,782 for the three months ended October 31, 2017 as the Company no longer recognizes revenue from lease.

For the three months ended October 31, 2018, total operating expenses was $4,251,613, an increase of $2,570,598, compared to the comparative three-month ended October 31, 2017 of $1,681,015, largely related to:

- $245,315 increase in management and consulting fees primarily related to the hiring of additional members to senior corporate management and several strategic advisors.
- $1,825,655 increase in office and general mainly due to the inclusion of Calyx and Pasa Verde's operating expenses which made up about $1.4 million. The Company also incurred increased sales, marketing, business development and investor relation expenses to further consumer brand awareness in the US.
- $41,499 increase in acquisition and project evaluation costs primarily related to increased due diligence services as the Company continues to identify business development opportunities and acquisition targets.
- $398,742 increase in share-based payments to $513,778 from $115,036 for the comparative prior period as a result of the vesting of prior year stock options and the issuance of new stock options to senior management and consultants.
- $530,418 increase in amortization expense related to the acquisition of capital assets and intangibles from Pasa Verde and Calyx in the prior year.
- $328,550 increase in the reserve for amounts receivable on account of uncertainties related to the collection of amounts outstanding.
- Operating expenses were partially offset by a reduction in the allowance for amounts due from Palo Verde of $816,834 to $49,289 from $866,123 in the prior comparative period.

For the three months ended October 31, 2018, the Company recorded net income and comprehensive income of $1,111,617. This is compared to incurring a net loss and comprehensive loss of $1,676,245 for the same period ended October 31, 2017.

For the three months ended October 31, 2018, the Company had a total of $4,538,633 income from other items, an increase of $4,808,029, compared to $269,396 loss in the comparative period. The increase is due to:

- In October 2018, the Company sold its 50% interest in NH Medicinal Dispensaries LLC, an entity which operates the Clinic Effingham dispensary in Effingham, Illinois to its joint venture partner ILDISP, LLC for $4,599,700 (US$3,500,000) and recognized a gain on the sale of $3,558,510.
- The Company recognized an unrealized gain on the fair value of its derivative liabilities of $1,093,538 due to revaluation of derivative liabilities from the date of initial recognition when the Company closed the $4.2 million convertible debenture in August 2018 to October 31, 2018.
- $158,100 of other income recognized, representing the change in the fair value of the Lineage put option guarantee liability as a result of Lineage shareholders converting their debentures into shares therefore reducing the Company's outstanding obligation related to the guarantee.
- The increase in offset by an impairment charge on its investment in Small Mills Holdings Inc. ("SMHI") of $340,300 in the comparative period and an increase of $641,650 in finance costs from Convertible debentures closed in March 2018 and August 2018.

**Breakdown of office and general as noted in the Company's financial statements is as follows:**

| **Description** | **Three months ended October 31, 2018** | **Three months ended October 31, 2017** |
|---|---|---|
| | **$** | **$** |
| Office expense | 149,220 | (32,224) |
| Payroll and commission | 1,114,865 | - |
| Transportation | 75,414 | - |
| Permits and licenses | 13,900 | - |
| Research and development | 20,436 | - |
| Insurance | 52,881 | 19,490 |
| Travel expenses | 66,661 | 42,407 |
| Rent | 148,164 | 2,173 |
| Repairs and maintenance | 20,818 | - |
| Utilities and supplies | 34,733 | 16,205 |
| Investor relations | 121,563 | 37,730 |
| Advertising and marketing | 131,437 | 38,549 |
| Bank service charges | 3,933 | 4,039 |
| **Total** | **1,954,025** | **128,369** |

Selected financial information for the previous quarters as follows:

| Quarter ended | Revenue | Net income (loss) | Net income (loss) and comprehensive income (loss) | Net income (loss) per share (basic) | Net income (loss) per share (diluted) |
|---|---|---|---|---|---|
| October 31, 2018 | $5,764,680 | $1,125,651 | $1,111,617 | $0.004 | $0.003 |
| July 31, 2018 | $3,174,917 | $(3,860,570) | $(3,958,258) | $(0.013) | $(0.013) |
| April 30, 2018 | $2,040,543 | $(2,271,718) | $(2,397,163) | $(0.009) | $(0.009) |
| January 31, 2018 | $335,112 | $(1,931,718) | $(1,817,927) | $(0.01) | $(0.01) |
| October 31, 2017 | $308,101 | $(1,642,310) | $(1,676,245) | $(0.01) | $(0.01) |
| July 31, 2017 | $327,343 | $(2,819,487) | $(2,732,449) | $(0.01) | $(0.01) |
| April 30, 2017 | $195,763 | $(1,557,995) | $(1,574,263) | $(0.01) | $(0.01) |
| January 31, 2017 | $161,864 | $(711,099) | $(716,224) | $(0.00) | $(0.00) |

The Company has seen a significant growth in its operation, as a result of the acquisitions of Calyx and Pasa Verde in fiscal 2018. The Company has recognized cannabis sales revenue starting in Q3 2018 for the first time since its inception, which made up approximately 99% of total revenue generated in this fiscal year. For the quarter ended October 31, 2018, the Company sold its 50% interest in NHMD in October 2018 for a gross profit of $4,599,700 (US$3,500,000) and as a result, the Company recognized a gain on the sale of $3,558,510 for the three months ended October 31, 2018.

From January 31, 2017 to July 31, 2017, the Company's net loss increased due to the increase in operational expenses as the Company has expanded its operations, except for the following:

1. $396,720 loss on the share for debt settlements and $123,243 loss on the extension of a promissory note payable recognized in quarter end April 30, 2017, and
2. Approximately $1.3 million of additional allowance for amounts due from Palo Verde LLC in quarter-end July 31, 2017.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2018, the Company had working capital of $5,434,233 (2017 – working capital deficiency $980,714), current assets of $15,589,983 (July 31, 2018 - $7,387,873) and current liabilities of $10,155,750 (July 31, 2018 - $8,368,587).

The cash spent on operating activities for the three months ended October 31, 2018 was $2,176,235 compared to the comparative prior period where the Company spent $686,664 an increase of $1,489,571. The increase is primarily attributable to the Company's continued operating activities and expansion efforts in California, Oregon, and Washington.

The cash generated from investing activities was $5,300,534, an increase of $5,217,341 compared to the prior comparative period where the Company generated 83,193 of cash from investing activities. The increase is primarily attributable to the proceeds received from the sale of its interest in NH Medicinal Dispensaries, LLC which resulted in cash inflows of $4,599,700 and the redemption of short-term investments of $1,500,000. The cash generated from investing activities was partially offset by cash used to invest $98,000 for 200,000 units of Aura Health Inc., advances

of $197,150 to Green Therapeutics, LLC which will be offset against the purchase price on closing, purchase of capital assets as the Company expands its production capabilities, and cash paid as a deposit in relation to a binding letter of intent with a limited liability company in Washington for the purchase of assets and certain IP brands.

The cash generated from financing activities was $2,777,346, an increase of $2,777,346 compared to the comparative prior period of $Nil. The increase was primarily attributable to the issuance of convertible debenture units for net proceeds of $3,671,277 in August 2018 and proceeds from the exercise of warrants and options for a total of $42,165. This was partially offset by payments made to Calyx shareholders pursuant to the Calyx Brands Inc. asset acquisition of $763,321 reducing the contingent consideration payable balance.

**Foreign currency exchange risk**

The Company conducts a portion of its purchases in U.S. dollars which results in the foreign currency exchange risk. The Company does not consider its exposure to foreign currency exchange risk to be material.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus U.S. dollar would have impacted net income by $501,391 (2017 – net loss $220,750) as a result of the Company's exposure to currency exchange rate fluctuations.

**Interest rate risk**

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with fixed interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt.

Net earnings are sensitive to the impact of a change in interest rates on the average balance of interest-bearing financial liabilities during the year.

An increase (decrease) of 25 basis points would have impacted net income by $19,856 (2017 – net loss $3,843) because of the Company's exposure to interest rate fluctuations.

**Related party transaction**

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

The following is a summary of the related party transactions, including the key management compensation for the three months period ended October 31, 2018 and 2017:

a. Incurred professional fees of $41,000 (2017 - $33,000) from Branson Corporate Services, a company in which a company with a related director, Adam Szweras, has a 49% ownership interest in. As at October 31, 2018, $Nil (2017 - $6,651) was due to Branson Corporate Services.

b. Incurred consulting fees of $48,580 (2017 - $48,000) from FMI Capital Advisory Inc. (“FMI”), a company with a related director, Adam Szweras. In connection to the acquisition of Pasa Verde (Note 3), the Company is obligated to pay up to $315,014 (US$242,000) to FMI, representing a 4% finders’ fees, payable in cash and shares, due at the same date as payments to shareholder of Pasa Verde. The Company issued 123,782 shares pursuant to the Pasa Verde’s acquisition (Note 3) as finders’ fees valued at $43,324 to FMI. In connection with the August 2018 Convertible debentures (Note 18), the Company paid FMI a cash finder’s fee of $42,000. As at October 31, 2018, $56,341 (2017 - $393) was due to FMI and $6,662 (2017 - $6,327) was due from FMI.

c. Incurred marketing expenses of $68,094 (2017 - $14,700) from Plexus Cybermedia Ltd, a company in which a director, Brian Presement, has a 33% ownership interest in. As at October 31, 2018, $Nil (2017 - $Nil) was due to Plexus Cybermedia Ltd.

d. Incurred professional fees of $97,488 (2017 - $15,440) from Fogler Rubinoff, LLP, a law firm in which a director, Adam Szweras, is a partner. As at October 31, 2018, $233,917 (2017 - $33,265) was due to Fogler Rubinoff, LLP.

e. Incurred management compensation to key management and directors of $156,381 (2017 – $99,264) in cash and $406,337 (2017 - $97,481) in stock-based payments. As at October 31, 2018, $52,500 (2017 - $52,500) is included in shares to be issued to an officer of the Company.

f. Incurred professional fees of $87,166 (2017 - $Nil) from JRG Attorneys, a law firm in which a director, Aaron Johnson, is a partner. Aaron Johnson was appointed to the board on Feb 20, 2018. As at October 31, 2018, $80,498 (2017 - $Nil) was due to JRG Attorneys.

g. As at October 31, 2018, the Company had $Nil (2017 - $124,542) due to officers and/or directors of the Company.

h. On May 1, 2017, the Company transferred 1,000,000 shares of Aura valued at $100,000 to a director of the Company, David Posner, as a bonus, and 289,293 shares of Aura $28,929 to FMI Capital Advisory Inc.as consulting fee.

i. In connection with the IP assignment and option agreement of Dab Sticks (Note 13), a director of the Company, Billy Morrison, is one of the vendors.

**Disclosure of outstanding share data**

As at October 31, 2018, the Company had 292,021,093 Common Shares outstanding, 20,526,228 options of which 13,562,894 are vested and eligible to be exercised at a weighted average price of $0.134 and warrants outstanding of 28,532,811 with a weighted average exercise price $0.539. As of the date hereof, the Company has 293,732,182 Common Shares, 18,662,517 options and 27,923,193 warrants outstanding.

**Off-Balance Sheet Arrangements**

As of October 31, 2018, the Company has no off-balance sheet arrangements.

**Critical Accounting Estimates and Judgments**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant estimates

*Estimated useful lives and amortization of capital assets and intangible assets*

Depreciation of capital assets and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgments. The assessment of any impairment of these assets is dependent upon estimates recoverable amounts that take into account factors such as economic and market conditions and the useful lies of the assets.

*Business combination*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Standards on Auditing ("IAS") 39, *Financial Instruments: Recognition and Measurement*, or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. See *Note 3 – Acquisitions.*

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

*Share-based payments and brokers' warrants*

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

*Fair value of financial instruments*

The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, convertible debentures, and promissory notes are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

*Impairment*

Long-lived assets, including capital assets, investment properties and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans,

forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

*Deferred tax*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

Significant judgments

*Going concern*

Each reporting period, management exercises judgment in assessing whether there is a going concern issue by reviewing the Company's performance, resources and future obligations.

*Business combination*

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The acquisitions of Calyx and Pasa Verde were determined to be business combinations

Judgement is also required to determine when the Company gains control of an investment. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making; financing of the investee; the appointment, remuneration and termination of key management personnel; and when decisions in relation to those activities are under the control of the Company. Difficulties surrounding the control of acquired entities exists within the cannabis industry, due to certain state legislative requirements to structure cannabis license holders.

*Functional currency*

The determination of the functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

**ISSUERS WITH U.S. CANNABIS-RELATED ASSETS**

On February 8, 2018, the Canadian Securities Administrators ("**CSA**") published Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*, which provides specific disclosure expectations for reporting issuers in Canada that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All reporting issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other applicable disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. cannabis-related activities.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that cannabis is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's U.S. cannabis-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

**SUMMARY OF THE COMPANY'S SUBSIDIARY/AFFLIATE WITH U.S. CANNABIS ACTIVITIES**

Below is the summary chart of the Company's direct, indirect or material ancillary involvement in U.S. marijuana, through its subsidiaries and investments as at December 27, 2018. "Direct", "Indirect" and "Material Ancillary" are classification terms as defined in Staff Notice 51-352 (as described above).

| Subsidiary/ Affiliate | % ownership | Classification | Jurisdictions | State and Local Regulators | United States circuit and federal judicial district | Description of Involvement |
|---|---|---|---|---|---|---|
| Nutritional High (Colorado) Inc. ("**NHCI**") | 100% | Material Ancillary | Colorado | N/A[1] | Tenth Circuit – District of Colorado | NHCI provides revolving loan to Palo Verde LLC with principal balance of approximately US$1.1 Million. |
| NHC Edibles LLC ("**NHC**") | 100% | Material Ancillary | Colorado | N/A[1] | Tenth Circuit – District of Colorado | NHCE owns and leases Pueblo Property and the extraction equipment to Palo Verde LLC. |
| Nutritional IP Holdings LLC ("**NIPH**") | 100% | Ancillary | Colorado<br><br>California | N/A | Tenth Circuit – District of Colorado<br><br>Ninth Circuit – Central District of California and Northern District of California | NIPH owns intellectual property and has packaging arrangements with Pasa Verde LLC, Calyx and NHDC. |
| Nutritional High (Oregon) LLC ("**NHOL**") | 100% | Direct | Oregon | OLCC and City of La Pine | Ninth Circuit – District of Oregon | NHOL holds a Processor License with the OLCC. |
| Aura Health Inc.("**Aura**") | 28.93% | Indirect | Arizona | AZDHS | Ninth Circuit – District of Arizona | Aura is a CSE-listed company that is building an international network of vertically integrated cannabis assets. Aura has letters of intent in place to acquire the majority of two Israeli assets and also owns a 30% interest in four medical marijuana clinics in the U.S. Sun Belt, with an option to increase its interest in three of the clinics to 51 per cent. |
| | | | Nevada | NDS | Ninth Circuit – District of Nevada | |
| | | | Florida | FLDA | Eleventh Circuit – Southern District of Florida | |
| NH Operations LLC ("**NHO**") | 100% | Material Ancillary | Colorado | N/A | Tenth Circuit – District of Colorado | NHO has equipment, technology, exclusive license, materials and packaging agreements with Mt. Baker Greeneries. |
| NH (Oregon) Properties LLC ("**NHOP**") | 100% | Direct | Oregon | N/A | Ninth Circuit – District of Oregon | NHOP owns a property in La Pine, OR, that is leased to NHOL. |

[1] *Documentation relating to provision of ancillary services to Licensed Operators in Colorado was reviewed by the MED if such relationship of lender and service provider was considered to be a party at interest, but the service provider itself is not regulated by the MED.*

| Subsidiary/ Affiliate | % ownership | Classification | Jurisdictions | State and Local Regulators | United States circuit and federal judicial district | Description of Involvement |
|---|---|---|---|---|---|---|
| Pasa Verde LLC ("**Pasa Verde**") | 100% | Direct (licensed manufacturer) | California | CDPH and the City of Sacramento | Ninth Circuit – Eastern District of California | Pasa Verde LLC is the holder of a manufacturing permit in the City of Sacramento, California. The Company acquired all of the interests of Pasa Verde in July 2018. Pasa Verde LLC holds a Temp Type 6 License with the CDPH and is currently operating while a further build-out is underway and expected to be completed by December 2018. |
| NH Bellingham Property Holdings LLC ("**NHBPH**") | 100% | Material Ancillary | Washington | N/A | Ninth Circuit – Western District of Washington | NHBPH leases property in Bellingham, WA, which it sub-leases to Mt. Baker Greeneries LLC ("**Mt. Baker Greeneries**"), a company licensed as a processor by the WA LCB. NHBPH also has an equipment lease arrangement with Mt. Baker Greeneries. |
| NH Distribution California LLC ("**NHDC**") (dba. Calyx Brands) | 100% | Material Ancillary Agreement to provide services to licensed operator [2] | California | N/A | Ninth Circuit – Central District of California and Northern District of California. | NHDC acquired certain assets of Calyx Brands and has contracted with Calyx Brands, the holder of a State Temporary distribution license in Oakland, California to perform certain management service[2] functions on their behalf. NHDC has been granted a State Temporary distribution license by the Bureau of Cannabis Control California and is waiting for an approval from the city of Sacramento. |
| Lineage Grow Company Ltd. ("**Lineage**") | 3.08% | Indirect | N/A | N/A | N/A | Lineage engages in the marketing and sale of cannabis flower, edibles and oil through its chain of two retail dispensaries in Oregon operating under the Terpene Station banner, with locations in southeast Portland and downtown Eugene. Lineage is in the process of acquiring a number of acquisitions of U.S.-based operations which when completed would constitute material involvement in US cannabis. |

Other than set out below, neither the Company nor any of its subsidiaries, affiliates or Licensed Operators that the Company or any of its subsidiaries has a material relationship with have received any notices, citations of non-compliance, violation or denial from any applicable local municipal or the U.S. State regulatory authorities.

In addition to the interest that the Company has in various subsidiaries which have material involvement in cannabis-related activities in the U.S., it also has various contractual relationships with various entities which are Licensed Operators. In certain cases, the Company holds an interest in such Licensed Operators and in certain instances the Company's respective subsidiary has a contractual relationship with such Licensed Operators. The table below also outlines the Licensed Operators on which the Company has an interest in or has a contractual relationship with, as well as a relevant summary of their compliance with applicable laws.

[2] *NHDC and Calyx Brands Inc. ("Calyx") are parties to a management service agreement, whereby NHDC shall provides management services with respect to the cannabis distribution operation of Calyx Brands Inc. ("Calyx"). In exchange for services, Calyx assigns its sales revenue from the sale of cannabis related products to NHDC. Once NHDC secures licensing, the management service agreement will cease and it is expected that Calyx will be winded up.*

| Licensed Operator | Nature of relationship | State and Local Regulators | U.S. circuit and federal judicial district | Licensed Operator is in compliance with applicable U.S. State law and related licensing framework | Notices, citations of non-compliance, violation or denial from any applicable local municipal or U.S. State regulatory authorities |
|---|---|---|---|---|---|
| NHDC | Material Ancillary | The City of Oakland | Ninth Circuit – Central District of California and Northern District of California | Yes, Calyx Brands, Inc. | None |
| Pasa Verde | Direct involvement:<br>100% wholly owned subsidiary. | CDPH and City of Sacramento | Ninth Circuit – Eastern District of California | Yes | Yes [3] |
| NHOL | Direct involvement:<br>100% wholly owned subsidiary. | OLCC and City of La Pine | Ninth Circuit – District of Oregon | Yes | None |

| Licensed Operator | Nature of ancillary relationship | Is Licensed Operator in compliance with applicable U.S. State law and related licensing framework to the best of the Company's knowledge? |
|---|---|---|
| Palo Verde | Material ancillary involvement:<br>• Lease Agreements with NHC<br>• Revolving Loan Agreement with NHCI<br>• Packaging Agreement with NIPH | On December 8, 2017, Palo Verde received Notice of Denial, which was subsequently settled [4] allowing Palo Verde to continue operations uninterrupted. |
| Mt. Baker Greeneries | Material ancillary involvement:<br>• Leased the Bellingham Property from NHBPH<br>• Equipment purchase and leaseback agreement with NHBPH<br>• Equipment, technology, exclusive license, materials and packaging agreements with NHO. | Yes |
| Calyx | Material ancillary involvement:<br>• Asset purchase agreement to acquire the assets of Calyx<br>• Management services agreement with NHDC. | Yes |

In addition, the Company is deemed to have indirect involvement through its minority investments in Lineage and Aura, each of which are in compliance with applicable licensing requirements and regulatory framework enacted by the applicable U.S. state. The Company is not aware of any non-compliance, citations or notices of violation that either Lineage or Aura has received.

The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks, exposure and implication arising from U.S. federal laws in the states where it conducts operation. As of the date hereof, the

[3] *Pasa Verde received a correction notice from the City of Sacramento Fire Department from the City of Sacramento on May 29, 2018.*

[4] *On December 8, 2017, Palo Verde received a Notice of Denial ("**NoD**") on its renewal of Retail Marijuana Products Manufacturer ("**RMP License**") and new license applications for Retail Marijuana Cultivation Facility License ("**RMC License**") and Medical Marijuana Products Manufacturer License ("**MMP License**"). Palo Verde has subsequently reached a settlement with the MED, whereby MED has conditionally approved the renewal of the RMP License and applications for RMC License and MMP License subject to: i) Palo Verde withdrawing its request for hearing; ii) paying a fine; iii) obtaining alternative financing for the promissory notes that is currently in place between the Company and Palo Verde; iv) final approval by the Colorado's State Licensing Authority (which has now been received).*

Company has not received any notices of violation, denial or non-compliance from U.S. authorities other than those disclosed above.

***REGULATORY OVERVIEW***

***U.S. Federal Law***

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

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

The U.S. Department of Justice has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the U.S. Department of Justice (the "**DOJ**") has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the U.S. Department of Justice has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the U.S. Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. Prior to 2018 and in the Cole Memo, the U.S. Department of Justice acknowledged that certain U.S. states had enacted laws relating to the use of marijuana and outlined the U.S. federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. "**Cole Memo**" means the memorandum dated August 29, 2013, addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the United States, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent: (1) distribution of cannabis to minors; (2) criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis; (3) transfer of cannabis from States where it is legal to States where it is illegal; (4) cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity; (5) violence or use of firearms in cannabis cultivation and distribution; (6) drugged driving and adverse public health consequences from cannabis use; (7) growth of cannabis on federal lands; and (8) cannabis possession or use on federal property.

On January 4, 2018 and as discussed above, the Cole Memo was rescinded by a one-page memo signed by the former U.S. Attorney General Jeff Sessions ("**Sessions Memorandum**"). It is the Company's opinion that the Sessions Memorandum does not represent a significant policy shift as it does not alter the U.S. Justice Department's discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the U.S. Justice Department to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. U.S. state attorney generals will continue to have discretion over how the federal law is enforced with respect to the companies that operate in the states where cannabis has been legalized for medical or adult use.

Even though the Cole Memo has been rescinded the Company intends, as guiding corporate policy, to continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current U.S. Federal enforcement guidelines relating to U.S. states in which the Company operates or has investments in.
There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with State laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal laws vigorously. Any such change in the U.S. federal government's enforcement of current U.S. federal laws could cause adverse financial impact and remain a significant risk to the Company's business.

On December 16, 2014, President Obama signed the H.R.83 - Consolidated and Further Continuing Appropriations Act, 2015 ("**Omnibus Bill**"), approving spending for certain federal agencies through September 30, 2015. Section 583 of the Omnibus Bill prohibits the United States government from using federal funds to prevent states with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

On May 5, 2017, U.S. President Trump signed into law H.R. 244 - the Consolidated Appropriations Act, 2017, which authorizes appropriations that fund the operation of the Federal Government through September 30, 2017. Section 587 of the Consolidated Appropriations Act prohibits the United States government from using federal funds to prevent States with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of state-legal medical marijuana. Nevertheless, (1) this does not prevent the United States government from using federal funds to prevent states with retail marijuana laws from implementing such laws requiring use, distribution, possession or coloration of adult use marijuana; and (2) there can be no certainty that future U.S. federal funding bills will include similar provisions.

On November 14, 2017, Jeff Sessions, the former Attorney General of the United States appearing before the House Judiciary Committee commented on prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement Mr. Sessions stipulated that the U.S. Federal Government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the states may legalize marijuana for its law enforcement purposes, but it still remains illegal with regard to federal purposes.

On March 22, 2018, the House of Representatives and Senate voted in favour of approving the Omnibus Spending Bill and it was signed into law the following day by the President of the United States. Section 538 of the Bill provided for an extension of the Rohrabacher-Leahy Amendment until September 30, 2018. The extension has been extended through December 22, 2018 as part of a short-term continuation of appropriations. The Rohrabacher-Leahy Amendment prevents the U.S. Department of Justice from using federal funds in enforcing federal law relating to state-legal medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since that time. It should be noted that this amendment does not apply to state-legal retail marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Sen. Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recession of the Cole memo will not impact Colorado's state legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding of states' rights to regulate cannabis. Around the same timeframe it was announced that a former Republican House Speaker John Boehner has been appointed to the advisory board of a private U.S. cannabis company. The Company is cautiously optimistic that these developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government. On November 7, 2018, Mr. Sessions resigned as the Attorney General of the United States and Mr. Matthew Whitaker was appointed as a new Attorney General of the United States.

Additionally, on June 7, 2018, the "Strengthening the Tenth Amendment Through Entrusting States Act" ("**STATES Act**") was introduced in the Senate by Republican Senator Cory Gardner of Colorado and Democratic Senator Elizabeth Warren of Massachusetts. A companion bill was introduced in the House by Democratic representative Jared Polis of Colorado. The bill provides in relevant part that the provisions of the CSA, as applied to marijuana, "shall not apply to any person acting in compliance with state law relating to the manufacture, production, possession, distribution, dispensation, administration, or delivery of marihuana." Even though marijuana will remain within Schedule I under the STATES Act, it makes the CSA unenforceable to the extent it is in conflict with state law. In essence, the bill extends the limitations afforded by the Rohrabacher-Blumenauer protection within the federal budget − which prevents the Department of Justice and the Drug Enforcement Agency from using funds to enforce federal law against state-legal medical cannabis commercial activity − to both medical and recreational cannabis activity in all states where it has been legalized. By allowing continued prohibition to be a choice by the individual states, the STATES Act does not fully legalize cannabis on a national level. In that respect, the bill emphasizes states' rights under the Tenth Amendment, which provides that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

On November 7, 2018, Jeff Sessions resigned as Attorney General. He was replaced by Matthew Whittaker as Acting Attorney General, an appointee of President Donald Trump. Currently, there are one or more lawsuits challenging the constitutional validity of the Whittaker appointment. Mr. Whittaker's views on marijuana are not well known.

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with State laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal law vigorously. **Any such change in the U.S. federal government's enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company's businesses, which could in turn have an impact on the Company's.** See "Risk Factors".

***Responses of U.S. Attorneys to Sessions Memorandum***

The following is a summary of U.S. Attorneys' responses following the Sessions Memorandum in the States in which the Company operates.

*California*

McGregor Scott, U.S. Attorney for the Eastern District of California, said he will prioritize illegal marijuana operations rather than going after the legal recreational marijuana market. He commented, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there, so for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

The acting US Attorney for the Northern District of California, Alex Tse, assumed his position on January 7, 2018. He has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

The US Attorney for the Central District of California is Nicola Hanna, who was nominated and confirmed by the Senate in April of 2018. He has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize cannabis", "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent." On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

*Illinois*

To the knowledge of the Company's management, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Illinois.

*Oregon*

The Company's Oregon operations are in Bend, which falls within the U.S. District Court for the District of Oregon. The U.S. Attorney for the Western District of Washington is Billy Williams, who was appointed in 2015. In response to the Sessions Memo, he commented, "As noted by Attorney General Sessions, today's memo on marijuana enforcement directs all U.S. Attorneys to use the reasoned exercise of discretion when pursuing prosecutions related to marijuana crimes. We will continue working with our federal, state, local and tribal law enforcement partners to pursue shared public safety objectives, with an emphasis on stemming the overproduction of marijuana and the diversion of marijuana out of state, dismantling criminal organizations and thwarting violent crime in our communities."

In February 2018, U.S. Attorney Billy Williams told a gathering that included Governor Kate Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five priorities for going after illegal cannabis operations that violate federal laws, with the first priority to crack down on the leakage of surplus marijuana into bordering states where pot is still against the law. The memo also stated that federal prosecutors will also target keeping marijuana out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage federal lands through improper pesticide and water usage. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon, other than an August 3, 2018 statement by Mr. Williams that an Oregon-Idaho High Intensity Drug Area program report "confirms what we already know (about cannabis in Oregon) – it is out of control." Williams also issued a missive that state officials respond "quickly and in a comprehensive manner to address the many concerns raised. To date, we've seen insufficient progress from our state officials."

*Washington*

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

The Company's Washington operations are in Bellingham, which falls within the U.S. District Court for the Western District of Washington. The U.S. Attorney for the Western District of Washington is Annette Hayes, who was appointed in 2014. On the same day as the rescinding of the Cole Memorandum, she commented, "Today the Attorney General reiterated his confidence in the basic principles that guide the discretion of all U.S. Attorneys around the country and directed that those principles shepherd enforcement of federal law regarding marijuana. He also emphasized his belief that U.S. Attorneys are in the best position to address public safety in their districts and address the crime control problems that are pressing in their communities. Those principles have always been at the core of what the United States Attorney's Office for Western Washington has done—across all threats to public safety, including those relating to marijuana. As a result, we have investigated and prosecuted over many years cases involving organized crime, violent and gun threats, and financial crimes related to marijuana. We will continue to do so to ensure—consistent with the most recent guidance from the Department—that our enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve."

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Washington State.

*Colorado*

On January 4, 2018, U.S. Attorney Bob Troyer of the District of Colorado has issued the following statement saying there are no plans to change marijuana prosecutions:

"Today the Attorney General rescinded the Cole Memo on marijuana prosecutions and directed that federal marijuana prosecution decisions be governed by the same principles that have long governed all of our prosecution decisions. The United States Attorney's Office in Colorado has already been guided by these principles in marijuana prosecutions—focusing in particular on identifying and prosecuting those who create the greatest safety threats to our communities around the state. We will, consistent with the Attorney General's latest guidance, continue to take this approach in all of our work with our law enforcement partners throughout Colorado."

On October 4, 2018 Mr. Troyer commented publicly that the priority of his office is focused on the public safety and indicated that there is a possibility of enforcing federal laws with regards to State-licensed cannabis businesses in the instances where the State-licensed businesses are involved with illegal drug-trafficking groups and which serve as fronts for illegal cannabis businesses. In the interview Mr. Troyer did not specify all situations which could constitute a public safety concern and there is no assurance that solely operating within the Colorado State law is sufficient for State-licensed businesses to remain out of the scope of the current federal enforcement priorities of those authorities that are focused on the State of Colorado.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Colorado.

*Nevada*

In response to the Sessions Memorandum, Nevada Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Governor Brian Sandoval also stated, "Since Nevada voters approved the legalization of recreational marijuana in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos," and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational marijuana. In the November 2018 election, Nevada elected a new governor, Steve Sisolak, and a new Attorney General, Aaron Ford. Both have historically been supportive of Nevada's marijuana industry and allowing it to grow in a healthy, regulated market in the state. They will begin their four-year terms of office at the beginning of January 2019.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada.

*Arizona*

Following the issuance of the Sessions Memorandum on January 4, 2018, the U.S. Attorney's Office for the District of Arizona, headed by acting U.S. Attorney Elizabeth Strange, had not made any public comments regarding the enforcement of federal law related to cannabis, other than stating that the Office is "committed to the enforcement of federal law". To the knowledge of the Company's management, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Arizona.

*Florida*

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General, headed by Florida Attorney General Pam Bondi, or any U.S. attorneys from the other Districts of Florida. Ms. Bondi's office on August 3, 2018 filed a 57-page brief arguing that an appeals court should uphold a decision by the legislature to ban smoking medical marijuana. The brief, filed at the 1st District Court of Appeal, came as the state challenges a May 2018 ruling by Leon County Circuit Judge Karen Gievers, who said the smoking ban violates a 2016 constitutional amendment that broadly legalized medical marijuana.

To the knowledge of the Company's management, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Florida.

***Enforcement of U.S. Federal Laws***

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

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could continue to operate or to expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors".

Further, violations of any federal laws and regulations 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. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors".

***U.S. Enforcement Proceedings***

The U.S. Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("**Rohrabacher-Blumenauer Amendment**"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the U.S. Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the "**Rohrabacher-Leahy Amendment**") and continued the protections for the state-legal medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. CSA, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, the U.S. federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the U.S. CSA's five-year statute of limitations.

***Ability to Access Public and Private Capital***

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. The Company has had cannabis-related activities in the United States since 2014. In addition, the Company has had successes in completing several public and private offerings in the last number of years, including private placements of Common Shares, Common Share purchase warrants, Convertible Debentures and secured notes. However, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants, given that marijuana is illegal under U.S. federal law. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company has never needed to access public equity capital in the U.S.

**State-Level Overview**

Regulations differ significantly amongst the U.S. states. Some U.S. states only permit the cultivation, processing and distribution of medical marijuana and cannabis-infused products. Some U.S. states may also permit the cultivation, processing, and distribution of marijuana for adult purposes and retail cannabis-infused products.

The following sections present an overview of state-level regulatory and operating conditions for the marijuana industry in which the Company has direct, indirect and material ancillary involvement.

*California*

California has an existing medical marijuana law and voted to approve the "Adult Use of Marijuana Act" ("**AUMA**") to tax and regulate for all adults 21 years of age and older on November 8, 2016. California was the first State to pass medical marijuana in 1996, allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation

companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On June 27, 2017, California State Legislature passed Senate Bill No. 94, known as 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. On November 16, 2017, the State of California has introduced the emergency regulations, which shall be governed by California Bureau of Cannabis Control, California Department of Public Health and California Department of Food and Agriculture (collectively "**Emergency CA Regulations**"), which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. The current Emergency CA Regulations, adopted by the Bureau of Cannabis Control, California Department of Public Health and California Department of Food and Agriculture were readopted in June 2018, to meet the legislative mandate to open California's regulated cannabis market on January 1, 2018, the same date California moved to full-adult use state legalization for cannabis products. In July, California's three state cannabis licensing authorities announced the publication of proposed regulations in the California Regulatory Notice Register, the first step toward adopting non-emergency regulations. This publication is the start of the formal rulemaking process and marks the opening of the 45-day public comment period. To operate legally in California, cannabis operators must obtain a state license and local authorization. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold, except as it relates to certain cultivation Medium Outdoor, Medium Indoor or Medium Mixed light A or M license, where a party may only receive one license in the respective category but may supplement with other license types. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license and distributors may not also hold a transport license. There are no residency requirements for ownership under MAUCRSA.

Under the terms of the Readopted Emergency Regulations, the Licensing Authorities extended the regulations for an additional 180 days and implemented amendments to the current regulatory structure with the intent of providing greater clarity to licensees and address issues that have been identified by licensees since the commencement of the emergency regulations.

Key parts of the proposed changes include:

- Applicants can complete one license application and request a Medical designation, an Adult-use designation, or both in combination
- Irrespective of license designation chosen, applicants will pay only one licensing fee
- Licensees will be able to conduct commercial activities with any licensee regardless of license designation

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent." On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort.

The Company's California ancillary operations are in the Northern District of California (Oakland), and its direct operations are in the Eastern District of California (Sacramento).

McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal marijuana operations rather than going after the legal recreational marijuana market. He commented, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there, so for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

The acting US Attorney for the Northern District of California, Alex Tse, assumed his position on January 7, 2018. He has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

Under California state law, all state licensed cannabis businesses were entitled to rely on certain transition provisions until June 30, 2018. These provisions were included to ease the transition of businesses into the new regulatory regime introduced on January 1, 2018 in California. The provisions grandfathered the sale of certain products compliantly produced prior to January 1, 2018, and, among other things, also allow state licensees to transact with other state licensees regardless of the parties' adult-use (A) or medical (M) license until July 1, 2018.

Below is an overview of some of the principal license types issued in California (each of which can be issued with a Medical (M-Class) or Adult-Use (A-Class) designation):

- Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
- Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
- Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes but does not conduct extractions.
- Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.
- Type 8: authorized to test the chemical composition of cannabis and cannabis products.
- Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
- Type 10: authorized to sell cannabis goods to customers.
- Type 11: authorized to transport and store cannabis goods purchased from other licensed entities, and sell them to licensed retailers, and is responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
- Type 13: authorized to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

On October 19, 2018 each of the regulatory agencies that regulate the commercial activity in the State of California, being the Bureau of Cannabis Control ("**BCC**"), California Department of Food and Agriculture ("**CDFA**") and California Department of Public Health ("**CDPH**") have published notices to amend the rules ("**Proposed October Rules Amendments**") with regards to certain commercial cannabis activity in California. The rulemaking action regarding these regulations, initially noticed on July 13, 2018, was submitted to the California Office of Administrative Law (OAL) for review on December 3, 2018 **("Submitted Regulations").** While the regulations are under review with OAL, the re-adopted emergency regulations remain in effect and the public comment period has closed for these regulations, if adopted, they may impose additional changes on how the Company's subsidiaries conduct business in the State of California. The Company is conferring with its legal counsel as to whether the adoption of the Submitted Regulations will have any effect on the Company's contractual arrangements in California and what steps the Company needs to take in order to ensure continued compliance with the new regulations. Adoption of the Submitted Regulations by the regulators may require the Company to revise the contractual arrangements with its counterparties and there is no assurance that such contracts may be revised on the terms favorable to the Company or at all.

*Contract Manufacturing*

The Company is closely monitoring the proposed regulations from the Bureau of Cannabis Control in California with regards to contract manufacturing (California Code of Regulations Title 16, Division 42 – Medicinal and Adult Use Cannabis Regulation, Section 5032 – Commercial Cannabis Activity). The Company is in close communication with its brand partners in order to ensure full compliance when such regulation goes into effect.

*Zoning and Land Use Requirements*

Applicants are required to comply with all local zoning, environmental and land use regulations and provide written authorization from the property owner and the local jurisdiction where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization and the jurisdiction's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

*Record-Keeping and Continuous Reporting Requirements*

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

*Operating Procedure Requirements*

Applicants must submit standard operating procedures describing how the operator will, among other requirements, address transportation, security, inventory, waste disposal, and quality control as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

*Site-Visits & Inspections*

The California Operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

*Compliance with United States Operations - California*

The Company has a full-time brand manager who is responsible for all aspects of vendor compliance education and enforcement, which includes:

- Securing and updating local operating permits and state manufacturing permits;
- Screening products and product packaging for any discrepancies with regulations issued by the State's three ruling agencies: Department of Consumer Affairs' Bureau of Cannabis Control, Department of Public Health's Manufactured Cannabis Safety Brand, and Department of Food and Agriculture's CalCannabis Cultivation Licensing Division;
- Working with manufacturers and cultivators to address any packaging deficiencies;
- Testing all products according to the State code via licensed facilities;
- Working with State regulators to address any issues exposed through testing including relabeling, remediation or product destruction via licensed cannabis waste management organization; and
- Managing integration with the State's forthcoming Track and Trace program.

In addition, the Company has previously sought and continues to seek legal advice from JRG Attorneys at Law ("**JRG**"), as local external counsel, to ensure that all aspects of the license/permit, products and operation prior to acquisition (as part of due diligence) and post-acquisition is in compliance with applicable State of California law. The executive of each operating unit is responsible for overseeing and maintaining compliance post-acquisition. Aaron Johnson, a JRG partner, and who sits on the board of directors of the Company, provides additional resources for operating units, supporting all licensing activities and advising on any compliance questions or issues.

Finally, the Company is in the process of evaluating a full-time, executive level corporate compliance officer or a contract with a consulting firm that specializes in marijuana compliance, to protect the Company across all the states where we operate.

*Illinois*

On August 1, 2013, Illinois enacted the means Compassionate Use of Medical Cannabis Pilot Program Act (Illinois) ("**CUMCPPA**") legalizing medical marijuana in Illinois with the legislation taking effect on January 1, 2014. CUMCPPA establishes a patient registry program, protects registered qualifying patients and registered designated caregivers from "arrest, prosecution, or denial of any right or privilege," and allows for the registration of cultivation centers and dispensing organizations. The statute that sets out the regulations for dispensaries is: Title 68; Chapter VII; Subchapter b of the Illinois Administrative Code, titled "Rules for Administration of The Compassionate Use of Medical Cannabis Pilot Program. ("**IDFPR Rules**"). IDFPR Rules impose a number of restrictions on the affairs of the Dispensary, including rules pertaining to changes in ownership structure, addition of new dispensary agents and principal officers, entry into management agreements, bonding rules, changing the location of dispensary and setting the criteria for annual renewals. In August 2016, the Company was advised by the IDFPR that it has received all required registration information and that NHMD is licensed to operate the dispensary in Effingham, IL, thereby complying with all applicable requirements of the State of Illinois. IDFPR Rules may change at any time there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to IDFPR review and approval. The Company monitors regulatory developments on regular basis to ensure to that NHMD complies

with applicable regulation. To this end, the Company has developed a periodic reporting system for monitoring financial performance of NHMD, which is lined directly into NHMD's inventory tracking system. Certain directors and key members of the Company's executive team have access to the inventory tracking system and monitor it for potential discrepancies. In addition, the management team communicates with key members of NHMD's operating team (general manager) on regular basis, which includes a review of any compliance-related matters.

To the Company's knowledge, NHMD is in compliance with all applicable licensing requirements and the regulatory framework that have been enacted by the IDFPR. To the Company's knowledge, since the inception of its operations, NHMD has not received any material citations or notices of violation that may have an impact on the NHMD's license, business activities or operations.

*Oregon*

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and the Governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority ("**OHA**") after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act," creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed retail marijuana stores, as well as cultivate marijuana at home. The Oregon Liquor Control Commission ("**OLCC**") licenses and regulates adult-use marijuana businesses and is currently accepting applications.

On October 15, 2015, OLCC published draft recreational marijuana rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("**OAR Division 25**"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in the State of Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to OLCCs review and approval.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for adult-use cultivators, processors, wholesalers, retailers, testing facilities and research laboratories.

In Oregon, Licensed Operators generally must also obtain local permits from the municipalities where the facility will be located where the Licensed Operator intends to carry out its operations. In most municipalities in Oregon where adult-use cannabis businesses are permitted to operate, Licensed Operators must obtain a LUCS from the land use/zoning department of the county (if located in unincorporated areas of the county) or the city (if located in the incorporated areas of the county).

Both the OLCC and OHA license and regulate medical marijuana businesses to some extent. The OLCC licenses and regulates adult-use marijuana businesses, with assistance from OHA on discrete issues like testing, and with assistance from the Oregon Department of Agriculture (ODA) on hemp- and pesticide-related issues. In all other respects, ODA regulates industrial hemp. There is some additional overlap among the three agencies, with both OHA marijuana and ODA hemp allowed to enter into the OLCC system when certain requirements are met.

Aside from ODA industrial hemp permits, there are six distinct types of license types are available for medical and adult-use businesses: cultivation ("production"), manufacturing ("**processing**"), wholesaling, dispensing ("retailing"), testing and research. Vertical integration between and among production, processing, wholesale and retail is permissible, but not required, for both medical and adult-use. The law does not impose a limit on the number of licenses and applications are currently being accepted for both medical and adult-use businesses on a rolling basis, although the OLCC announced a "pause" in its review of any application submitted after June 15th, 2018.

Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

The Company received a Marijuana Processor License from the OLCC on September 14, 2018.

In the course of US midterm elections, which have taken place on November 6, 2018, a number of cities in Oregon have lifted bans on various prohibitions relating to operating marijuana businesses. The cities included: Ontario, Klamath Falls, Clatskanie and Sumpter.

*Compliance with United States Operations – Oregon*

The Company has previously sought and continues to seek legal advice from Harris Bricken, as local external counsel, to ensure that the Company is in compliance with applicable Oregon law. As the Company has applied for a processor license and expects to commence its operation in Oregon in coming months, the Company anticipates hiring to fill the compliance role similar to California, as discussed above.

*Washington*

In Washington, the Company is engaged in business through its licensing and leasing arrangement with Mt. Baker Greeneries, located in the City of Bellingham.

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

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

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

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

At this time, WSLCB is not accepting applications for new licenses, as such there is a limited number of Licensed Operators that the Company can enter into commercial relationship with. In addition, there is no assurance that any such relationships will be approved by the WSLCB.

*Colorado*

On November 7, 2000, 54% of Colorado voters approved Amendment 20, which amended the State Constitution to allow the use of marijuana in the State for approved patients with written medical recommendation from a license physician.

Colorado voters legalized the use of retail marijuana in 2012 through amendments to the Colorado Constitution. The Colorado Amendment 64, which was passed by voters on November 6, 2012, led to legalization in January 2014. There are two sets of policies in Colorado relating to cannabis use: those for medicinal cannabis and for recreational use, along with a third set of rules governing hemp.

On January 1, 2014, Colorado became the first state in the nation to allow sales of recreational cannabis, with a licensing scheme that is overseen by the Department of Revenue, Marijuana Enforcement Division. Unlike the State of Washington, Colorado did not place caps on production or the number of licensed retail cannabis stores available within the State – as of August 1, 2018, there were about 532 licensees in the state. Any adult aged 21 or over may purchase up to one ounce of cannabis or cannabis products per day from a licensed retailer.

Governor Hickenlooper signed several bills into law on May 28, 2013, implementing the recommendations of the Task Force on the Implementation of Amendment 64. On September 9, 2013, the Colorado Department of Revenue adopted final regulations for recreational marijuana establishments, implementing the Colorado Retail Marijuana Code (HB 13-1317). On September 16, 2013, the Denver City Council adopted an ordinance for retail marijuana

establishments. During 2014, the first year of implementation of Colorado Amendment 64, Colorado's legal marijuana market (both medical and recreational) reached total sales of $700 million.

The Colorado Department of Revenue's Marijuana Enforcement Division licenses and regulates Marijuana Businesses in the State of Colorado. To operate legally in Colorado, cannabis operators must apply for a Marijuana Business License, and must meet certain statutory requirements including being at least 21 years of age or older and a resident of the state of Colorado. Additionally, they must confirm that the city and county where they plan to operate their business within their jurisdiction. Anyone working within Colorado's marijuana industries must also obtain a Marijuana Occupational License. These application and licensing fees can range from anywhere from $3,000 to over $13,000.

*Nevada*

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

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

As of July 1, 2017, NDT is responsible for licensing and regulating retail marijuana businesses in Nevada and for Nevada's State medical marijuana program. The NDT accepted applications for an early start program governed by Nevada Temporary Regulation T002-17. The early start program ran from July 1, 2017 to December 31, 2017, and only operational medical marijuana establishment certificate holders in good standing, with the exception of distributor licenses, (which is a new license type under the retail program) were able to participate.

Licensing and operations requirements for production and distribution of medical marijuana are set out in NRS 435A. Each medical marijuana establishment must register with the NDT and apply for a medical marijuana establishment registration certificate. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical marijuana establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony conviction or had a previously granted medical marijuana registration revoked.

Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the NDT as a medical marijuana agent and hold a valid medical marijuana establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical marijuana establishment will sell or deliver edible marijuana products or cannabis-infused products, proposed operating procedures for handling such products must be preapproved by the NDT.

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

(1) The total financial resources of the applicant, both liquid and illiquid;

(2) The previous experience of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment at operating other businesses or nonprofit organizations;

(3) The educational achievements of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment;

(4) Any demonstrated knowledge or expertise on the part of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment with respect to the compassionate use of marijuana to treat medical conditions;

(5) Whether the proposed location of the proposed medical marijuana establishment would be convenient to serve the needs of persons who are authorized to engage in the medical use of marijuana;

(6) The likely impact of the proposed medical marijuana establishment on the community in which it is proposed to be located;

(7) The adequacy of the size of the proposed medical marijuana establishment to serve the needs of persons who are authorized to engage in the medical use of marijuana;

(8) Whether the applicant has an integrated plan for the care, quality and safekeeping of medical marijuana from seed to sale;

(9) The amount of taxes paid to, or other beneficial financial contributions made to, the State of Nevada or its political subdivisions by the applicant or the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment; and

(10) Any other criteria of merit that the Division determines to be relevant.

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

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

There are five types of retail marijuana establishment licenses under Nevada's retail marijuana program:

(1) Cultivation Facility - licensed to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.

(2) Distributor - licensed to transport marijuana from a marijuana establishment to another marijuana establishment. For example, from a cultivation facility to a retail store.

(3) Product Manufacturing Facility - licensed to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers. Marijuana products include things like edibles, ointments, and tinctures.

(4) Testing Facility - licensed to test marijuana and marijuana products, including for potency and contaminants.

(5) Retail Store - licensed to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

Administration of the regular retail program in Nevada is governed by the Nevada Revised Statutes, Chapter 453D - Regulation and Taxation of Marijuana, and permanent regulations, Adult-Use Marijuana Regulation (LCB File No. R092-17) dated December 13, 2017, which were approved by the NDT in January 2018. The application period to apply for a retail dispensary license was open for a ten-day period in September 2018, during which time the NDT accepted applications from qualified existing medical marijuana establishment certificate holders to apply for one or more recreational retail marijuana store license/s.

*Arizona*

In Arizona, the medical marijuana program is administered by the Arizona Department of Health Services ("**ADHS**") under Arizona Medical Marijuana Act (Arizona Revised Statute Title 36 Chapter 28.1) and Medical Marijuana Rules (Arizona Administrative Code, Title 19 Health Services, Chapter 17 Department of Health Services-Medical Marijuana Program).

A qualifying patient, who has been diagnosed with one of the debilitating medical conditions will need to get a written certification from a physician (medical doctor, osteopath, naturopath, or homeopath licensed to practice in Arizona) with whom he/she has a physician-patient relationship. The written certification has to be on a form provided by ADHS within 90 days before submitting an application for a registry identification card. After obtaining the written certification from the physician, the qualifying patient can apply online for a registry identification card, after April 14, 2011.

Allopathic (MD), Osteopathic (DO), Homeopathic [MD(H) or DO(H)], and Naturopathic [NMD or ND] physicians who have a physician-patient relationship with the patient may write certifications for medical marijuana. The physician must hold a valid Arizona license.

ADHS will periodically review the demographics of qualifying patients. If ADHS determines that a physician providing written certifications may be engaging in unprofessional conduct, ADHS will provide information to the physician's licensing board.

"Debilitating medical condition" means one or more of the following:

(a) Cancer, glaucoma, positive status for human immunodeficiency virus, acquired immune deficiency syndrome, hepatitis C, amyotrophic lateral sclerosis, crohn's disease, agitation of Alzheimer's disease or the treatment of these conditions.

(b) A chronic or debilitating disease or medical condition or its treatment that produces one or more of the following: cachexia or wasting syndrome; severe and chronic pain; severe nausea; seizures, including those characteristics of epilepsy; or severe and persistent muscle spasms, including those characteristics of multiple sclerosis.

(c) Any other medical condition or its treatment added by ADHS.

The law and rules specify requirements for issuing written certifications for patients for the medical use of marijuana. A physician is required to:

- Have made or confirmed a diagnosis of a debilitating medical condition for the qualifying patient;
- Have established a medical record for the qualifying patient and is maintaining the qualifying patient's medical record;
- Have conducted an in-person physical examination of the qualifying patient within the last 90 calendar days appropriate to the qualifying patient's presenting symptoms and the debilitating medical condition the physician diagnosed or confirmed;
- Have reviewed the qualifying patient's medical records, including medical records from other treating physicians from the previous 12 months, the qualifying patient's responses to conventional medications and medical therapies, and the qualifying patient's profile on the Arizona Board of Pharmacy Controlled Substances Prescription Monitoring Program database;
- Have explained the potential risks and benefits of the medical use of marijuana to the qualifying patient, or if applicable, the qualifying patient's custodial parent or legal guardian;
- Have reviewed evidence documenting that the patient is currently undergoing conventional treatment for PTSD, if treating a PTSD patient.
- If the physician has referred the qualifying patient to a dispensary, have disclosed to the qualifying patient, or if applicable, the qualifying patient's custodial parent or legal guardian, any personal or professional relationship I have with the dispensary;
- Address the potential dangers to fetuses caused by smoking or ingesting marijuana while pregnant or to infants while breastfeeding and inform the patient that the use of marijuana during pregnancy may result in a risk of being reported to the Department of Child Safety during pregnancy or at the birth of the child by persons who are required to report; and
- Attest that, in the physician's professional opinion, the qualifying patient is likely to receive therapeutic or palliative benefit from the qualifying patient's medical use of marijuana to treat or alleviate the qualifying patient's debilitating medical condition.

In addition, for a patient who is under the age of 18, another physician must:

- Have conducted a comprehensive review of the qualifying patient's medical records from other physicians treating the qualifying patient;
- If the physician has referred the qualifying patient to a dispensary, have disclosed to the qualifying patient, or if applicable, the qualifying patient's custodial parent or legal guardian, any personal or professional relationship I have with the dispensary; and
- Attest that, in the physician's professional opinion, the qualifying patient is likely to receive therapeutic or palliative benefit from the qualifying patient's medical use of marijuana to treat or alleviate the qualifying patient's debilitating medical condition.

*Florida*

In Florida, the medical marijuana program is administered by the Florida Health, Office of Medical Marijuana Use.

The Florida Legislature passed Senate Bill 1030, the Compassionate Medical Cannabis Act of 2014, during the 2014 legislative session to specifically allow for the medical usage of "low-THC cannabis." In 2016, the Florida Legislature passed House Bill 307, the Compassionate Medical Cannabis Act of 2016, to amend the Act to further allow for the medical usage of "medical cannabis. "These Acts are now included in 2017 Florida Statutes, under title XXIX-Public Health General Provisions, 381.986 Medical Use of Marijuana.

Under the Florida statute, "Qualified physician" means a person who holds an active, unrestricted license as an allopathic physician under chapter 458 (M.D.) or as an osteopathic physician under chapter 459 (D.O.) and is in compliance with the physician education requirements of subsection (3) (additional course).Accordingly, a physician licensed by the Florida Board of Medicines (M.D./Allopathic Physician) or by the Florida Board of Osteopathic Medicine (D.O./Osteopathic Physician) can order low-THC cannabis and medical cannabis for their patients' use, provided they obtain the additional certification. The law requires that before ordering low-THC cannabis or medical cannabis for use by a patient, the ordering physician must successfully complete an 8-hour course offered by either the Florida Medical Association or the Florida Osteopathic Medical Association. The course encompasses the clinical indications for the appropriate use of low-THC and medical cannabis, the appropriate delivery mechanisms, the contraindications for such use, as well as the relevant state and federal laws governing the ordering, dispensing, and possessing of this substance. The physician must successfully pass an examination upon completion of the course. This course and examination must be taken once every two years (prior to renewal of the physician's license to practice medicine).

A qualified physician may not be employed by, or have any direct or indirect economic interest in, a medical marijuana treatment center or marijuana testing laboratory.

"Qualified patient" means a resident of this state who has been added to the medical marijuana use registry by a qualified physician to receive marijuana or a marijuana delivery device for a medical use and who has a qualified patient identification card.

“Qualifying medical condition” means a patient must be diagnosed with at least one of the following conditions to qualify to receive marijuana or a marijuana delivery device:

(a) Cancer.
(b) Epilepsy.
(c) Glaucoma.
(d) Positive status for human immunodeficiency virus.
(e) Acquired immune deficiency syndrome.
(f) Post-traumatic stress disorder.
(g) Amyotrophic lateral sclerosis.
(h) Crohn's disease.
(i) Parkinson's disease.
(j) Multiple sclerosis.

(k) Medical conditions of the same kind or class as or comparable to those enumerated in paragraphs (a)-(j).

(l) A terminal condition diagnosed by a physician other than the qualified physician issuing the physician certification.

(m) Chronic non-malignant pain.

A qualified physician may issue a physician certification only if the qualified physician:

1. Conducted a physical examination while physically present in the same room as the patient and a full assessment of the medical history of the patient.
2. Diagnosed the patient with at least one qualifying medical condition.
3. Determined that the medical use of marijuana would likely outweigh the potential health risks for the patient, and such determination must be documented in the patient's medical record. If a patient is younger than 18 years of age, a second physician must concur with this determination, and such concurrence must be documented in the patient's medical record.
4. Determined whether the patient is pregnant and documented such determination in the patient's medical record. A physician may not issue a physician certification, except for low-THC cannabis, to a patient who is pregnant.
5. Reviewed the patient's-controlled drug prescription history in the prescription drug monitoring program database established pursuant to s. 893.055.
6. Reviews the medical marijuana use registry and confirmed that the patient does not have an active physician certification from another qualified physician.
7. Registers as the issuer of the physician certification for the named qualified patient on the medical marijuana use registry in an electronic manner determined by the department, and:
   (i) Enters into the registry the contents of the physician certification, including the patient's qualifying condition and the dosage not to exceed the daily dose amount determined by the department, the amount and forms of marijuana authorized for the patient, and any types of marijuana delivery devices needed by the patient for the medical use of marijuana.
   (ii) Updates the registry within 7 days after any change is made to the original physician certification to reflect such change.
8. Physician must receive a signed informed consent from the patient or the patient's parent or legal guardian, acknowledging the qualified physician has sufficiently explained its content.

***Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities***

The Company's exposure to the U.S. marijuana-related activities through (1) the manufacture and sale of various cannabis consumer products in California and Oregon (2) material investment in companies it does not control with operation in Arizona, Nevada and Florida and (3) material ancillary involvement in companies it does not control with operation in Colorado, Washington and California.

The Company holds a manufacturer permit of cannabis consumer products and a temporary distribution license in the state of California.

The non-controlling investments held by the Company consists of equity-accounted investments in Aura and investments without significant influence.

The following is the summary of the Company's balance sheet exposure to the U.S. cannabis-related activities as at October 31, 2018:

| | Subsidiaries | Non-controlling investments | Total | Percentage (%) exposure to the US marijuana industry |
|---|---|---|---|---|
| | $ | $ | $ | % |
| Current assets | 8,983,415 | 75,000 | 9,058,415 | 58% |
| Non-current assets | 17,028,841 | 379,877 | 17,408,718 | 98% |
| Total assets | 26,012,256 | 454,877 | 26,467,133 | 79% |
| | | | | |
| Current liabilities | 10,146,387 | - | 10,146,387 | 99% |
| Non-current liabilities | 2,802,943 | 15,500 | 2,818,443 | 26% |
| Total liabilities | 12,949,330 | 15,500 | 12,964,830 | 62% |

The following is the summary of operating losses from U.S. cannabis-related activities for the three months ended October 31, 2018:

| | Subsidiaries | Non-controlling investments | Total | Percentage (%) exposure to the US marijuana industry |
|---|---|---|---|---|
| | $ | $ | $ | % |
| Sales | 5,763,680 | - | 5,763,680 | 100% |
| Cost of goods sold | (4,639,122) | - | (4,639,122) | 100% |
| Operating Expenses | (3,724,485) | - | (3,724,485) | 88% |
| Other income | - | 158,100 | 158,100 | 100% |
| Gain on sale of interest in a joint venture | | 3,558,510 | 3,558,510 | 100% |
| Change in fair value of investments | - | (98,628) | (98,628) | 100% |
| Income from investments in associate | - | 65,661 | 65,661 | 100% |
| Net operating (loss) income | (2,599,927) | 3,683,643 | 1,083,716 | 77% |

The operating expenses include expenses incurred directly by subsidiaries, amortization for investment properties, intangibles assets, and capital assets. The operating expenses exclude share-based payments and any allocation of expenses incurred at the Company's head office.

***Canadian Law***

Legal access to dried cannabis for medical purposes was first allowed in Canada in 1999 through Section 56 Exemptions under the Controlled Drugs and Substances Act ("**CDSA**"). The decision of the Court of Appeal for Ontario in 2000 in *R. v. Parker* held that individuals with a medical need had the right to possess cannabis for medical purposes. This led to the implementation of the Medical Marihuana Access Regulations ("**MMAR**") in 2001. Under the MMAR, residents of Canada who had been authorized by their health care practitioners to access cannabis for

medical purposes could access dried cannabis for those purposes by producing their own cannabis plants, designating someone to do so on their behalf, or purchasing cannabis from Health Canada.

The MMAR was repealed on March 31, 2014 and was replaced by the Marihuana for Medical Purposes Regulations ("**MMPR**"). The MMPR established a legal regime for licensing producers and permitting the sale of dried cannabis to registered patients pursuant to a medical document provided by a health care practitioner, for the purpose of seeking to ensure that individuals resident in Canada with a medical need could access quality-controlled cannabis grown under secure and sanitary conditions.

The MMPR was simpler and involved fewer obstacles than the previous regulatory regime and allowed for competition among Licensed Producers on a host of factors including product quality, customer service, price, variety and brand awareness.

In June 2015, the Supreme Court of Canada decided in *R. v. Smith* that restricting legal access to only dried cannabis was unconstitutional. The Court decided that individuals with a medical need have the right to use and make other cannabis products. To eliminate uncertainty around a legal source of supply of cannabis, in July 2015 the Minister issued Section 56 Exemptions under the CDSA to allow, among other things, Licensed Producers to produce and sell cannabis oil and fresh cannabis in addition to dried cannabis, and to allow authorized users to possess and alter different forms of cannabis.

The MMPR was repealed on August 24, 2016, and was replaced by the Access to Cannabis for Medical Purposes Regulations ("**ACMPR**") as a result of a decision by the Federal Court of Canada in February 2016 in *Allard v. Canada*, which found that requiring individuals to obtain cannabis only from Licensed Producers violated liberty and security rights protected by section 7 of the Canadian Charter of Rights and Freedoms. The Court found that individuals who require cannabis for medical purposes did not have "reasonable access" under the MMPR regime.

The ACMPR are the current governing regulations regarding the production, sale, and distribution of cannabis products, including cannabis oil, in Canada. The process of becoming a Licensed Producer is rigorous and management believes that this process presents a significant barrier to entry for prospective licensees. As part of the regulatory improvements announced by Health Canada on May 26, 2017, in connection with streamlining the licensing process and enabling increased production of cannabis by Licensed Producers, Health Canada streamlined the application process for becoming a Licensed Producer. The stages in the application process are now summarized as follows: 1. Applications Received / Preliminary Screening; 2. Enhanced Screening; 3. Security Clearance and Application Review; 4. Licensing and Inspection. Health Canada requires rigorous testing of cannabis products and derivatives provided by Licensed Producers. A Licensed Producer is subject to a wide variety of compliance and enforcement activities conducted by Health Canada after it has received its licence.

In 2015, the Government of Canada announced a platform advocating for the legalization of recreational cannabis in order to regulate the illegal market and restrict access by under-aged individuals. On April 20, 2016, the Government of Canada announced its intention to introduce, by the spring of 2017, legislation to legalize the recreational use of cannabis in Canada. On April 13, 2017, the Cannabis Act was introduced. The Cannabis Act provides a licensing and permitting scheme for the production, testing, packaging, labelling, sending, delivery, transportation, sale, possession, and disposal of cannabis, to be implemented by regulations made under the Cannabis Act. The Cannabis Act was passed by the House of Commons and the Canadian Senate, and on June 19, 2018 and came into effect on October 17, 2018. The Company does not currently operate in Canada but continues to assess opportunities in the Canadian market.

**Risk Factors**

There are numerous and various risks, known and unknown, that may prevent the Company from achieving its goals. It is believed that these are the factors that could adversely affect the Company's business, financial condition or results of operation. In such case, the trading price of the Common Shares could decline, and investors could lose all or part of their investment. The following is a summary of certain risks that could be applicable to the business of the Company:

*Limited operating history*

The Company has a very limited history of operations, is in the early stage of development. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of 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 its early stage of operations. The Company has no history of earnings. Because the Company has a limited operating history in emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

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

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

*Reliance on securing agreements with Licensed Producers*

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

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

The Company has advanced, and may continue to advance, significant funds to Palo Verde in the form of unsecured loans, which the Company may not be able to collect if Palo Verde fails to profitably operate its business. Palo Verde is a development stage entity with limited capacity to raise funds. There is no assurance that any or all of the amounts loaned will be recovered by the Company. If Palo Verde is unable to operate in in a profitable fashion or secure an alternative source of funds, the full amount of the loan might be written off.

*Regulation*

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

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect

additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations.

Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

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

*U.S. Federal Laws*

**The Federal Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of relevant laws is a significant risk.**

The business operations of the Company are dependent on State laws pertaining to the cannabis industry. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of cannabis, which would negatively impact the business of the Company.

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

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

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company's operations. Local, state and federal medical cannabis laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal

and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

*United States border crossing*

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the United States. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the United States due to their involvement in the cannabis sector.

The majority of persons travelling across the Canadian and U.S. border do so without incident, whereas some persons are simply barred entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the United States has not changed its admission requirements in response to the legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the United States may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the United States may be denied to any person working or 'having involvement in' the cannabis industry, according to United States Customs and Border Protection. Inadmissibility in the United States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

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

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

*The Company is dependent on intellectual property, and failure to protect the rights to use that intellectual property could adversely the Company's future growth and success.*

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. As a result, intellectual property of the Company's U.S. investments 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 the businesses in which it invests will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

The Company's failure to protect its existing intellectual property rights may result in the loss of exclusivity or the right to use the brands and technologies to which the Company has acquired or internally developed. If the Company does not adequately ensure the freedom to use this intellectual property the Company may be subject to damages for infringement or misappropriation, and/or be enjoined from using such intellectual property. In addition, it may be difficult for the Company to enforce certain of its intellectual property rights against third parties who may have inappropriately acquired interests in the Company's intellectual property rights by filing unauthorized trademark applications in foreign countries to register the Company's marks because of their familiarity with our business in the United States. See "Business Overview – Products and Services – Brands and Intellectual Property". Any potential intellectual property litigation could result in significant expense to the Company, adversely affect the development of sales of the challenged product or intellectual property and divert the efforts of the Company's technical and management personnel, whether or not such litigation is resolved in the favor of the Company. In the event of an adverse outcome in any such litigation, the Company may, among other things, be required to: pay substantial damages; cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property; expend significant resources to develop or acquire non-infringing intellectual property; discontinue processes incorporating infringing technology; or obtain licenses to the infringing intellectual property.

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

The United States Congress has passed appropriations bills (the "**Leahy Amendment**") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of fiscal year 2018.

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

*Access to Banks*

The Company may have difficulty accessing the service of banks, which may make it challenging to operate efficiently.

As the result of U.S. federal prohibitions on cannabis and concerns in the banking industry regarding money laundering and other federal financial crime related to marijuana, the access to U.S. banking system which include, but not limited to, inability to deposit funds in federally insured and licensed banking institutions have been restricted. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to service their businesses or access to credit card processing services. As a result, cannabis businesses in the U.S. are largely cash-based which complicates the implementation of financial controls and increases security and safety issues. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

*Anti-Money Laundering Laws and Regulations*

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including 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), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the Common Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

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

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and U.S., the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results. Such third parties may include but not limited to: suppliers, contractors, business service providers, financial service providers, depository and clearing service providers.

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges may refuse to enforce contracts in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, the lack of which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

*Lack of Access to U.S. Bankruptcy Protections*

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company's United States operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

*Product liability, operational risk*

As a licensing company (in the case of the Company) and a manufacturer and distributor of products (in the case of the Licensed Operators) designed to be ingested by humans, the Licensed Operators and the Company 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. In addition, the manufacture and sale of cannabis-infused products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's and the Licensed Operator's products alone or in combination with other medications or substances could occur.

*Product recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by Licensed Operators are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant management attention and could harm the image of the brand and Company.

*Uninsurable risks*

Medical and retail cannabis businesses are 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.

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

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

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

*Additional financing*

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. There is no certainty that additional financing, if needed, will be available on acceptable terms, or at all.

Access to public and private capital and financing continues to be negatively impacted by the federal illegality of cannabis in the United States. Although the Company has had success completing public and private capital in the past, the Company's ability to obtain debt and/or equity financing in the future on favorable terms or obtain any financing at all cannot be guaranteed.

Furthermore, any debt financing, if available, may involve restrictive covenants and granting of security against assets of the Company, which may limit its operating flexibility with respect to business matters as well as may make it more difficult for the Company to obtain additional capital. The Company will require additional financing to fund its operations until anticipated positive cash flow is achieved.

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.

*Risks Affecting the real estate industry*

The Company is subject to risks generally associated with ownership of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of, or demand for, similar or competing properties in the area; (c) bankruptcies, financial difficulties or defaults by tenants or other parties (including Licensed Operators and Licensed Operators); (d) increases in operating costs, such as taxes and insurance; (e) the inability to achieve full stabilized occupancy at rental rates adequate to produce targeted returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; and (j) changes in tax, real estate, environmental, zoning or other laws or regulations. There is no assurance that the Company's investments will yield an economic profit.

Weakness in regional and national economies could materially and adversely impact the Licensed Operators and Licensed Operators leasing the real estate properties that the Company's may acquire in the future. If the Licensed Operators or Licensed Operators suffer a business disruption or the Company's ability to collect the rents from those parties may be limited, and the recourse available to the Company can be limited. As such, this may hinder the Company's ability to service its financial obligations, and in some cases, may lead to complete loss of the Company's assets if its lenders were to foreclose.

*Taxes*

U.S. federal prohibitions on the sale of cannabis may result in the Company not being able to deduct certain costs from its revenue for U.S. federal taxation purposes if the U.S. Internal Revenue Service (IRS) determines that revenue sources of the Company are generated from activities which are not permitted under U.S. federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and 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.

*The Company may be vulnerable to unfavorable publicity or consumer perception*

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception 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 favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on 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 cannabis in general, or associating the consumption of 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 hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use 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).

*Illegal drug dealer could pose threats*

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the United States, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized cannabis businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

*Reliance on management*

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

*Factors which may prevent realization of growth targets*

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

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;

- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

*Risks associated with increasing competition*

The cannabis industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult use industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labour, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

*The products provided by the Company to Licensed Operators may become subject to regulation governing food and related products*

Should the federal government legalize marijuana for medical or adult use nation-wide, it is possible that the U.S. Food and Drug Administration ("**FDA**") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938 or the United States Department of Agriculture **("USDA")**. The FDA and the USDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical cannabis and cannabis-infused products. Clinical trials may be needed to verify efficacy and safety of the medical marijuana. It is also possible that the FDA would require that facilities where medical marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event, any of these regulations are imposed, the Company cannot foresee the impact on its operations and economics. If the Company or the Licensed Operators are unable to comply with the regulations and or registration as prescribed by the FDA, USDA or another federal agency, the Company or its suppliers may be unable to continue to operate in its current form or at all.

*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 evets 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.

*Difficult to forecast*

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and the U.S. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

*Holding company*

As a holding company with no material assets other than the stock of the Company's operating subsidiaries and intellectual property, nearly all of the Company's funds generated from operations are generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay the Company's dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

*Management of growth*

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

*Dividends*

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

*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 will be conducted in the United States using U.S. Dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in U.S. Dollars in its Cannabis–Infused Products Segment. The depreciation of the Canadian Dollar against the U.S. Dollar could increase the actual capital and operating costs of the Company's U.S. operations and materially adversely affect the results presented in the Company's financial statements.

*The Company shares control in joint venture projects, which limits its ability to manage third-party risks associated with these projects.*

Joint ventures often have shared control over the operation of our joint venture assets and do not control all the decisions of the joint ventures. Therefore, joint venture investments may involve risks such as the possibility that a co-venture in an investment might become bankrupt, be unable to meet its capital contribution obligations, have economic or business interests or goals that are inconsistent with our business interests or goals, or take actions that are contrary to our instructions or to applicable laws and regulations. In addition, we may be unable to take action without the approval of our joint venture partners, or our joint venture partners could take actions binding on the joint venture without our consent. Consequently, actions by a co-venture or other third-party could expose us to claims for damages, financial penalties and reputational harm, any of which could have an adverse effect on our business and operations. In addition, we may agree to guarantee indebtedness incurred by a joint venture or co-venture or provide standard indemnifications to lenders for loss liability or damage occurring as a result of our actions or actions of the joint venture or other co-ventures. Such a guarantee or indemnity may be on a joint and several bases with a co-venture, in which case we may be liable in the event such co-venture defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations.

Preparing our financial statements requires us to have access to information regarding the results of operations, financial position and cash flows of our joint ventures. Any deficiencies in our joint ventures' internal controls over financial reporting may affect our ability to report our financial results accurately or prevent or detect fraud. Such deficiencies also could result in restatements of, or other adjustments to, our previously reported or announced operating results, which could diminish investor confidence and reduce the market price for our shares. Additionally, if our joint ventures are unable to provide this information for any meaningful period or fail to meet expected deadlines, we may be unable to satisfy our financial reporting obligations or timely file our periodic reports.

Although our joint ventures may generate positive cash flow, in some cases they may be unable to distribute that cash to the joint venture partners. Additionally, in some cases our joint venture partners control distributions and may choose to leave capital in the joint venture rather than distribute it. Because our ability to generate liquidity from our joint ventures depends in part on their ability to distribute capital to us, our failure to receive distributions from our joint venture partners could reduce our return on these investments.

The joint venture might require a need for additional capital infusions which might create an obligation on the Company to make additional contributions, failing to do which may result in reduction of the Company's interest in joint venture operations.

*Non-compliance with federal, provincial or state laws and regulations, or the expansion of current, or the enactment of new laws or regulations, could adversely affect the Company's business.*

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

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the CSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the FDA will not regulate the use of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of 1994 ("**DSHEA**") or would otherwise be permitted for use under the DSHEA. The FDA has taken steps to pursue companies that manufacture hemp-infused products that make health and medical claims about their products and may take steps to pursue companies that manufacture marijuana products. This may include Licensed Operators, which would adversely affect the Company's financial performance.

*Scientific research related to the benefits of marijuana remains in early stages, is subject to a number of important assumptions and may prove to be inaccurate*.

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids remains in early stages. To the Company's knowledge, there have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Any statements concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, any statements made herein are subject to the experimental parameters, qualifications, assumptions and limitations in the studies that have been completed.

Although the Company believes that the articles and reports, and details of research studies and clinical trials that are publicly available reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy and dosing of cannabis, future research and clinical trials may prove such statements to be incorrect or could raise concerns regarding and perceptions relating to cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this document or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could materially impact the Company.

*Negative publicity or consumer perception may affect the success of our business.*

The success of the marijuana industry may be significantly influenced by the public's perception of marijuana. Both the medical and recreational use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favourable. The marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and recreational marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of marijuana, whether in Canada, the United States or elsewhere, may have a material adverse effect on our operational results, consumer base and financial results. Among other things, such a shift in public opinion could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could identify potential acquisition opportunities.

*Certain events or developments in the cannabis industry more generally may impact the Company's reputation.*

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

**Internal Control over Financial Reporting**

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

During the three months ended October 31, 2018, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at October 31, 2018 covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is

accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Cautionary Note Regarding Forward Looking Statements**

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking Statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include, without limitation: the intention to grow the business and operations of the Company; statements regarding expected changes in laws and enforcements in the United States; statements related to the effect and consequences of certain regulatory initiatives and related announcements, and the impact thereof for shareholders, industry participants and other stakeholders; the Company's investments in the United States, the characterization, and consequences of those investments under federal law, and the framework for the enforcement of medical cannabis and cannabis related offenses in the United States; the grant and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; the anticipated future gross margins of the Company's operations. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks are set out in "Risk Factors" of this Restated MD&A. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained herein are made as of December 27, 2018 and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary Statement.

**Management's Responsibility for Financial Information**

Management is responsible for all information contained in this report. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the audited consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and assets are safeguarded.

The Audit Committee has reviewed the audited consolidated financial statements with management. The Board of Directors has approved the audited consolidated financial statements on the recommendation of the Audit Committee.

December 27, 2018

Jim Frazier
Chief Executive Officer