MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JANUARY 31, 2020

March 31, 2020

This management's discussion and analysis ("**MD&A**"), dated March 31, 2020, 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 condensed interim consolidated financial statements and related notes for the six months ended January 31, 2020, 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. The Company is directly involved (through its licensed wholly-owned subsidiaries) in the medical and/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 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 the U.S. cannabis industry.

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**", the "**Company**" or "**NHII**") is a publicly traded company incorporated in Canada on July 19, 2004, under the *Canada Business Corporations Act*. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company's common shares ("**Common Shares**") are listed on the Canadian Securities Exchange ("**CSE**") under the trading symbol "EAT". The Company is also quoted on the OTCQB Marketplace under U.S. symbol: "SPLIF".

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 Company has developed its own proprietary cannabis products including oil vape cartridges, vape all-in-one disposables, syringes, chocolate bars and infused pre-rolls under the "FLÏ" brand and in California, distributes numerous other branded cannabis products through a distributor it controls. The Company is continuously exploring additional cannabis-infused product ("**CIP**") types to be potentially offered in the future that is conducive to evolving consumer preferences and growing segments of the market.

The Company's corporate strategy is focused on identifying, acquiring and/or developing high-value products (including formulae and recipes), and brands for its CIP lines for sale by the Company where it has secured the required licensing, or for use by licensed operators ("**Licensed Operators**").

The Company is currently operating in California and Oregon and its in-house brands products, "FLÏ", 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 and assessing expansion opportunities in Washington State and Canada. The Company currently operates distribution in California and 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, Palo Verde LLC ("**Palo Verde**"), an independent third-party processer licensed by the State of Colorado, manufactures FLÏ cannabis extracts and infused products and leases facilities and equipment from the Company.

CIPs are manufactured using Nutritional High's process that employs a mix of 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 March 31, 2020, the members of Company's management and Board of Directors consisted of:

Name	Position
John Durfy	Chief Executive Officer
Rob Wilson	Chief Financial Officer
Adam Szweras	Director and Chairman of the Board
David Posner	Director
Aaron Johnson	Director
Brian Presement	Director and Compensation Committee Chair
Billy Morrison	Director and Chief Technology Officer
Tom Kruesopon	Director

Key Developments: Q2 2020 to the date hereof

Key Management

On March 3, 2020, John Durfy was appointed as the new Chief Executive Officer of Nutritional High. Mr. Durfy brings a wealth of senior management and executive experience encompassing operations, investment management, financial and business strategy over the past 30 years. Mr. Durfy has an extensive understanding of the North American cannabis landscape through participation on a number of boards, active participation in a cannabis investment corporation, as well as senior leadership experience in a medical cannabis company. He has extensive experience in the capital markets having served as a Managing Director of a major Canadian pension fund, chief investment officer of an alternative asset manager, and chief operating officer of an emerging asset manager.

With a new CEO identified, Adam Szweras, CEO of the Company since June 2019, has stepped down from his role as CEO and continue on with the Company resuming the role of the Chairman of the Board of Directors, replacing David Posner. As a founder of Nutritional High, Mr. Szweras has been active in the Company's leadership since inception and he will work closely with Mr. Durfy in the capacity of broad oversight of Nutritional High, progressing strategic partnerships and transactions and executing on the overall capital markets strategy for the Company. Mr. Posner, a founder and former CEO of the Company, will continue on as a director, providing strategic vision and oversight of Nutritional High.

On December 19, 2019, Robert Wilson joined the Company as Chief Financial Officer. Throughout his career, Mr. Wilson has held senior positions in investment banking and private equity including BMO Nesbitt Burns, Mackie Research Capital, Yorkton Securities, Working Ventures Canada Fund and Temperance Capital Income Fund. Mr. Wilson has also served as senior executive and director of a number of Canadian and US publicly listed companies where he was responsible for corporate finance, investor relations, governance, financial and regulatory reporting and mergers and acquisitions. The Company announced the resignation of former Chief Financial Officer, Mike DiNapoli, on December 10, 2019.

Corporate Strategy

In 2019, Nutritional High has evolved and organized as two distinct lines of business – distribution and manufacturing. The Company's distribution business, Calyx Brands, is based in California and has rapidly expanded its footprint and still maintains an active market access to 600+ retail dispensaries in California.. Nutritional High's manufacturing business started in California with Pasa Verde LLC and subsequently expanded to Oregon where the Company owns and operates its own extraction facility. The Company awaits regulatory approval to complete an acquisition of a majority interest in a Nevada licensed producer and is looking to expand its manufacturing reach to California. The Company has successfully leveraged both manufacturing and distribution for its own FLÏ™ branded product and is pursuing opportunities to do the same for other brands.

Nutritional High entered the distribution business in March 2018 with the acquisition of Calyx Brands. The Calyx platform is unique in that it provides distribution and fulfilment supported by a strong sales and product mechanizing. This model has resulted in significant success with the top brands in the market and has continued to onboard new brands in Q2 2020 and subsequent.

On December 10, 2019, the Company announced that its distribution business, operated under Calyx will downsize under a new service model together with the termination of its distribution relationship with a subsidiary of Plus Products Holdings Inc. ("**Plus**"). As part of these changes, Calyx has introduced a hybrid model for distribution

where new client brands can select the level of service required for each product on an à la carte basis, along with existing client brands being progressively migrated into the new platform. Through this new service model, brand partners will have the option of selecting some or all of the following services: Fulfillment Services, Account Acquisition Services and Account Activation Services. This new model positions Calyx to expand as the preferred distribution partner for brands at every stage of their growth cycle.

On February 26, 2020, the Company announced that it has entered into a non-binding letter of intent to sell a controlling interest in Calyx to a strategic partner ("Calyx Spin-off"). The strategic partner is currently undertaking due diligence. This transaction is subject to the negotiation and execution of definitive agreements as well as regulatory approval. Details of the terms of the definitive agreement will be disclosed once finalized. Upon successful closing, the Calyx Spin-off will complete the first stage of a strategic review process undertaken by Nutritional High in December 2019. This allows Nutritional High to focus on a higher margin, lower working capital intensive manufacturing footprint and brand development capabilities and leverage these strengths to penetrate existing markets in multiple states and enter emerging opportunities internationally. In California, Nutritional High will be focused towards the manufacturing and commercialization of FLI and other brands whereby the Calyx Spin-off will still enable the Company to distribute these brands through Calyx. Also, the Calyx Spin-off will result in the Company no longer consolidating Calyx financials in its consolidated financial statements.

Palo Verde, the Company's Colorado tenant who utilises the Company's know-how and branding, has established a solid and growing foothold in Colorado. Palo Verde has been expanding its sales team in Colorado and continues to improve its operations and processes. FLÏ™ products are produced in Colorado by Palo Verde, an independent third-party processor licensed by the State. Palo Verde remains focused on revenue and earnings growth and developing new product categories for recreational and medical markets. Nutritional High has no ownership interest in Palo Verde, no option to acquire such interest and no rights to control Palo Verde either directly or indirectly. FLI product sales continue to advance in the Colorado market as a beachhead for expansion in other States.

Recent regulatory changes in Colorado have paved the way for publicly traded companies to own the means of cannabis production and NHII is looking forward to additional ease of access to the market as a result of these changes.

Nutritional High continues to assess its assets and operations in Oregon and California as part of the strategic assessment of its overall business. The Company intends to commence manufacturing in one or both of these states with a focus on the development and execution of its in-house brand.

In Nevada, Nutritional High has been working to close the acquisition of Green Therapeutics upon receipt of municipal and State approval for the transfer of the licences. Pursuant to the current terms of the acquisition agreement, the Company will own a 75% interest in Green Therapeutics and consolidate this business into the Company's financial statements upon successfully closing. Green Therapeutics is a vertically integrated producer, extractor, manufacturer, and distributor with award winning concentrate and premium flower that is currently sold in the majority of dispensaries in the state.

The Company continues to work towards developing its relationship with Golden Triangle Health Company to bring a family of established branded products to North America and to source cannabis and hemp product which do not contain THC, for sale in various legal jurisdictions in Asia.

Nutritional High has raised both debt and equity from the Canadian capital markets and put this money to work in developing its business. The Company recognizes that the environment for financing has changed and, as part of the strategic assessment, has taken steps to sell assets and focus on costs containment. Through leveraging the Company's current infrastructure in both distribution and manufacturing, Nutritional High is working to ensure that the business can be sustainable and profitable.

Business Operations

California: Calyx

The Company owns 80% of Calyx Brands Inc., with an option to purchase the balance for a nominal consideration. Calyx is leading distributor of cannabis and cannabis derived products, which holds a distributor license from the Bureau of Cannabis Control of the State of California ("**BCC**"). Calyx currently has a retail footprint of over 600 dispensaries and caters to 11 brands in California.

For the six months ended January 31, 2020, the Company recognized Calyx's revenue of $9,787,128 from sales of cannabis-related products. With the loss of the largest brand in December 2019, Calyx has experienced a significant reduction in revenues (see below "Settlement Agreement and release"). In response to the decline in revenues, Calyx implemented multiple cost restructuring measures including a reduction in non-critical operational costs and administrative headcount. Calyx will maintain its statewide sales organization which will continue to service and grow its brand partners. Calyx is also currently making progress towards the implementation of its hybrid distribution model. Finally, the Calyx Spin-off aims to significantly strengthen the business as the new strategic partner to the sale transaction ("Partner") is expected to integrate its existing flower processing and supply management business into Calyx, whereby adding flower products to the brands Calyx carries through its statewide distribution network.

California: FLÏ™ Labs NorCal

The Company owns Pasa Verde LLC ("**Pasa Verde**") which leases FLÏ™ Labs NorCal ("**FLÏ™ Labs NorCal**"), a 17,600 square foot cannabis extraction and manufacturing facility located in the Green Zone of the City of Sacramento, California. Pasa Verde previously held a Temporary Type 6 License with the California Department of Public Health.

Pasa Verde has obtained approval for a building permit from the City of Sacramento which allows for the separation of the facility into three areas, one of which is a 3,500 sq. ft. warehouse for use under the distribution licence held by NH Processing for use by its 80% subsidiary Calyx. Upon completion of the build-out, NH Processing will apply for a new Business Operating Permit ("**BOP**") with the City.

The terms and conditions of the Calyx Spin-off will impact the licence held by NH Processing and the continuation of the lease of FLI Labs NorCal together with the Pasa Verde business. As the Company remains committed in establishing a profitable manufacturing and in-house brand footprint in California, it is currently assessing other strategic alternatives to execute on this, depending on the outcome of the Calyx Spin-off.

Nevada: Green Therapeutics

On May 21, 2019, the Company entered into an agreement (the "**Amending Agreement**") with Green Therapeutics LLC ("**Green Therapeutics**" **or** "**GT**") amending certain terms in its Membership Interest Purchase Agreement ("**MIPA**") dated September 30, 2018.

Pursuant to the Amending Agreement, the purchase price to acquire a 75% membership interest in GT has been reduced from US$18 million to US$9 million and excludes certain assets and the planned purchase of GT properties which had been intended for cannabis cultivation.

The US$9 million purchase price will be paid as follows:

(i) US$3,000,000 due and payable on or before 18 months after closing to GT, of which the Company has already advanced approximately US$1.3 million;
(ii) US$4,000,000 in shares to be issued to the sellers at a price which is the lesser of (i) US$0.27 per share, or (ii) the 20-day volume VWAP due upon closing;
(iii) US$2,000,000 as convertible promissory notes to the sellers with US$1,000,000 of which shall mature 12 months from closing, and $1,000,000 of which shall mature 24 months from closing.
Green Therapeutics is one of Nevada's premier innovators and established producer/processors servicing dispensaries across Nevada. Green Therapeutics currently offers a range of products including ultra-premium flower, extracts, vape cartridges and topical products. As per the Amending Agreement, the Company will acquire 4 Nevada Department of Taxation licenses including: one cultivation and one production facility in Clark County, one retail (preliminary) license in Douglas County and one distribution license (preliminary) in Clark County.

Through the acquisition of Green Therapeutics, Nutritional High aims to gain a significant market advantage in the cannabis market in the State of Nevada including:

- Potential for the Company to achieve full vertical integration in the critical Nevada market, given the license portfolio extension of Green Therapeutics in retail and distribution.
- Capability to expand the manufacture and sale of its products and its customers products into the Nevada market. This will require the expansion of Green Therapeutics existing manufacturing capabilities to allow for the production of the Green Therapeutics brands, the Company's FLÏ™ brand, and potentially contract manufacturing for other brands from other jurisdictions.
- The Company is exploring the eventual launch of a distribution operation in Nevada under the Green Therapeutics distribution licensing, utilizing Calyx's expertise.
- Potential for joint ventures to build an expanded grow facility and to build out the Douglas County retail location. The Company will seek strategic partners for these projects which will enable the Company to further focus on its core operations and develop strategic relationships with key upstream and downstream customers and suppliers.

The closing of Green Therapeutics acquisition is contingent on securing final approvals from the State of Nevada and the local authorities. The Company has submitted the requisite materials for approval of transfer and is currently awaiting response, which has been delayed due to a State wide two-year moratorium ordered on Cannabis licensing which has became in effect since June 12, 2019.

Oregon: La Pine

Nutritional High commenced the production of various in-house FLÏ™ branded products in the State of Oregon including vape cartridges and syringes in November 2018, furthering the Company's west coast manufacturing reach.

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 Bend, Oregon, the facility is well situated to service the Portland and Eugene market as well as other centers throughout the State.

Colorado

The Company currently leases its Pueblo property and equipment to an independent third-party processor licensed by the State of Colorado which produces various of the Company's brands and purchases branded packaging from the Company. The licensed processor currently manufactures multiple SKU's of the Company's FLÏ™ branded cannabis products, including: FLI Vape Pens, FLI Syringes, FLI Extracts, FLI Chocolates and FLI Space Joints.

Prior to April 2019, Colorado did not permit any out-of-state ownership of MED-licensed cannabis businesses. In May 2019, Colorado Governor signed into law *HB19-1090 - "Publicly Licensed Marijuana Companies"* which repeals the provision that prohibits publicly traded companies from holding a marijuana license. The Bill was passed by the Colorado Legislature on April 27, 2019.

Asia

In October 2019, the Company entered a binding framework agreement (the "**Framework Agreement**") with Golden Triangle Health Company Ltd. ("**Golden Triangle**") to manufacture and distribute branded products in North America. Golden Triangle is a Thailand-based health and wellness company with a strong family of brands (the "**Clients**") looking to successfully commercialize in the North American market. Nutritional High will be responsible for providing North American market assessments for the Clients' products, and for those products selected will be responsible for infusion, packaging, marketing, distribution and sales of those products in jurisdictions where they are legal.

In the event that the Framework Agreement becomes effective, the Company will be responsible for providing services and receive a sales fee totaling 35% of gross sales, as well as a fee for each initial product assessment plus applicable expenses and receive 75% of the sales fee. As consideration for entering into the Framework Agreement, the Company issued 1,050,000 common shares of the Company to Golden Triangle. The Company continues to assess opportunities to advance the relationship with Golden Triangle.

Strategic Investments

Pharmadrug Inc. (formerly Aura Health Inc.)

The Company made strategic investments into Aura Health Inc., (now Pharmadrug Inc.) ("**Aura**" or "**Pharmadrug**") which previously owned and operated medical cannabis clinics in various US states and is currently building a vertically integrated cannabis business focused on Europe. As of the date hereof, the Company current ownership interest in Pharmadrug of 8,453,115 shares is approximately 10.1%.

Financing and Capital Markets Activities

February 2020 Secured Convertible Note

On February 2020, the Company issued a non-brokered private placement of a secured convertible note in the amount of up to $1,064,000 (“**Secured Note**”) to a syndicate of lenders (“**Lender(s)**”). The terms of the Secured Note are as follows:

- Secured by a senior lien on the Company’s property located in Pueblo, Colorado (“**Pueblo Property**”). Adam Szweras, Chairman of the Board of NHII, held a prior note over the Pueblo Property, in the principal amount of USD$462,919 ("**Existing Mortgage**"), which at closing, has been amended to the terms herein and will rank *pari-passu* with all the Lender(s) that is undertaking this offering.
- The Lender(s) have appointed Adam Szweras as the trustee (“**Trustee**”) for the Secured Note. The Trustee shall hold the Note for the benefit of the Lender(s), on a *pari-passu* basis
- Interest rate of 12% per annum, payable semi-annually in cash. Maturity of 36 months from the date of closing with a balloon payment of principal at maturity.
- Conversion rights: At the option of the Lender(s), the Note can be converted into common shares of Nutritional High at CAD $0.05 per share.
- Bonus Warrants: 20,000 common share purchase warrants of Nutritional High for every $1000 comprising the minimum subscription, at an exercise price of CAD $0.05 per share.
- Options of the Borrower: The Company had the option increase the mortgage amount and grant *pari-passu* position to the Note, provided that the loan to value on the Pueblo Property does not exceed a certain threshold. The Company also has the option to assume additional debts (**Subordinate Debts**”) secured by the assets that underlie the Secured Note, as long as such obligations are subordinate to the Secured Note.

The first tranche of the Secured Note, in the amount of $852,678 has been closed on March 31, 2020. Of this, the cumulative position of insiders of the Company is $812,678.

March 2018 convertible debentures

On December 30, 2019, the Company held a meeting of the unsecured debenture holders of March 2018 convertible debentures and received approval for the proposed amendments to the terms of the debentures as follows:

(i) a reduction in the conversion price from $0.60 to $0.15 thereafter until maturity of the debentures; and

(ii) the Company is authorized to pay the interest payment due on the debentures in cash at the existing rate of 10% per annum or through the issuance of its common shares at a rate of 14% per annum, at its sole discretion. Such issuance of common shares will be set at a price which is equal to the weighted average closing price for the common shares during the twenty (20) trading day period ending on the last complete trading day, five (5) days prior to the date upon which interest is due on the debentures (the “Interest Conversion Price”). In accordance with the approved amendments, the Company has paid the interest due on December 31, 2019 in common shares and based on the Interest Conversion Price, the Company has issued 12,339,707 shares to the debenture holders.

Settlement agreement and release

On December 9, 2019, the Company, through Calyx, entered into a settlement agreement with Carberry, LLC, Plus Products Holdings Inc., and Plus Products Inc. (collectively referred herein as "Plus") to settle certain disputes relating to the service agreement entered between Calyx and Plus on February 1, 2018. Pursuant to the settlement agreement, Calyx has ceased all new sales of Plus products, Plus has assumed responsibility for Plus-branded inventory held by Calyx (Inventory Transfer) and Plus been paid a portion of the cash balances held at Calyx associated with past collections of Plus related accounts receivable (Cash Transfer).

On January 27, 2020, in accordance with the Settlement Agreement, Calyx transferred the accounts receivable which had not been collected up to that date to Plus (A/R Transfer). Collection of accounts receivable by Calyx both before and after the A/R Transfer have been partially reimbursed to Plus with a balance outstanding. As at January 31, 2020 the total amount owed to Plus was $1,567,401.

As of the date hereof, Calyx has continued to collect on accounts receivable associated with the A/R Transfer and reimburse Calyx accordingly.

As part of this settlement agreement, Plus have agreed to forbear until June 9, 2020, the residual amount due to Plus after all reimbursements of AR have been completed.

Selected Annual Information

Summarized selected financial information is as follows:

	Year ended July 31, 2019	Year ended July 31, 2018	Year ended July 31, 2017
	$	$	$
Total sales	23,608,410	5,814,558	-
Cost of goods sold (“COGS”)	(18,127,382)	(5,051,418)	-
Gross Profit	5,481,028	763,140	-
Interest income	68,237	40,828	194,348
License income	-	3,287	-
Rental income	50,709	-	660,222
Total revenue (net of COGS)	5,599,974	807,255	854,570
Net loss	(27,696,125)	(9,706,316)	(5,006,075)
Net comprehensive loss	(27,358,172)	(9,849,593)	(4,948,862)
Loss per share (basic)	(0.09)	(0.04)	(0.02)
Loss per share (diluted)	(0.09)	(0.04)	(0.02)
Total assets	19,476,887	27,261,555	8,130,581
Total liabilities	24,822,966	16,534,442	2,076,767

	Six months ended January 31, 2020	Six months ended January 31, 2019
	$	$
Total sales	9,801,694	11,826,186
Cost of goods sold ("COGS")	(7,413,725)	(9,187,349)
Gross Profit	2,387,969	2,638,837
Interest income	49,324	3,812
Rental income	-	50,452
Total revenue (net of COGS)	2,437,293	2,693,101
Net loss	(7,913,905)	(5,584,355)
Net comprehensive loss	(8,078,031)	(5,693,873)
Loss per share (basic)	(0.02)	(0.02)
Loss per share (diluted)	(0.02)	(0.02)

Sales Revenue and Gross Profit

The Company consolidates the financial results of the operations in Calyx, Pasa Verde and Oregon (La Pine). Pasa Verde has not had any commercial activity since February 1, 2019 after the City of Sacramento rescinded local authorization for cannabis manufacturing for Pasa Verde. Oregon (La Pine) commenced sales in the spring of 2019 and has not had any commercial activity since September 19, 2019 due to a notice was received from OLCC that they had commenced an administrative proceeding against the Company, which now has been settled. The Company plan to re-commence its operations in Oregon in the Spring 2020.

The following represents the sales revenues and gross profit generated by each revenue generating segments. For the six months ended January 31, 2020 and 2018.

For the six months ended January 31, 2020				
	Calyx	**Pasa Verde**	**Oregon**	**Total**
Total sales	$9,787,128	$-	$14,566	$9,801,694
Cost of goods sold	(7,404,269)	-	(9,456)	(7,413,725)
Gross profit (loss)	**$2,382,859**	$-	$**5,110**	**$2,387,969**
For the three months ended January 31, 2019				
	Calyx	**Pasa Verde**	**Oregon**	**Total**
Total sales	$11,712,738	$113,448	$-	$11,826,186
Cost of goods sold	(9,107,203)	(80,146)	-	(9,187,349)
Gross profit	**$2,605,535**	**$33,302**	$-	**$2,638,837**

For the six months ended January 31, 2020, the Company recognized sales of $9,801,694 (2019 - $2,638,837) of which 99% derived from the Company's California distribution operation, Calyx. For the six months ended January 31, 2020, cost of goods sold was $7,404,269 (2019 - $9,187,349), resulting in a gross profit of $2,387,969 (2019 - $2,638,837). Sales decreased by $930,162 compared to the six months ended January 31, 2019 due the discontinued

sales of Plus-branded products starting from early December 2019 in Calyx. Previously, Plus-branded sales represented approximately 85% of total sales in Calyx.

Other revenue and operating expenses for six months ended January 31, 2020 compared to six months ended January 31, 2019.

	Six months ended January 31, 2020	Six months ended January 31, 2019
	$	$
Interest income	49,324	3,812
Rental income	-	50,452
Total operating expenses	9,381,340	11,343,259
Income tax expense (income)	(11,927)	446,896
Total other items	981,785	(3,512,699)
Net loss	(7,913,905)	(5,584,355)
Net comprehensive loss	(8,078,031)	(5,693,873)
Loss per share (basic)	(0.02)	(0.02)
Loss per share (diluted)	(0.02)	(0.02)

The Company recognized interest income of $49,324 (2018 - $3,812) in the six months ended January 31, 2020, which was generated from the interest on promissory notes with a principal amount of US$1,240,000 advanced to Green Therapeutics. For the six months ended January 31, 2020, the Company recognized $Nil (2019 - $50,452) of rental income from Palo Verde LLC.

For the six months ended January 31, 2020, total operating expenses was $9,381,340, a decrease of $1,961,919, compared to the comparative six-month ended January 31, 2019 of $11,43,259. The increase is primarily due to:

- $1,465,682 decrease in salaries, benefits and consulting fees due to the reduced employees and consultants in Calyx and Corporate as one of cost-efficiency measures undertaken in the second quarter. Additionally, in the comparable period, the Company had an estimated $1 million in payroll taxes related to the transition of the characterization of its workforce;
- $371,132 decrease in loss and reserve due to destruction of unusable inventory in Pasa Verde in the comparable period;
- $266,381 decrease in acquisition and project evaluation costs due to reduced M&A activities compared to prior period;

The decrease in operating expenses is offset by the increase in sales, marketing and promotion of $358,366, primarily incurred in Calyx and $358,366 in share-based payments due vesting of RSUs granted in the first quarter of 2020 (2019 – Nil).

For the six months ended January 31, 2020, the Company had a total of $981,785 expense from other items compared with income from other items of $3,512,699 during the comparative period. The increase in expense is mainly due to:

- $614,010 increase in finance costs as a result of $1.8 million convertible debenture closed in August 2019 as well as recognition of lease liabilities starting on August 1, 2019 as a result of IFRS 16 adoption;
- $3,558,510 gain on sale of interest in the Effingham Clinic, Illinois in October 2018;
- $818,790 gain on sale of property in California in November 2018; and

The increase in expenses in other items is offset by $814,504 of gain from the change in fair value of derivative liability associated with August 2018 convertible debentures. For the six months ended January 31, 2020, the Company recorded net loss and comprehensive loss of $8,078,031 an increase of $2,384,158 compared to $5,693,873 for the same period ended January 31, 2019.

Breakdown of general and administrative as is as follows:

	Six months ended January 31, 2020	**Six months ended January 31, 2019**
	$	$
Bank charges	124,365	5,249
Dues and subscriptions	20,013	-
Insurance	226,762	200,123
Listing and investor relations fees	163,187	139,977
Office and general	174,299	136,445
Permit and licenses	115,462	90,656
Rent and property taxes	184,563	480,982
Repair and maintenance	21,399	34,177
Research and development	-	38,617
Security	248,507	178,749
Supplies and maintenance	5,556	53,245
Transportation	124,541	348,291
Travel	287,672	166,179
Total	1,696,326	1,867,441

	Three months ended January 31, 2020	Three months ended January 31, 2019
	$	$
Total sales	3,107,852	6,062,506
Cost of goods sold ("COGS")	(2,291,879)	(4,548,227)
Gross Profit	815,973	1,514,279
Interest income	1,982	2,719
Rental income	-	50,452
Total revenue (net of COGS)	817,955	1,567,450
Net loss	(4,681,356)	(6,550,130)
Net comprehensive loss	(4,797,218)	(6,805,490)
Loss per share (basic)	(0.01)	(0.02)
Loss per share (diluted)	(0.01)	(0.02)

Sales Revenue and Gross Profit

For the three months ended January 31, 2020, total sales was $3,107,852, a decrease of $2,954,654 from the comparable period of $6,062,506. The decrease is due to the discontinued sales of Plus-branded products starting from early December 2019 in Calyx. Plus was Calyx's supplier represented approximately 80% of Calyx's total sales. All of the sales recognized in the three months ended January 31, 2020, were derived entirely from Calyx. For the six months ended January 31, 2020, cost of goods sold was $2,291,879 (2019 - $4,548,227), resulting in a gross profit of $815,973 (2019 - $1,514,279). The gross profit has increased to 26% in the three months ended January 31, 2020 from 25% in the comparative period.

Other revenue and operating expenses for three months ended January 31, 2020 compared to three months ended January 31, 2019.

	Three months ended January 31, 2020	Three months ended January 31, 2019
	$	$
Interest income	1,982	2,719
Rental income	-	50,452
Total operating expenses	4,539,408	7,091,646
Income tax expense	82,114	225,403
Total other items	877,789	1,025,934
Net loss	(4,681,356)	(6,550,130)
Net comprehensive loss	(4,797,218)	(6,805,490)
Loss per share (basic)	(0.01)	(0.02)
Loss per share (diluted)	(0.01)	(0.02)

The Company recognized rental income of $Nil (2019 - $50,452) in the three months ended January 31, 2020. The rental income in the comparable period was generated from the Company's investment property in Colorado.

For the three months ended January 31, 2020, total operating expenses was $4,539,408, a decrease of $2,552,238, compared to the comparative three-month ended January 31, 2019 of $7,091,646. The decrease is primarily due to:

- $1,529,928 decrease in the salaries, benefits and consulting fees primarily as a result of approximately one-time $1 million payroll taxes that were accrued in the second quarter of 2019 pertaining to re-characterization of employees,
- $371,132 decrease in loss and reserve on inventory due to improved inventory management in Calyx;
- $230,379 decrease in allowance for amounts due from Palo Verde LLC in connection to the advances to Palo Verde LLC.

For the three months ended January 31, 2020, the Company had a total of $877,789 expense from other items, a decrease of 148,145 compared to $1,025,934 during the comparative period. The decrease is mainly due change in fair value of derivative liability of $363,027, unrealized loss on FVTPL Investments in Pharmadrug of $152,796 offset by the increase of the finance costs of $384,673.

For the three months ended January 31, 2020, the Company recorded net loss and comprehensive loss of $4,797,218 a decrease of $2,008,272 compared to $6,805,490 for the same period ended January 31, 2019.

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)
January 31, 2020	$3,107,852	$(4,681,283)	$(4,797,218)	$(0.01)	$(0.01)
October 31, 2019	$6,693,842	$(3,232,549)	$(3,280,813)	$(0.01)	$(0.01)
July 31, 2019	$5,628,516	$(12,338,999)	$(17,508,579)	$(0.04)	$(0.04)
April 30, 2019	$6,153,708	$(9,772,771)	$(9,741,436)	$(0.03)	$(0.03)
January 31, 2019	$6,062,506	$(6,775,533)	$(6,805,490)	$(0.02)	$(0.02)
October 31, 2018	$5,763,680	$1,191,178	$1,111,617	$0.004	$0.004
July 31, 2018	$3,174,917	$(3,860,570)	$(3,958,258)	$(0.01)	$(0.01)
April 30, 2018	$2,040,543	$(2,271,718)	$(2,397,163)	$(0.01)	$(0.01)
January 31, 2018	$335,112	$(1,931,718)	$(1,817,927)	$(0.01)	$(0.01)

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 ability of the Company to continue as a going concern is dependent on its ability to obtain funding, manage cash flows, restructure borrowings and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is significant uncertainty whether the company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

In the short term, the continued operations of the Company may be dependent upon its ability to obtain additional financing. Without this additional financing, the Company may be unable to meet its obligations as they come due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost.

As at January 31, 2020, the Company had working capital deficiency of $7,641,657 (July 31, 2019 – $3,486,933), current assets of $5,946,900 (July 31, 2019 - $9,905,679) and current liabilities of $13,588,557 (July 31, 2019 - $13,392,612).

Cash flows for the six months ended January 31, 2020 compared to six months ended January 31, 2019

Operating activities
Net cash used in operating activities in six months ended January 31, 2020 totaled $1,040,320, as compared to net cash used of $6,599,058 in six months ended January 31, 2019. The decrease is primarily due to changes in Calyx including a significant decrease in payables of $1,666,991 and reduction in inventory compared to prior period of 4,476,016.

Net cash used in operating activities in three months ended January 31, 2020 was $670,951, a decrease of $3,751,872 from comparative period. The decrease is mainly due to decrease in net loss of $2,410,290 compared to the three months ended January 31, 2019.

Investing activities
The net cash used from investing activities totaled $371,949 in six months ended January 31, 2020, as compared to net cash generated of $5,424,454 in six months ended January 31, 2019. The significant cash inflow during the comparative period of 2018 was a result of the sale of the Company's property in California and interest in the Effingham Clinic in Illinois which resulted in a combined total of $6,318,265 cash inflow. The Company also redeemed its short-term investments which generated an inflow of $2,014,172.

The Company used $26,631 in three months ended January 31, 2020, compared to $887,241 generated from the three months ended January 31, 2019. The increase of $913,872 used in the investment activities was mainly due to the sale of a property in California which generated $1,718,222 of cash, and offset by $912,288 used to pay consideration pursuant to Calyx transaction in the comparative period.

Financing activities
The net cash provided by financing activities totaled $311,186 in six months ended January 31, 2020, as compared to cash provided of $34,530,924 in six months ended January 31, 2019. The decrease is primarily due to the net gross proceeds generated from convertible debenture closed in August 2019 of $1,228,862 compared to $3,671,277 generated from convertible debenture closed in August 2018. The Company also completed a sale leaseback on certain equipment in Colorado, Oregon and Sacramento and generated a combined cash inflow of $1,922,203.

For the three months ended January 3, 2019, the Company used $282,475 in financing activities, increase of $1,282,732 compared to the $990,257 generated in the comparative period. In the three months ended January 31, 2019, the Company completed the sale leaseback which generated a net proceed of $1,922,203. In the three months ended January 31, 2020, all the cash used in financing activities was primarily for lease payments.

Foreign currency exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by $826,415 (July 31, 2019 – $616,862) 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 loss by $44,892 (July 31, 2019 - $30,079) because of the Company's exposure to interest rate fluctuations

Related parties and key management

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 six months ended January 31, 2020 and 2019:

a. Incurred professional fees of $62,015 (2019 - $96,919) from Branson Corporate Services ("BCS") and consulting fees of $113,091 (2019 - $138,580) from FMI Capital Advisory Inc. ("FMICA"). BCS is a company

in which Foundation Financial Holdings Corp. ("FFHC") and Adam Szweras have a 60% and 15% ownership interest respectively. FMICA is a subsidiary of FFHC, an entity in which Adam Szweras is a director and whereas his children hold an indirect interest. In connection with the August 2018 Convertible debentures (Note 17), the Company paid FMICA a cash finder's fee of $42,000.

As at January 31, 2020, $92,677 (July 31, 2019 - $22,600) was due to BCS, $272,222 (July 31, 2019 - $144,640) was due to FMI and $Nil (July 31, 2019 - $211) was due from FMICA.

b. Incurred marketing expenses of $74,445 (2019 - $166,742) and share-based payments of $25,758 (2019 - $Nil) from Plexus Cybermedia Ltd., a company in which a director, Brian Presement, has a 33% ownership interest in. As at January 31, 2020, $66,325 (July 31, 2019 - $90,124) was due to Plexus Cybermedia Ltd.

c. Incurred professional fees of $112,599 (2019 - $109,264) from Fogler, Rubinoff, LLP, a law firm in which a director, Adam Szweras, is a partner. As at January 31, 2020, $244,148 (July 31, 2019 - $260,877) was due to Fogler Rubinoff, LLP.

d Incurred management compensation to key management and directors of $218,328 (2019– $410,045) in cash and $171,302 (2019 - $725,065) in stock-based payments. As at January 31, 2020, $268,962 (July 31, 2019 - $81,619) was owed to officers and directors of the Company. Included in shares to be issued was $52,500 (July 31, 2019 - $52,500) to be issued to a director of the Company.

e. Included in professional fees and acquisition and project evaluation costs is a total of $70,227 (2019 - $180,229) fees charged from JRG Attorneys, a law firm in which a director, Aaron Johnson, is a partner. As at January 31, 2020, $224,488 (July 31, 2019 - $238,192) was due to JRG Attorneys.

f. Included in the convertible debenture advances was $612,577 (2019 - $350,000) received from Adam Szweras (2019 - Adam Szweras and Brian Presement).

g. Included in accounts payable and accrued liabilities as at January 31, 2020 was a total of $239,825 (July 31, 2019 - $41,330) due to Adam Szweras related to compensation as an officer of the Company.

h. Included in March 2018 unsecured convertible debentures are $16,000 and $20,000 of convertible debentures issued to Adam Szweras and a director, Brian Presement, respectively. Included in August 2019 secured convertible debentures are $250,000 and $100,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively.

Disclosure of outstanding share data

As at January 31, 2020, the Company had 388,851,264 Common Shares outstanding, 22,687,517 options of which 12,538,351 are vested and eligible to be exercised at a weighted average price of $0.220, 6,969,742 RSUs at a weighted average price of $0.155 and warrants outstanding of 62,253,833 with a weighted average exercise price $0.362. As of the date hereof, the Company has 389,751,263 Common Shares, 18,130,000 options, 6,469,742 RSUs and 62,253,833 warrants outstanding.

Off-Balance Sheet Arrangements

As of January 31, 2020, the Company has no off-balance sheet arrangements.

Subsequent Events

Convertible debenture conversion
Subsequent to January 31, 2020, holders of convertible debentures (Note 17) converted a combined total of $135,000 principal amount of March 2018 convertible debentures resulting in the issuance of 900,000 common shares.

Convertible debenture conversion
Subsequent to January 31, 2020, the Company received $209,000 from a director, CEO and incoming CEO as convertible debenture advances. This balance together with the convertible debenture advance as of January 31, 2019 of $612,577 are part of the contemplated subordinated secured convertible debentures.

Significant accounting estimates and judgments

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed interim 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 amortization of intangible assets are 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 lives 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 Financial Reporting Standards ("IFRS") 9, *Financial Instruments*, 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 brokers' 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.

Judgment 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 condensed interim consolidated results of the Company based on the foreign currency translation method.

Adoption of new accounting pronouncements

The accounting policies applied in the unaudited condensed interim consolidated financial statements are consistent with those applied in the Company's audited consolidated financial statements as at and for the year ended July 31, 2019, except as noted below.

IFRS 16, *Leases* ("IFRS 16")

As of August 1, 2019, the Company adopted IFRS 16 that revises the definition of leases and introduced a single, on-balance sheet accounting model for leases. The Company, as a lessee, has recognized right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company adopted IFRS 16 using the modified retrospective approach. Under the modified retrospective approach, the Company recognizes transition adjustments, if any, in retained earnings on the date of initial adoption (August 1, 2019), without retrospective restatement of the financial statements.

Lease recognition

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to contract the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision as to how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of that asset if either:

  - The Company has the right to operate the asset; or

  - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

If a contract is assessed to contain a lease, a lease liability is recognized representing the present value of cash flows estimated to settle the contract, discounted using a discount rate which would be required if the underlying asset was acquired through a financing arrangement. The Company will also recognize a right-of-use asset ("ROU") that will generally be equal to the lease obligation at adoption. The ROU is subsequently amortized over the life of the contract.

This policy is applied to contracts entered into, or changed, on or after August 1, 2019.

The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Leases transition

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at August 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date. For leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at August 1, 2019 and the related right-of-use assets were recognised at amounts equal to the corresponding lease liability.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise ROU assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring the ROU asset at the date of initial application.

- Applied a single discount rate to a portfolio of leases with similar characteristics.

Lease liabilities recognized at August 1, 2019 amounted to $2,497,110. Refer to Note 16 of the condensed interim consolidated financial statements For the six months ended January 31, 2020 and 2018 for further details.

IFRIC 23, *Uncertainly over Income Tax Treatments* ("IFRIC 23")

In June 2018, the IASB issued IFRIC 23 which clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 and requires an entity to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it uses or plans to use in its income tax filing. On August 1, 2019, the Company adopted IFRIC 23, which did not have any effect on the Company financial statements.

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 the date of hereof. "Direct", "Indirect" and "Material Ancillary" are classification terms as defined in Staff Notice 51-352 (as described above).

Subsidiary/ Affiliate [2]	% 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	Tenth Circuit – District of Colorado	NHCI provided a revolving loan and promissory note to Palo Verde LLC with a total principal balance of approximately US$1.7 million which was sold and assigned to a third party in April 2019.
NHC Edibles LLC ("**NHC**")	100%	Material Ancillary	Colorado	N/A	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%	Material Ancillary	Colorado California	N/A	Tenth Circuit – District of Colorado.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.

Subsidiary/ Affiliate [2]	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
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.
Calyx Brands Inc.(“**Calyx**”) [1]	80%	Direct	California	BCC and City of Oakland	Ninth Circuit – Northern District of California.	The holder of a distribution license in Oakland, California
NH Distribution California LLC (“**NHDC**”)	100%	Direct and Material Ancillary [12]	California	BCC and City of Sacramento	Ninth Circuit – Central District of California and Northern District of California.	NHDC acquired certain assets of Calyx to perform certain management service[1] functions on their behalf. On June 18, 2019, NHDC was granted a State Provisional distribution license by the Bureau of Cannabis Control California, which is valid for one year, and is waiting for an approval from the city of Sacramento. In June 2019, NHDC entered into a series of agreements with Ashby with Good Vybes, a cannabis distributor licensed by BCC, including the following: a management services agreement, a lease agreement of a portion of Chatsworth Licensed Premises, and an unsecured promissory note to fund the buildout of Chatsworth Licensed Premises.
NH Washington Inc. ("**NHW**")	100%	Material Ancillary	Washington	N/A	Ninth Circuit – Western District of Washington	NHW has entered into services agreement with JBM Enterprises, LLC ("**JBM**") which holds Tier 1 Producer and Processor license with Washington State Liquor and Cannabis Board ("**WSLCB**").
NH Processing (Nevada) Inc. ("**NHPN**")	100%	Material Ancillary	Nevada	N/A	Ninth Circuit –District of Nevada	NHPN has entered into MIPA with Green Therapeutics and has advanced funds in the form of promissory notes, which will be converted into equity of Green Therapeutics upon closing of the acquisition.

Notes:

1. *NHDC and Calyx are parties to a management service agreement, whereby NHDC shall provide management services with respect to the cannabis distribution operation of 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.*
2. *The Company acquired all of the interests of Pasa Verde in July 2018. Pasa Verde LLC was the holder of a manufacturing permit (the "Permit") in the City of Sacramento and a Temp Type 6 License with the CDPH. On February 1, 2019, the Permit was rescinded by the City of Sacramento. Pasa Verde LLC leases the FLI labs NorCal facility in Sacramento and is moving forward with build-out is in the process of applying for a new business operating permit. Prior to restarting operations, Pasa Verde needs to secure requisite local and state permits and as of the date hereof, Pasa Verde does not carry out any activity that would qualify as involvement in U.S. Cannabis Activities under Staff Notice 51-352.*

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 of 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.

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**
Calyx	Material Ancillary and Direct involvement (80% wholly owned subsidiary).	The City of Oakland BCC	Ninth Circuit – Central District of California, Northern District of California and Southern District of California.	Yes	None
NHDC	Direct involvement: 100% wholly owned subsidiary	The City of Sacramento BCC	Ninth Circuit – Northern District of California	Yes	None
NHOL	Direct involvement: 100% wholly owned subsidiary.	OLCC and City of La Pine	Ninth Circuit – District of Oregon	Yes	See note 2.
Green Therapeutics[1]	Indirect involvement[1].	NDT, City of North Las Vegas, City of Las Vegas and Douglas County	Ninth Circuit – District of Nevada	Yes	None

Notes:

[1] *- NHPN has entered into MIPA to acquire 75% of Green Therapeutics (please see "Key Developments – Nevada: Green Therapeutics") and has also advanced funds in the form of promissory notes that will convert into equity of Green Therapeutics upon closing of the acquisition.*

[2] *– On September 17, 2019, the OLCC commenced an administrative proceeding against the Company alleging that it used denatured alcohol at its processing facility in La Pine, Oregon, in violation Oregon Administrative Rule 845-0256-3260(3)(a)(A), which is a Category I administrative rules violation. On January 16, 2020, OLCC put forth a settlement agreement to destroy the offending products as well as a payment of $4,950 civil penalty to be paid before February 28, 2020. The Company has accepted the settlement proposal, removed all non-compliant products and paid the penalty in February 2020.*

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	• Lease Agreements with NHC	Yes [1]
Calyx	• Management services agreement with NHDC	Yes
Hannah Ashby dba Good Vybes	• Lease Agreement with NHDC Management services agreement with NHDC	Yes
JBM Enterprises LLC	• Services agreement with NH Washington Inc. ("**NHW**")	Yes

Notes:
[1] *- 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. The conditions of settlement have been satisfied and Palo Verde's operations continue to run uninterrupted which such conditions have been since satisfied.* *See "Key Developments – Colorado".*

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 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 - Condensed interim 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 Condensed interim consolidated Appropriations Act, 2017, which authorizes appropriations that fund the operation of the Federal Government through September 30, 2017. Section 587 of the Condensed interim 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 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, Jeff Sessions resigned as Attorney General, William Barr was then appointed as Attorney General on February 14, 2019, and in his hearing, mentioned that he would “not go after companies that have relied on the Cole memorandum” nor would he “upset settled expectations and reliant interests” related to it.

Additionally, on April 4, 2019, the “Strengthening the Tenth Amendment Through Entrusting States Act” (“**STATES Act**”) was introduced in the Senate by Democratic Senator Elizabeth Warren of Massachusetts, along with 9 cosponsors, 5 republicans and 4 democrats. That same day, an identical bill was introduced in the House by Democratic representative Earl Blumenauer of Oregon, along with 47 Cosponsors, 31 Democrats and 16 Republicans. 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 September 25, 2019, the House voted in favor of the SAFE Banking Act. The historic vote was the first time that a standalone marijuana bill has come before the full House. The vote needed a two-thirds majority to pass and was supported by 321 votes in favor to 103 against. While the Company is pleased with the vote, which will help remedy the severe impact the lack of access to banking has had on the industry and the particular risks associated with operating in a largely cash-based industry, it would also urge the Senate to adopt similar banking protections and approve the Marijuana Opportunity Reinvestment and Expungement Act which would remove cannabis from the FCSA and take steps to begin repairing the harms of the war on drugs.

On November 21, 2019, the House Judiciary Committee voted 24-10 to pass the Marijuana Opportunity Reinvestment and Expungement Bill of 2019. The bill would effectively put an end to cannabis prohibition in the United States on the federal level by removing it from Schedule 1 of the Controlled Substances Act, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to marijuana-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

Although Jeff Sessions has been replaced by President Trump with new US Attorney General William Barr, there is still very little clarity as to how President Trump, or Attorney General Barr, will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the current Presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. **Any such change in the US federal government’s enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company’s and its Acquisition Targets’ businesses, which could in turn have an impact on the Company’s operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern**. (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.

Oregon

The Company's Oregon operations are in La Pine, which falls within the U.S. District Court for the District of Oregon. The U.S. Attorney for the District of Oregon 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." The Oregon legislature subsequently passed a law, SB 218, requested by Governor Kate Brown, which allows the Oregon Liquor Control Commission ("OLCC") to refuse to issue marijuana production licenses at its sole discretion, based on existing supply of marijuana in the state. SB 218 took effect June 17, 2019, and the OLCC has enacted temporary rules pursuant thereto effective from September 1, 2019 to December 31, 2019. Those temporary rules allow OLCC to inactivate certain marijuana producer applications. OLCC has instructed its staff to initiate permanent rulemaking on producer application processing and deadlines going forward.

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 Bainbridge Island, 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 October 26, 2018, U.S. Attorney Jason R. Dunn was sworn in as the United States Attorney for the District of Colorado. Mr. Dunn has not released a public statement regarding the enforcement of state licensed marijuana businesses; however, he has stated that he has to make decisions for enforcement actions and priority with regards to resources and intends to focus on black market activities. Mr. Dunn does participate on a cannabis working group with other federal prosecutors around the U.S.

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 rescission of the Cole Memorandum, Nevada's former Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Then-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 been supportive of Nevada's marijuana industry and allowing it to grow in a healthy, regulated market. They began their four-year terms of office at the beginning of January 2019.

On June 2, 2019, the Nevada Senate voted, to approve AB 533 with an amendment that places a two-year moratorium on cannabis lounges throughout the state. AB 533 also adds a Cannabis Advisory Commission and a Cannabis Control Board (CCB). AB 533 was signed into law on June 12, 2019. The CCB will consist of five members appointed by the governor and will be a comprehensive regulatory board that will include members with expertise in a range of fields, including finances, accounting, law enforcement, medicine, regulatory and legal compliance, and cannabis. The governor has begun the appointment process for the five members of the CCB. AB 533 also establishes a Cannabis Advisory Commission, to which the governor will appoint experts in direct and marijuana-related fields. The Advisory Commission members are intended to inform the CCB and its decision-making. The new structure will take over regulatory issues while tax collections from medical and retail cannabis products will remain the responsibility of the Department of Taxation. Establishing the CCB is part of Governor Sisolak's multi-pronged approach to reforming and strengthening Nevada's legal cannabis industry, along with removing economic barriers to legal cannabis users and individuals with prior cannabis convictions. On October 11, 2019, Governor Sisolak created a multi-agency state task force to root out potential corruption or criminal influences in the State and the Nevada Department of Taxation accepted a task force recommendation to extend the review period for several regulatory activities that relate to the transfer of licenses and change of ownerships and/or interests. Based on the recommendation, the Department will not be processing any existing or new applications for these regulatory activities while this extended review is in place with the goal of ensuring a more thorough vetting process within the industry.

In May 2019, Nevada Attorney General Aaron Ford announced that he joined a bipartisan coalition of other attorneys general urging Congress to pass legislation to give cannabis businesses access to the federal banking system.

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.

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.

Most recently, the U.S. Congress passed H.R. 3055, the "Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020" (the "**2020 Appropriations Act**").

On June 20, 2019, the 2020 Appropriations Act was Amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (***Blumenauer (D-OR), Norton (D-DC), McClintock (R-CA)***), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the Department of Justice from interfering with "state cannabis programs", which includes both medical and adult-use cannabis programs. On September 26, 2019 the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable State law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable State law – could be prosecuted for violations of US federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA'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 July 2, 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 introduced the emergency regulations, which governed by California Bureau of Cannabis Control, California Department of Public Health and California Department of Food and Agriculture (collectively "**Emergency CA Regulations**"), provided further clarity on the regulatory framework that governed cannabis businesses. The regulations built on the regulations provided by MCRSA and AUMA and also specified that businesses 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 started the formal rulemaking process. Temporary regulations were extended throughout the rule making process and on January 16, 2019, California's three state cannabis licensing authorities announced that the Office of Administrative Law (OAL) officially approved state regulations for cannabis businesses across the supply chain and the new regulations took effect immediately, meaning the previous emergency regulations were no longer in effect. 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, 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 the California State licensing regime.

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

On September 27, 2018, California State Governor Jerry Brown signed Senate Bill 1459, which modified MAUCRSA to allow the State licensing authorities to issue provisional licenses to temporary licensees as a bridge between temporary and annual licenses until January 1, 2020. A provisional license has the same requirements as an annual license. In March 2019, lawmakers in California had proposed State Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses have transacted predominantly in cash due to continued US federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the US federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other state and territorial attorneys, sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies.

On August 6, 2019, the California DOJ released the "Guidelines for the Security and Non-Diversion of Cannabis Grown for Medicinal Use" to clarify the state's laws governing medicinal cannabis, and specifically those related to the enforcement, transportation, and use of medicinal cannabis. The Guidelines come after significant changes in state law on recreational cannabis use. The revised guidelines include:

(1) A summary of applicable laws;
(2) Guidelines regarding individual qualified patients and primary caregivers;
(3) Best practices for the recommendation of cannabis for medical purposes;

(4) Enforcement guidelines for state and local law enforcement agencies; and
(5) Guidance regarding collectives and cooperatives.

In July 2019, California State Governor Gavin Newsome signed Assembly Bill 97, which modifies MAUCRSA to extend the sunset date for the issuance of provisional licenses from January 1, 2020, to January 1, 2022. Further, the bill allows for the issuance of provisional licenses to applicants who did not previously hold a temporary license.

On October 12, 2019, California State Governor Gavin Newsom signed several cannabis-related bills that, among other things, are designed to bolster minority participation in the industry, ensure labor peace and institute a vaporizer cartridge labeling requirement, including one that will let legal businesses take advantage of more tax deductions. He also vetoed another measure that would have allowed some patients to use medical cannabis in health care facilities. A summary of the cannabis bills signed into law include:

(1) Senate Bill 595 requires the State to implement a program by January 1, 2021, that defers or waives license application and licensing or renewal fees for qualified "needs-based" applicants. This is a social equity provision to boost minority participation in the industry.
(2) Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter-inch-by-quarter-inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker or printed in black or white.
(3) Assembly Bill 1291 strengthens an existing provision for marijuana businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.
(4) Assembly Bill 858 clarifies some requirements for "specialty cottage" growers with a maximum 2,500 sq. ft. of canopy.
(5) Senate Bill 34 allows marijuana retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

California State Governor Newsom also signed a bill, AB 37, that allows cannabis business owners to deduct business expenses at the state level, something that remains illegal federally.

The Company's California ancillary operations are in the Northern District of California (Oakland) and Southern District of California (Los Angeles), 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."

David L. Anderson was sworn in as United States Attorney for the Northern District of California on January 15, 2019.

The Company has assessed its relationships with its brand partners in order to ensure full compliance in regard to contract manufacturing (California Code of Regulations Title 16, Division 42 – Medicinal and Adult Use Cannabis Regulation, Section 5032 – Commercial Cannabis Activity).

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 two full-time staff members (SVP, Operations and Director of Operations) whose responsibilities, among others, include monitoring compliance of the Company's operations in the states where its subsidiaries directly operate, or where it has indirect or material ancillary interest. The Company's staff tasked with overseeing compliance with applicable local and state regulations work closely with the Company's CEO and external consultants tasked with evaluating compliance, the Company's standard operating procedures and mechanisms in place to remedy any potential instances of non-compliance. The staff's responsibilities include:

- 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, California Department of Public Health's Manufactured Cannabis Safety Branch, and the California 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.
- Communication with general managers of the Company's facilities outside of California to monitor compliance of those facilities, review the information provided regarding compliance with applicable regulations and if necessary, relay that information to the appropriate members of the senior management team to take the corrective action.

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.

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 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.

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.

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). Local governments may restrict the number of both medical and adult-use

marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

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. These licenses may have various optional categories and attributes: e.g., "indoor" and "outdoor" production licenses are offered in different tiers, with different canopy restrictions; processing licenses may contain product endorsements (edibles, topicals, extracts, concentrates, etc.); retail licenses may come with a delivery certificate, etc.

In Oregon 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, although proposed Senate Bill 218 would allow OLCC to refuse to issue marijuana production licenses "based on market demand and other relevant factors." For now, though applications are currently being accepted for both medical and adult-use businesses on a rolling basis, notwithstanding the OLCC "pause" in its review of any application submitted after June 15th, 2018.

The Company, by and through its wholly owned subsidiary, Nutritional High (Oregon) LLC, received Marijuana Processor License No. 030 1002801EE73 from the OLCC on September 14, 2018. That license contains endorsements for both edible and concentrate products.

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

On October 4, 2019, Oregon's Governor Brown issued Executive Order No. 19-09, ordering a ban of flavored vaping products. The ban was subsequently enacted by OLCC and OHA, and covers all flavored tobacco and nicotine products, as well as marijuana products flavored with non-marijuana terpenes. The Oregon Appellate Commissioner ordered a stay of enforcement of the flavored tobacco and nicotine products ban on October 17, 2019, but the ban on marijuana products flavored with non-marijuana terpenes ("**Ban**") remains in place. The Ban may have a material affect on Nutritional High (Oregon) LLC operations.

Oregon will likely continue to refine its cannabis programs through the end of 2019, in the 2020 legislative session and in subsequent rulemaking by OLCC, OHA and ODA. It is unclear what effects, if any, such changes would have on the Company's business.

ON January 16, 2020, the Commissioners of the Oregon Liquor Control Commission adopted changes to the rules for the Recreational Marijuana Program that address the technical fixed and changes made during the 2019 legislative session.

Many of the approved changes in the Division 25 rules affect all licensees while some apply to a specific license type. The new rules take effect February 1, 2020. Under the new rules, **all licensees** must notify the OLCC at least 15 days in advance of losing access to their licensed premises.

Additional rule modifications that effect **all licensees** include:

- Clarifications regarding video surveillance and quality control samples;
- A deadline change for daily reporting into the Cannabis Tracking System; and
- An adjustment to the tracking of marijuana items transported around the state.

There are news rules for licensed marijuana producers regarding:

- Canopy area designation; and
- Providing proof of consent from the property owner for the location where the producer is growing their marijuana crop.

For producer, processor and wholesaler licensees there are new trade sample limits, and new THC concentration and testing limits for OLCC certified hemp growers and handlers (processors.)

Commission staff plan to release guidance and other communications to licensees and stakeholders before the new rules take effect February 1, 2020.

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 all applicable Oregon law. The Company hired a Compliance and Packaging Specialist in Oregon in June 2019 to oversee the compliance, packaging, METRC, building and maintaining relationships with the regulatory authorities.

Washington

In Washington, the Company plans to commence the manufacturing and distribution of products through sublicenses arrangement with a locally licensed facility.

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.

<u>Colorado</u>

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.

In May 2019, Governor Polis signed into law multiple marijuana laws, including *HB19-1090 - "Publicly Licensed Marijuana Companies"* which repeals the provision that prohibits publicly traded companies from holding a marijuana license and increases investment flexibility in Colorado licensed marijuana companies. Also passed was SB19-224 - "*Sunset Regulated Marijuana*" which makes the Colorado marijuana regulations permanent while streamlining such regulations to create efficiencies for operators and regulators. 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 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.

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.

The Nevada legislature enacted SB 32 (Effective May 10, 2019) which revises provisions relating to the confidentiality and privilege of certain records and files of the NVDOT, making the names of marijuana business owners public in Nevada. The new law authorizes certain disclosures of information relating to an application to operate a marijuana establishment or a person who is licensed to operate a marijuana establishment, including the identity of an applicant and any owner, officer or board member of an applicant, the methodology used to rank applicants for a license to operate a marijuana establishment, and the score assigned to applicants

The Nevada Senate voted on June 2, 2019 to approve AB 533 with an amendment that places a two-year moratorium on cannabis lounges throughout the state. AB 533 adds a Cannabis Commission and a Cannabis Control Board. It is anticipated the Governor will sign AB 533 into law soon. Under AB 533, the new structure for cannabis regulation and oversight in Nevada is modeled after Nevada's Gaming Commission and Gaming Control Board. The new agency will take over regulatory issues ranging from licensing to operation of dispensaries, growers, production of cannabis products and testing. However, actual tax collections from medical and retail cannabis products will remain the responsibility of the Department of Taxation.

<u>Coronavirus</u>

The recent outbreak of novel coronavirus, specifically known as "COVID-19", has been declared a global pandemic by the World Health Organization in March 2020. The outbreak has spread across the globe and is impacting worldwide economic activity and has resulted in US government enacting emergency measures to combat the spread of virus. These measures, which include the implementation of travel bands, self-imposed quarantine periods and social distancing, have caused material disruption to cannabis businesses. The following are the status of each state where the Company has/may have exposure as of the date hereof:

<u>California</u>

On March 19, 2020, California Governor, Gavin Newsom, took a giant step forward in preventing the spread of COVID-19 by enacting a "Stay At Home" order (the "Order") across California state, mandating that California state residents remain in their homes, except to fulfill "essential" needs. On March 23, 2020, the State of California announced that medical cannabis business, including the businesses that supply them, are classified as essential businesses that may remain open during the state's Stay At home order unless a city or county further restricts business operations. As such, the Company's distribution operation, Calyx, remain open to service our customers.

<u>Colorado</u>

Colorado Governor, Jared Polis, issued an executive order that requires non-critical workplaces in Colorado to reduce their in-person workforce by 50% to limit the spread of COVID-19. The order is temporary and took effect

on March 24, 2020 and will last through April 10, 2020. However, it does not apply to critical businesses or employers that must function at full capacity to provide goods and services critical to respond to COVID-19. Both medical and recreational cannabis retailers are allowed to continue operations, under the executive order. However, recreational cannabis retailers are limited to online pre-orders or orders made outside the store, for curbside pick-up, while medical cannabis retailers can stay fully open.

Oregon

On March 23, 2020, Oregon Governor, Kate Brown, issued an executive order to shut down non-essential businesses and constrain social and recreational gathering. The order does not specifically mention cannabis as essential business; however, the state Liquor Control Commission issued a temporary rule allowing licensed cannabis retailers to take conduct limited transactions outside their licensed premises. This will permit retail licensees to take order and deliver product from the retailers to a person who is outside the store and within 150 feet from the retailer's licensed premises.

The Company had decided to suspend its operation in Oregon prior to the outbreak of COVID-19 and it plans to re-commence its operations in Oregon in Spring 2020.

Nevada

Nevada Governor, Steve Sisolak, declared a state of emergency on March 17, 2020 to order non-essential businesses to close. The Cannabis Compliance Board ("CCB") has implemented a virtual vehicle inspection to assist dispensaries quickly obtain certification for delivery vehicles to comply with the executive order.

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 and (2) material ancillary involvement in companies it does not control with operation in Colorado, Washington and California.

The non-controlling investments held by the Company consists of investments without significant influence in Harborside Inc. and Pharmadrug Inc.

The following is the summary of the Company's balance sheet exposure to the U.S. cannabis-related activities as at January 31, 2020:

	Subsidiaries	**Non-controlling investments**	**Total**	**Percentage (%) exposure to the US marijuana industry**
	$	**$**	**$**	**%**
Current assets	4,644,134	12,626	4,656,760	78%
Non-current assets	10,839,814		10,839,814	100%
Total assets	15,483,948	12,626	15,496,574	92%
Current liabilities	(10,259,972)	-	(10,259,972)	76%
Non-current liabilities	(2,969,592)	-	(2,969,592)	23%
Total liabilities	(13,229,564)	-	(13,229,564)	50%

The following is the summary of operating losses from U.S. cannabis-related activities. For the six months ended January 31, 2020:

	Subsidiaries	**Non-controlling investments**	**Total**	**Percentage (%) exposure to the US marijuana industry**
	$	**$**	**$**	**%**
Sales	(9,801,694)	-	(9,801,694)	100%
Cost of goods sold	7,413,725	-	7,413,725	100%
Operating Expenses	8,621,680	-	8,621,680	92%
Other income	(49,324)	-	(49,324)	100%
Gain on sale of interest in a joint venture		-	-	0%
Change in fair value of investments	-	66,956	66,956	10%
Gain on settlement with Pasa Verde	-		-	0%
Impairment of intangible assets and goodwill	-		-	0%
Income from investments	-		-	
in associate	-	-	-	0%
Net operating (loss) income	6,184,387	66,956	6,251,344	79%

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 Cannabis Regulatory Overview

On October 17, 2018, the Cannabis Act (Canada) (the "**Cannabis Act**") came into force as law with the effect of legalizing the non-medical use of cannabis by adults across Canada. The Cannabis Act, among other things, replaced the previous regulatory structures in place, which previously permitted access to cannabis for medical purposes for only those Canadians who had been authorized to use cannabis by their health care practitioner.

The Cannabis Act permits the non-medical use of cannabis by adults and regulates, among other things, the production, distribution and sale of cannabis and related oil extracts in Canada, for both non-medical and medical purposes. Under the Cannabis Act, Canadians who are authorized by their health care practitioner to use medical cannabis have the option of purchasing cannabis from one of the producers licensed by Health Canada, registering with Health Canada to produce a limited amount of cannabis for their own medical purposes or designating an individual who is registered with Health Canada to produce cannabis on their behalf for personal medical purposes.

Pursuant to the Cannabis Act, subject to provincial and territorial regulations and medical allowances, individuals over the age of 18 are able to purchase fresh cannabis, dried cannabis, cannabis oil, and cannabis plants or seeds and are able to legally possess up to 30 grams of dried cannabis (or the prescribed equivalent amount) in public. The Cannabis Act also permits households to grow a maximum of four cannabis plants, which has been restricted by certain provinces. This limit applies regardless of the number of adults that reside in the household. In addition, the Cannabis Act provides provincial and territorial governments the authority to prescribe regulations regarding retail sales and distribution, as well as the ability to regulate certain matters, such as increasing the minimum age for purchase and consumption. All of the provinces and territories other than Alberta and Quebec have set the age of consumption at 19.

Provincial and territorial governments in Canada have varied regulatory regimes for the distribution and sale of non-medical cannabis. For example, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Yukon and the Northwest Territories have chosen the government-regulated model for distribution and sale, whereas Saskatchewan has opted for a private sector approach. Alberta, Ontario, Manitoba, Nunavut, British Columbia and Newfoundland & Labrador have announced plans to pursue a hybrid approach of public and private sale and/or distribution.

In connection with the new framework for regulating cannabis in Canada, the Federal Government of Canada has introduced new penalties under the Criminal Code (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the Canadian border, giving or selling cannabis to a youth and involving a youth to commit a cannabis-related offence.

In addition to the Cannabis Act, the Federal Government of Canada published regulations, including the Cannabis Regulations (the "**Cannabis Regulations**") and the new IHR (together with the Cannabis Regulations, collectively, the "**Regulations**"), along with amendments to the Narcotic Control Regulations and certain regulations under the Food and Drugs Act (Canada). The Regulations, among other things, outline additional rules for the cultivation, processing, research, analytical testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licenses that can be granted. The Regulations set standards for these cannabis and hemp products and include strict specifications for the plain packaging and labelling and analytical testing of all cannabis products as well as stringent physical and personnel security requirements for federally licensed sites. The Regulations also maintain a distinct system for access to cannabis.

On December 20, 2018, the Federal Government of Canada also released its proposed amendments to the Cannabis Regulations that contemplate the production of cannabis edibles, extracts and topicals, among a variety of other changes.

On October 17, 2019, amendments to the Cannabis Regulations came into effect prohibiting any promotional communication (a) that a cannabis extract has the flavor of confectionery, dessert, soft drinks or energy drinks, (b) of health or cosmetic benefits for all cannabis, (c) of energy values or nutrients for edible cannabis, (d) of meeting special diets for edible cannabis, (e) that associate cannabis with an alcoholic beverage, or (f) that associate cannabis with a tobacco product or a vaping product (a "vaping product" as defined in the Tobacco and Vaping Products Act, which excludes cannabis). In addition, the Cannabis Regulations have been amended to restrict the number and size of brand elements on promotional items.

The Cannabis Regulations permit sale to consumer of cannabis products in the dried cannabis, cannabis oil, fresh cannabis, cannabis plants, cannabis seeds, edible cannabis, cannabis extracts and cannabis topicals, classes of cannabis. Edible cannabis products, cannabis extract products other than cannabis oil (such as hashish, wax and vaping products) and cannabis topical products (other than cannabis oil for such use) became regulated for commercial sale on October 17, 2019. The Cannabis Regulations require processors to file a notice with Health Canada at least sixty days before releasing a new product to the market. As a result, any cannabis products that are edible cannabis, cannabis extracts (other than currently saleable cannabis oil) or topical cannabis products will not be available for purchase in medical or adult use markets until at least December 17, 2019.

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 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 Operators

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.

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.

Epidemic diseases, such as recent outbreak of the COVID-19 illness

The recent outbreak COVID-19, has been declared a global pandemic by the World Health Organization in March 2020. The outbreak has spread across the globe and is impacting worldwide economic activity. A public health epidemic, including COVID-19, poses the risk that the Company, our employees, contractors, suppliers and partners may be prevented from conducting business activities for an indefinite period of time due to shutdowns that are either self-imposed or mandated by the governmental authorities. Specifically, the COVID-19 outbreak may have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition. The extent, to which the COVID-19 outbreak impacts our financial results, will depend on future developments that are currently uncertain and cannot be predicted.

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 currently has insurance coverage; however, because the Company operates within the cannabis industry, there additional difficulties and complexities associated with such insurance coverage.

The Company believes that it and its subsidiaries currently have insurance coverage with respect to directors and officers, workers' compensation, general liability, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary.

There is no assurance that Calyx will retain its supplier relationships.

The Company's licensed distributor, Calyx has a significant concentration of suppliers, whereby a significant portion of its business comes from one manufacturer, Plus. As a result of the settlement agreement entered into on December 9, 2019 with Plus, Calyx will experience a significant decline in revenues and may have a material adverse effect on the Company's business, financial condition and results of operations. Any further disruption or cessation of its arrangement with its remaining suppliers could adversely impact the timing and volume the Company's current sales, cause an inability to service its retail accounts due to unavailability of products to sell, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

Proposed Acquisitions and Dispositions

The proposed acquisitions and dispositions are subject to certain conditions, many of which are outside of the control of the Company and there can be no assurance that they will be completed, on a timely basis or at all. As a consequence, there is a risk that one or more of the proposed acquisitions or dispositions will not close in a timely fashion or at all. If one or more of the proposed acquisitions or dispositions is not completed for any reason, the ongoing business of the Company may be adversely affected and, without realizing any of the benefits of having

completed such transactions, the Company will be subject to a number of risks, including, without limitation, the Company may experience negative reactions from the financial markets, including negative impacts on the Company's stock price, in the case of a proposed acquisition, the Company will need to find an alternative use of any proceeds earmarked for such proposed acquisitions, in the case of a proposed disposition, the Company will not receive the anticipated proceeds of such disposition and accordingly may not be able to execute on other business opportunities for which such proceeds have been earmarked, and matters relating to the proposed acquisitions and dispositions will require substantial commitments of time and resources by management of the Company which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to the Company. If one or more of the proposed acquisitions or dispositions are not completed, the risks described above may materialize and they may adversely affect the business, results of operations, financial condition and prospects and stock price of the Company.

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

In May 2018, the House Appropriations Committee approved inclusion of the Rohrabacher-Blumenauer Amendment ("**RBA**") in the CJS appropriations bill for fiscal year 2019, in a voice vote led by sponsor Rep. David Joyce. The amendment was then renewed through a series of short-term spending bills signed on September 28,

2018, December 7, 2018 and January 25, 2019. On February 15, 2019, the amendment was renewed as part of an omnibus spending bill in effect through September 30, 2019. However, the bill 22 does not afford the same DOJ prohibitions regarding prosecuting conduct and commerce regarding recreational marijuana, which poses a significant risk to the Company's operations. Moreover, there can be no certainty that Congressional support for the RBA amendment will continue after the September 30, 2019 expiration.

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

On March 28, 2019, the House Financial Services Committee approved Secure and Fair Enforcement (SAFE) Banking Act reintroduced by U.S. Sens. Jeff Merkley (D-OR) and Cory Gardner (R-CO). The bill would prevent the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) from taking action against banks or credit unions that serve cannabis-related businesses, prevent those regulators from limiting access to financial institutions by cannabis-related businesses, require the Financial Crimes Enforcement Network (FinCEN) and the Federal Financial Institutions Examination Council (FFIEC) to issue guidance for institutions that provide services to cannabis-related businesses, require reporting by financial regulators and the Government Accountability Office, and impose or increase the cost of private-sector mandates on financial institutions and remove a private right of action against financial institutions.

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 Licensed Operators and the Company) 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 adult-use 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 common shares to sell their securities at an advantageous price. Market price fluctuations in the common shares 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 common shares.

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 common shares 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 common shares 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); (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 leasing the real estate properties that the Company's may acquire in the future. If the 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.

<u>The products provided by the Company to Licensed Operators may become subject to regulation governing food and related products</u>

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.

<u>Environmental and employee health and safety regulations</u>

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.

<u>Difficult to forecast</u>

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.

The Company has limited control over the operations and activities of the Licensed Operators.

In certain instances, the Company has limited control under the license agreements over the operations and activities of the Licensed Operators that it does not control or have a significant influence over. Since the income of the Company will be highly dependent upon the activities and operations of the Licensed Operators and any other agreement with such Licensed Operators, any substantial alteration of the Licensed Operators' business, operations, or production could adversely affect the income of the Company.

Default by the Licensed Operators under the agreements with the Company could have a material impact on the Company.

The Company expects to enter into various transactions with the Licensed Operators in addition to licensing agreements, including loans, advisory agreements, management service agreements, joint venture agreements and equity investments in Licensed Operators. Default by the Licensed Operators under these agreements could substantially reduce expected fee income, and in the case of defaulted loans or equity investments in failing Licensed Operators, a decrease in assets of the Company that could materially affect the financial results of the Company.

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.

Negative Cash Flow

The Company has not generated positive cash flows from operating activities. As a result of the Company’s negative cash flow from operating activities, the Company continues to rely on the issuance of securities or other sources of financing to generate the funds required to fund its business. The Company may continue to have negative operating cash flow for the foreseeable future.

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.

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 January 31, 2020 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 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 March 31, 2020 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 condensed interim 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 condensed interim consolidated financial statements in all material aspects.

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

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

March 31, 2020

John Durfy
Chief Executive Officer