



**LIFESTYLE DELIVERY SYSTEMS INC.  
MANAGEMENT'S DISCUSSION  
AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2019**



## INTRODUCTION

The following Management Discussion and Analysis (“MD&A”) of Lifestyle Delivery Systems Inc. (the “Company” or “LDS”), has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of August 29, 2019, and should be read in conjunction with the unaudited condensed consolidated financial statements of the Company for the three and six months ended June 30, 2019, and the related notes contained therein which have been prepared under International Financial Reporting Standards (“IFRS”).

The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. Additional information relevant to the Company’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company’s website at [www.lifestyledeliverysystems.com](http://www.lifestyledeliverysystems.com).

All financial information in this MD&A has been prepared in accordance with IFRS. All dollar amounts are quoted in Canadian dollars, the reporting currency of the Company, unless specifically noted.

## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in the foregoing MD&A constitute forward-looking statements. Forward-looking statements often, but not always, are identified by the use of words such as “seek”, “anticipate”, “believe”, “plan”, “estimate”, “expect”, “targeting” and “intend” and statements that an event or result “may”, “will”, “should”, “could”, or “might” occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company’s future plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. Such forward-looking statements involve a number of 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 such forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

## COMPANY OVERVIEW AND DESCRIPTION OF BUSINESS

Lifestyle Delivery Systems Inc. was incorporated on September 14, 2010, pursuant to the Business Corporations Act, British Columbia. The Company is a technology and intellectual property company participating in a strategic alliance, comprising of a licensed and state-compliant vertically integrated operations. The Company’s main focus is its technology, which allows to produce infused strips (similar to breath strips) that are not only a safer, healthier option to any other form of delivery but also allows for inclusion of a wide spectrum of ingredients from over the counter medications to homeopathic, nutraceutical, vitamins and supplements. The technology provides a new way to accurately meter the dosage and assure the purity of the selected product.

The Company operates in two geographical locations; California, USA, and British Columbia, Canada. Majority of the assets of the Company as well as daily operations are located in the City of Adelanto, California. The Parent Company operates in British Columbia; its primary function is the financing of the day-to-day operations in California as well as holding and development of intellectual property of the Company, being technology to produce CannaStrips™ and its Track and Trace software. As of the date of the filing of this MD&A, the Company has the following subsidiaries:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Interest</b>	<b>Function</b>
Canna Delivery Systems Inc.	Nevada	100%	Holding company
LDS Agrotech Inc.	Nevada	75%	Consulting services – cultivation
LDS Scientific Inc.	Nevada	75%	Consulting services - extraction



<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Interest</b>	<b>Function</b>
Rêveur Holdings Inc.	California	100%	and manufacturing Holding company
LDS Development Corporation	California	100%	Real estate holdings; equipment
Lifestyle Capital Corporation	California	100%	Financing
Omni Distribution Inc.	California	100%	No current operating activities
Optimus Prime Design Corp.	Canada	100%	Holding company
CSPA Group, Inc.	California	100%	Manufacturing and transportation
Core Isogenics Inc.	California	100%	Nursery and cultivation
Agrotech LLC.	California	50%	Cultivation

The Company's shares trade on the Canadian Securities Exchange under the trading symbol "LDS"; on OTC Link alternative trading system OTCQX platform under the trading symbol "LDSYF"; and on the Frankfurt Stock Exchange under the symbol "LD6, WKN: A14XHT".

### Adelanto Operations

At the date of this MD&A, the Company's main operating facility is located in the City of Adelanto, California (the "Facility"). The facility houses a full manufacturing cycle starting with nursery, cultivation, extraction, distillation, strip coating, and packaging line. The Facility is divided into three distinct divisions, nursery, cultivation, and manufacturing, of which retrofitting/construction of the manufacturing division was completed in the summer of 2018. The nursery division was completed in late April 2019, and the cultivation division of the Facility is expected to be completed in the early Summer of 2019.

As of the date of this MD&A, the Company's main business activity is the manufacturing of CannaStrips™, cannabis-infused strips (similar to breath strips) based on the patent-pending technology, as well as producing oils, distillates, and resin for the Company's Rêveur product brand, as well as for the white-label distribution. These operations are carried out through the Company's wholly-owned subsidiary, CSPA Group, Inc. ("CSPA"), which is managed by the Company's 75%-owned subsidiary, LDS Scientific Inc., under a management services agreement. Based on the agreement, LDS Scientific acts as the sole manager of CSPA's cannabis extraction and manufacturing operations, supervising and ensuring the performance of all functions related to the extraction and manufacturing operations.

The Company started retrofitting the Facility in November of 2016 and in September of 2017, the majority of required improvements for the extraction and manufacturing division were completed, and CSPA was granted a Certificate of Occupancy ("COO") allowing CSPA to begin operations managed by LDS Scientific. Upon receipt of the COO by CSPA, the Company recorded \$1,560,000, being the fair value of 3,000,000 shares issued as part of May 1, 2017, Membership Agreement with CSPA, and made a cash payment of \$187,575 (US\$150,000).

The Company owns a 75% interest in each of LDS Agrotech and LDS Scientific. The remaining 25% of LDS Agrotech is owned by its President, Matthew Ferguson, the remaining 25% of LDS Scientific is owned by its President, Jonathan Hunt (Mr. Ferguson and Mr. Hunt are collectively referred to as "Minority Shareholders"). The Company retains options to purchase the remaining 25% of each of LDS Agrotech and LDS Scientific (the "LDS Agrotech and LDS Scientific Options"), which can be exercised by:

- (a) issuing 2,500,000 common shares to each Minority Shareholder; and
- (b) making a US\$1,000,000 cash payment.

### Nursery and Cultivation Operations

On December 12, 2018, Bureau of Cannabis Control of California issued Core Isogenics Inc., the Company's wholly-owned subsidiary focussed on developing isogenic seed strains and automated cultivation methods, temporary nursery and cultivation licenses (the "Temporary Licenses"). The Temporary Licenses allow the Company to control all aspects of seed genetics, cultivation, and formulation of the Company's products.



Developing its proprietary plant genetics and the germination and grow technology allows the Company to produce seeds and plants with properties identical to those used in CannaStrips™ formula, thereby reducing the number of extraction steps that would be required to extract ingredients from conventional plants.

The nursery will utilize the seeds grown based on the Core Isogenics process. These seeds will be grown inside the Company's climate-controlled, negatively-pressurized, and remotely-monitored rooms to ensure contaminant-free plant development. The Company is planning to develop both indoor and outdoor strains with a focus on future large outdoor cultivations.

The Cultivation License will allow the Company to utilize its current facility by taking the seedlings from the nursery to the Company's automated growing environment. The automated growing environment will maximize plant growth and shorten grow cycles. The Company's proprietary Flexible Path technology of single-aisle movable plant beds will allow the Company to optimize utilization of cultivation area for the most efficient use of space.

In April 2019, the Company, through its subsidiary, Agrotech LLC, entered into two separate crop-share farm lease agreements with licensed California cannabis farms consisting of over two acres of outdoor cultivation and three-quarters of an acre of covered canopy cultivation land in Sacramento, CA (the "Sacramento Farms"). Both contracts have substantially same terms, expire on December 31, 2019, and required a total of USD\$300,000 upfront lease payment. Pursuant to the agreements, the Company will be the main operator on the leased land and will be required to supply expertise, seedlings, and nutrients to the Sacramento Farms. All operations would have to be approved by farm owners. The Sacramento Farms have two years of successful growth and all the necessary infrastructure, which allowed the Company to start cultivation of cannabis in May. In May 2019, the Company planted 10,000 seeds on the farm's outdoor cultivation acreage, which is expected to be the first of four crops for this cultivation season. As at June 30, 2019, the plants were at different stages of maturity, with an average determined to be 38%.

During the first week of August 2019, the Company started harvesting from approximately 1,250 plants that were determined to have reached their maturity. The harvest yielded approximately 0.65lb of biomass per plant. As of the date of this MD&A, the harvested biomass has been undergoing a drying process, and no sale, aside from a small batch of frozen bio-mass, has been made.

#### Construction of Dispensary and Increase of Distribution Operations

On February 28, 2019, the Company's affiliate, Highway 395 Dispensary, filed plans with the Planning Department of the City of Adelanto for the construction of a freestanding structure for dispensary and delivery operations. The property is owned by LDS Development Corporation, a wholly-owned subsidiary of LDS ("LDS DevCo"). The construction will be the responsibility of Highway 395 Dispensary and ownership of the completed project will remain an asset of LDS DevCo. As at the date of the filing of this MD&A Highway 395 Dispensary has received approvals for environmental impact and yucca tree preservation requirements, as well as approval for its construction plans from the San Bernardino County Fire Department. The City of Adelanto approved the addition of a Conditional Adult use permit to complement Highway 395 Dispensary's existing Medical Use permit for the dispensary, as well as delivery operations. The Conditional Adult Use permit is subject to the planning commission's approval of the construction plans.

On April 10, 2019, the Company signed a five-year lease agreement for 20,000 square feet of warehouse space located on the lot adjacent to the current Adelanto Facility. The monthly cost of the new warehouse is US\$40,000 per month at US\$2.00 per square foot per month. The new facility will be used to expand the Company's transportation and distribution operations.

The decision to increase the square footage for the Company's transportation and distribution operations was made to accommodate the expected start of operations of Highway 395 Dispensary and 420 Prime Delivery Service, which are scheduled for the 3<sup>rd</sup> quarter of 2019.

The Company estimated its initial transportation and distribution space requirements to be approximately 10,000 square feet, therefore on April 10, 2019, the Company entered into a sub-lease agreement with TCM



Distribution Inc., (“Transcanna”) an affiliate of Transcanna Holdings Inc. to sub-lease a portion of the warehouse space to Transcanna at a monthly fee of US\$20,000.

#### Private Placement Financing

On May 9, 2019, the Company closed its non-brokered private placement offering by issuing a total of 19,424,163 units of the Company’s common stock (the "2019 Units"), at a price of \$0.35 per 2019 Unit for aggregate gross proceeds to the Company of \$6,798,457 (the "2019 Offering").

Each 2019 Unit consisted of one common share of the Company (a "2019 Share") and one 2019 Share purchase warrant (a "2019 Warrant"). Each 2019 Warrant entitles the holder to purchase one 2019 Share (a "2019 Warrant Share") for a period of one year expiring on May 9, 2020, at an exercise price of \$0.50 per 2019 Warrant Share. The Company may accelerate the expiry of the 2019 Warrants if the Company's daily volume-weighted average share price on the Canadian Stock Exchange (or such other stock exchange the Company may be trading on) is equal to or greater than \$1.00 for 10 consecutive trading days.

In connection with the 2019 Offering, the Company paid cash commissions of \$233,076 and issued 665,931 broker’s warrants (the “Broker’s Warrant”). Each Broker’s Warrant is exercisable for one common share at \$0.50 per share for a period ending on May 9, 2020.

The securities issued under the 2019 Offering are subject to a hold period expiring on September 10, 2019, pursuant to applicable Canadian securities laws.

#### Debt Financing

On December 13, 2018, the Company entered into a loan agreement (the “Loan Agreement”) with an arms-length entity for \$700,000 (the “Loan”). Outstanding principal under the Loan accrued interest at a rate of 3% per month, compounded monthly and was payable on maturity on June 13, 2019. The Company had a right to prepay the Loan at any time, subject to the payment of \$70,000 in minimum interest. The Loan was secured by a general security agreement covering first deeds of trust on three parcels of unimproved real property totaling 20.5 acres owned by the Company’s wholly-owned subsidiary, LDS Development Corporation, in the City of Adelanto. The Company repaid the Loan in full on May 16, 2019.

#### Grants of Stock Options and Warrants

On February 6, 2019, the Company granted an option to acquire up to 2,000,000 shares of the Company’s common stock to its President, Mr. Fenwick and granted an option to acquire up to 1,000,000 shares of the Company’s common stock to its consultant. The Company also granted warrants to acquire up to 3,000,000 shares of the Company’s common stock to its consultants. The options and warrants vest over a two-year period in equal quarterly installments beginning on February 7, 2019, and may be exercised at a price of \$0.465 per share expiring five years after each vesting date. The above options and warrants were granted outside of the Company’s Stock Option Plan. During the six-month period ended June 30, 2019, the Company recognized \$1,305,634 as share-based compensation associated with these options and warrants.

#### Transaction with Transcanna Holdings Inc.

On July 1, 2019, the Company announced its entry into an exclusive agreement (the “LOI”) to negotiate a proposed business amalgamation between TransCanna and the Company. The proposed business amalgamation was expected to involve the acquisition by TransCanna of all the outstanding common shares of the Company. On July 12, 2019, the Company announced the termination of the LOI to amalgamate, as the Company’s management determined that the proposed transaction would not be in the best interests of its shareholders. During the time the LOI was in effect, neither LDS nor TransCanna have requested or provided any proprietary information to the other party, nor conducted any due-diligence with respect to the transaction proposed in the LOI.



### Sale of Marketable Securities

The Company's marketable securities consisted of 1,102,254 common shares of Transcanna Holdings Inc. (the "TCAN Shares"), a company related by virtue of former common management and common directors. The Company acquired TCAN Shares as part of the TCAN Agreement, dated for reference November 15, 2017. During the months of July and August of 2019, the Company decided to supplement its cash flows and finance its ongoing operating activities by selling its investment in TCAN Shares, generating net proceeds of approximately \$1,630,469. During the same period the Company acquired an additional 250,000 TCAN Shares from its CEO, who agreed to sell the shares at a 50% discount to market in exchange for a non-interest bearing note payable. The shares were acquired as security required under a short-term USD\$150,000 advance the Company received from TransCanna.

### Proposed Share Consolidation and Name Change

On August 15, 2019, the Company announced that its board of directors has approved a consolidation of all of its issued and outstanding common shares on the basis of six (6) pre-consolidation shares for every one (1) post-consolidation share (the "Consolidation"). The Company also announced that, in conjunction with the Consolidation, the Company intends to change its name to "Core One Labs Inc." (the "Name Change").

Upon completion of the Consolidation, LDS anticipates that there will be approximately 23,244,199 common shares issued and outstanding, not including rounding for any fractional amounts resulting from the Consolidation.

As of the date of this MD&A, the Company received approval from the Canadian Securities Exchange to proceed with the Consolidation and Name Change and as such, the transaction is expected to close at the beginning of September 2019.

### **OVERALL PERFORMANCE**

The following discussion of the Company's financial performance is based on the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019, and the audited consolidated financial statements for the year ended December 31, 2018.

	<b>Six Months Ended June 30, 2019</b>	<b>Year Ended December 31, 2018</b>
Total Revenue	\$ 3,773,118	\$ 4,080,747
Net Loss	\$ (2,222,604)	\$ (13,153,386)
Loss per Share	\$ (0.02)	\$ (0.12)
Working Capital (Deficit)	\$ 4,954,161	\$ (916,432)
Total Assets	\$ 26,327,866	\$ 21,064,193
Property, Plant, and Equipment	\$ 16,515,172	\$ 17,198,355
Total Liabilities	\$ 4,858,533	\$ 4,782,270
Share Capital and Reserves	\$ 55,309,056	\$ 47,299,815
Non-controlling Interests	\$ (1,580,350)	\$ (1,495,623)
Deficit	\$ 32,504,350	\$ 30,426,172

### **OVERALL PERFORMANCE**

The statements of financial position as of June 30, 2019, and December 31, 2018, indicated a cash position of \$402,139 and \$452,295, respectively, and total current assets of \$9,812,694 and \$3,865,838, respectively. The change in total current assets was mainly associated with gain the Company recorded on its marketable securities, which increased by \$3,978,004; increase in the amounts receivable of \$168,513 which were mainly associated with the revenue the Company generated from the sales of its products during the six-month period ended June 30, 2019, and to a smaller extent GST receivable, and a \$637,945 increase to prepaid expenses, which were associated with prepaid future services, insurance, and regulatory fees. Furthermore, the current assets increased as a result of \$2,496,365 assigned to the Company's biological assets, which represented estimated fair market value less cost to sell the cannabis plants, and were based on a





38% growth to maturity as at June 30, 2019. These increases in current assets were partially offset by the \$1,308,364 decrease to the value of the inventory.

The long-term assets of the Company totaled \$16,515,172 (2018 - \$17,198,355), and included \$1,974,250 (2018 - \$2,057,974) recorded as cost of four undeveloped land parcels varying in size from 4 to 10 acres for a total of 24.5 acres and an acquisition of membership interest in CSPA pursuant to the membership purchase agreement between the Company and CSPA, which was recorded at \$3,315,075 (2018 - \$3,315,075); production equipment recorded at \$4,871,337 (2018 - \$5,292,952); and \$6,354,510 (2018 - \$6,532,354) recorded as cost of the Adelanto Facility along with the cost of the future operating offices located in Costa Mesa, California as well as cost to acquire conditional use permits (“CUP”). During the six-month period ended June 30, 2019, the Company spent a total of \$346,015 on continued construction/leasehold improvements of the cultivation division of its Adelanto Facility and spent an additional \$237,876 on acquisition of minor equipment used in production. The overall decrease in the value of the Company’s long-term assets was associated with \$704,547 in amortization and depreciation the Company recorded on the revenue-generating assets, and to a smaller extent with fluctuations of the US Dollar in relation to the Canadian Dollar.

As at the date of this MD&A, the Company has completed retrofitting its manufacturing and nursery divisions and continues to work on final upgrades to the cultivation division of the permitted Adelanto Facility for use by Core Isogenics.

At June 30, 2019, current liabilities totaled \$4,858,533 (2018 - \$4,782,270) and included \$2,399,285 in accounts payable and accrued liabilities (2018 - \$3,130,246), \$372,753 in amounts due to related parties (2018 - \$160,670), \$165,186 (2018 - \$79,799) in wages payable, and \$209,661 in advances payable (2018 - \$10,050). In addition to the above, at June 30, 2019, the Company’s current liabilities included \$687,326 (2018 - \$680,505) in unearned revenue, which was associated with deposits the Company collected from its customers, and \$1,024,322 the Company recorded as an obligation under the crop-sharing arrangement with Sacramento farms under the lease agreements with these farms. The liability for crop-sharing arrangement represents 50% of the unrealized gain on change in fair value of biological assets and is estimated based on the net income the Company expects to earn from its biological assets prorated by the growth cycle of plants as at the reporting period. Of the total unearned revenue, \$72,378 (US\$55,305) related to a deposit for the future services the Company received from an entity of which the Company’s CEO is a sole director of. Remaining \$614,948 in unearned revenue consisted of \$66,815 (US\$50,000) cash payment and \$548,132, being a fair market value of 1,102,254 common shares of Transcanna Holdings Inc. (“Transcanna”) the Company received pursuant to the Intellectual Property License and Royalty Agreement dated for reference November 15, 2017, and as amended on February 20, 2018. Transcanna is a related corporation to the Company through its former director, who is currently a director of Transcanna, the Company’s former President, who is the CEO and a director of Transcanna, and through the Company’s CEO, who is a major shareholder of Transcanna.

In December 2018 the Company borrowed \$700,000 under a loan agreement with an unrelated party, which accumulated interest at 3% per month compounded monthly. The Company repaid the loan on May 16, 2019, by paying the lender \$812,689.

At June 30, 2019, the Company had working capital of \$4,954,161 as compared to a working capital deficit of \$916,432 at December 31, 2018. Based on the current operating and expansion plans, the Company is required to generate funds from an alternative source of financing before it is in a position to support its operations from its core business activities. Once the construction and retrofitting of the Adelanto Facility are completed, the Company believes it will be able to generate sufficient revenue to fund its day-to-day operations as well as support its affiliates’ overhead costs required to carry out the cultivation and extraction operations. The equity and/or debt financing may still be required to fund the expansion of the facility, to support proposed JV in Canada, and to construct Highway 395 Dispensary, along with its delivery service entity, 420 Prime Delivery Service.

Parent shareholders’ equity was comprised of share capital of \$49,474,336 (2018 - \$42,797,498), reserves of \$5,834,720 (2018 - \$4,502,317), accumulated other comprehensive income of \$244,977 (2018 - \$903,903) and accumulated deficit of \$32,504,350 (2018 - \$30,426,172). The total parent shareholders’ equity at June 30, 2019 was \$23,049,683 (2018 - \$17,777,546). In addition, the Company recorded \$1,580,350 (2018 -



\$1,495,623) in non-controlling interests associated with 25% allocations to LDS Agrotech and LDS Scientific, and a 50% allocation to Agrotech LLC.

The weighted average number of common shares outstanding for the six months period ended June 30, 2019, was 125,427,531 (2018 – 104,728,593) resulting in a net loss per common share of \$0.02 (2018 –\$0.05). As at June 30, 2019, the Company had outstanding options to acquire up to 16,871,820 shares of the Company’s common stock and warrants to acquire up to 20,090,094 shares of the Company’s common stock, of which 32,461,914 were exercisable as at that date. None of these options and warrants were in the money; therefore, earnings per shares were not affected by the potential dilution.

## COMPARISON OF RESULTS OF OPERATIONS

### *Net Loss*

During the three-month period ended June 30, 2019, the Company reported a net loss of \$3,375,514 (\$0.03 basic and diluted loss per share) and a total comprehensive loss of \$3,685,811, as compared to a net loss of \$2,857,996 (\$0.03 basic and diluted loss per share) and a total comprehensive loss of \$2,613,891 during the three-month period ended June 30, 2018.

Main changes between the three-month periods ended June 30, 2019, and 2018 were associated with increased share-based compensation, wages and salaries associated with increased operations at the Company’s Adelanto Facility, loss on the equity investments, and impairment of the advances with an affiliated party. These increases in expenses were in part offset by revenue from the Company’s main operations, and unrealized gain the Company recorded on the fair value of its biological assets, as well as reduced costs of its research and development and office expenses, and reduced legal and consulting fees.

During the six-month period ended June 30, 2019, the Company reported a net loss of \$2,222,604 (\$0.02 basic and diluted loss per share) and a total comprehensive loss of \$2,820,550, as compared to net loss of \$5,028,312 (\$0.05 basic and diluted loss per share) and a total comprehensive loss of \$4,536,214 during the six-month period ended June 30, 2018.

Main changes between the six-month periods ended June 30, 2019 and 2018 were associated with increased revenue from the Company’s main operations, unrealized gain the Company recorded on the fair value of its biological assets, and gain the Company recorded on appreciation of its equity investment in Transcanna Holdings Inc.. In addition, the Company has substantially reduced its expenditures on research and development, consulting and legal services. These positive changes were in part offset by increased share-based compensation, wages and salaries associated with increased operations at the Company’s Adelanto Facility, and impairment of affiliated advances.

### *Revenue*

During the three-month period ended June 30, 2019, the Company recognized \$1,058,317 in revenue (2018 - \$315,691), which was associated with revenue from sales generated by CSPA under the management of LDS Scientific. The cost of sales was determined to be \$1,608,399 and consisted of \$782,557 direct costs and \$825,842 allocated overhead costs (2018 – the Company did not incur any costs associated with the generated revenue); of direct costs, \$51,356 was associated with cannabis business tax imposed by the City of Adelanto calculated as 5% of revenue generated from the sale of cannabis products during April and May, and at 1% starting on June 1, 2019, and \$105,733 being excise taxes. The revenue and cost of sales for the three-month period ended June 30, 2019, resulted in a negative gross margin of \$550,082 (2018 - \$Nil).

During the six-month period ended June 30, 2019, the Company recognized \$3,773,118 in revenue (2018 - \$315,691), which was associated with revenue from sales generated by CSPA under the management of LDS Scientific. The cost of sales was determined to be \$4,790,974 and consisted of \$3,270,811 direct costs and \$1,520,163 allocated overhead costs (2018 – the Company did not incur any costs associated with the generated revenue); of direct costs, \$153,455 was associated with cannabis business tax imposed by the City of Adelanto calculated as 5% of revenue generated from the sale of cannabis products during the January through May period, and at 1% starting on June 1, 2019, and \$422,678 being excise taxes. The revenue and





cost of sales for the six-month period ended June 30, 2019, resulted in a negative gross margin of \$1,017,856 (2018 - \$Nil).

To reduce the costs, the Company is planning to establish stronger cost control initiatives, which will become easier to manage once the cultivation division of the Adelanto Facility is ready for its intended use, allowing the Company to cultivate its own biomass at the Facility, in addition to the outdoor cultivation operations pursuant to the agreement with the Sacramento Farms.

At June 30, 2019, the Company recorded \$1,043,811 as unrealized gain on changes in fair value of biological assets, in accordance with IAS 41, *Agriculture*. The gain was based on a market approach where fair value at the point of harvest is estimated based on selling prices less costs to sell at harvest and is prorated based on the stage of growth of cannabis plants (at June 30, 2019 – the growth stage was estimated to be approximately 38% to maturity). Since the Company participates in a 50/50 profit sharing with the Sacramento Farms, the Company recorded \$1,024,322 as part of liability under crop-share arrangements.

### *Operating Expenses*

During the three-month period ended June 30, 2019, the Company's operating expenses were \$3,334,642 (2018 - \$3,169,180). The largest factors contributing to the operating expenses during the three-month period ended June 30, 2019, were associated with \$1,025,407 (2018 - \$932,798) in advertising and promotion, which included advertising and promotional activities to bring awareness to our products, participating at the trade shows and conventions, as well as investor relation activities, \$629,929 (2018 - \$50,508) in share-based compensation, which were followed by \$543,248 in salaries and wages for the management team receiving payroll, as well as for the employees working at the Adelanto Facility not directly associated with manufacturing operations.

In addition, the Company incurred \$297,266 (2018 - \$602,316) in general operating expenses including, but not limited to, insurance costs, office rental fees and other miscellaneous expenses associated with general day-to-day operations; and \$72,758 (2018 - \$615,807) in research and development fees associated with testing the technology to achieve the best quality extracted product, as well as to fine-tune production and packaging operations; \$177,840 (2018 - \$294,013) in consulting fees, and \$157,139 (2018 - \$340,020) and \$72,155 (2018 - \$93,489) in legal and regulatory fees, respectively. In addition to these expenses the Company incurred \$215,981 (2018 - \$138,024) on meals and travel expenses, \$80,074 (2018 - \$77,580) on supporting its IT infrastructure, and \$22,728 (2018 - \$22,563) on accounting fees.

On a year-to-date basis, the Company's operating expenses were \$5,702,968 (2018 - \$5,293,055). The largest factors contributing to the operating expenses during the six-month period ended June 30, 2019, were associated with \$1,171,805 (2018 - \$1,114,481) in advertising and promotion activities, \$1,305,634 (2018 - \$352,131) in share-based compensation, which were followed by \$1,056,066 in salaries and wages for the management team receiving payroll, as well as for the employees working at the Adelanto Facility not directly associated with manufacturing operations.

In addition, the Company incurred \$561,733 (2018 - \$849,146) in general operating expenses including, but not limited to, insurance costs, office rental fees and other miscellaneous expenses associated with general day-to-day operations; and \$115,595 (2018 - \$1,144,480) in research and development fees associated with testing the technology to achieve the best quality extracted product, as well as to fine-tune production and packaging operations; \$432,528 (2018 - \$734,719) in consulting fees, and \$242,072 (2018 - \$512,540) and \$227,839 (2018 - \$163,800) in legal and regulatory fees, respectively. In addition to these expenses the Company incurred \$266,294 (2018 - \$213,122) on meals and travel expenses, \$159,426 (2018 - \$153,572) on supporting its IT infrastructure, and \$83,265 (2018 - \$50,963) on accounting fees.

The Company's current operations started generating considerable revenue in the late 3<sup>rd</sup> quarter of the Company's Fiscal 2018. However, due to the growth stage of the operations and the market itself, the costs of revenue during the year ended December 31, 2018, and for the six-month period ended June 30, 2019, exceeded the revenue generated from sales, largely due to the lack of economies of scale which did not provide the Company with a bargaining power to lower the cost of inputs, in part due to uncertain legal and regulatory environment within the industry, which was driving up costs of raw material and packaging



requirements, and in part due to inefficient use of material due to lack of prior operating history. Until such time that the Company can successfully control costs of its revenue-generating inputs, the Company will continue relying on equity and debt financing in order to meet its ongoing day-to-day operating requirements. The Company's current cash reserves, which include funds generated from May Private Placement and from the sale of TCAN Shares, are not sufficient to be able to support its operations for the next twelve-month period. Should anticipated revenue from production and sale of the biological assets be delayed, the Company will be required to seek additional financing either through debt or equity. There can be no assurance that such financing will be available to the Company in the amount required at any particular time, or, if available, it can be obtained on terms satisfactory to the Company.

#### *Non-controlling Interests*

Of \$3,375,514 net loss the Company recorded during the three months ended June 30, 2019 (2018 - \$2,857,996), net income of \$187,363 (2018 - loss of \$111,049) was attributed to the non-controlling interests associated with 25% control of LDS Agrotech, and LDS Scientific, and 50% control of Agrotech by Minority Shareholders. In addition, the total other comprehensive loss of \$310,297 (2018 - income of \$244,105) included an income of \$38,717 (2018 - \$17,412 loss) associated with the non-controlling interests.

On a year-to-date basis, of \$2,222,604 net loss the Company recorded during the six months ended June 30, 2019 (2018 - \$5,028,312), net loss of \$144,426 (2018 - \$302,464) was attributed to the non-controlling interests associated with 25% control of LDS Agrotech, and LDS Scientific, and 50% control of Agrotech by Minority Shareholders. In addition, the total other comprehensive loss of \$597,946 (2018 - income of \$492,098) included an income of \$60,980 (2018 - \$36,937 loss) associated with the non-controlling interests.

#### **SUMMARY OF QUARTERLY RESULTS**

The following tables set forth selected financial information of the Company for the eight most recently completed quarters. This information is derived from unaudited quarterly financial statements and audited annual financial statements prepared by management in accordance with IFRS.

	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Total Revenue	\$ 1,058,317	\$ 2,714,801	\$ 3,164,407	\$ 600,649
Net Income (Loss)	\$ (3,375,514)	\$ 1,152,910	\$ (4,404,795)	\$ (3,720,279)
Income (Loss) per Share	\$ (0.03)	\$ 0.01	\$ (0.04)	\$ (0.03)
Total Assets	\$ 26,327,866	\$ 23,597,960	\$ 21,064,193	\$ 20,888,963
Working Capital	\$ 4,954,161	\$ 2,044,001	\$ (916,432)	\$ 3,498,939

	<b>June 30, 2018</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Total Revenue	\$ 315,691	\$ -	\$ (628,134)	\$ -
Net Income (Loss)	\$ (2,857,996)	\$ (2,170,316)	\$ (7,022,216)	\$ (4,037,546)
Income (Loss) per Share	\$ (0.03)	\$ (0.02)	\$ (0.08)	\$ (0.05)
Total Assets	\$ 23,121,383	\$ 16,679,237	\$ 13,130,426	\$ 11,518,299
Working Capital	\$ 6,503,661	\$ 798,391	\$ 820,738	\$ 2,249,312

Overall, during the eight recently completed quarters, consulting, accounting, legal, regulatory fees, amortization, research and development, and office and general expenses, advertising and marketing were the major components that caused variances in net losses from quarter to quarter. At the end of the 3<sup>rd</sup> quarter of its Fiscal 2018, the Company started its manufacturing operations; therefore, the quarter ended December 31, 2018, saw a spike in revenue and costs of sales associated with it. The quarters ended September 30, 2018, March 31, 2018, December 31, 2017, and September 30, 2017, were also significantly affected by non-cash share-based compensation issued to the Company's management team, and for shares released from escrow, as well as for options granted to consultants for advertising and marketing services.



During the quarter ended June 30, 2019, the Company generated \$1,058,317 in sales from its cannabis products. The cost of revenue was calculated to be \$1,608,399 and comprised of \$782,557 in direct cost of goods sold and \$825,842 in allocated overhead. During the quarter ended June 30, 2019, the Company recorded \$1,043,811 as unrealized gain on changes in fair value of biological assets which were associated with cannabis plants the Company planted during the second quarter of its Fiscal 2019 at Sacramento Farms, which operations are governed by a crop-share lease agreements between Agrotech LLC, the Company's 50% owned subsidiary, and Sacramento Farms. During the same quarter, the Company's operating expenses totaled \$3,334,642 and were comprised of \$543,248 in wages and salaries paid to employees working in the Adelanto Facility not directly associated with the manufacturing, as well as to the top management, \$177,840 in consulting fees payable to management and external consultants for their services, \$1,025,407 in marketing and advertising expenses, and \$215,981 in meals and entertainment expenses. In addition to the above operating expenses, the Company recorded \$38,847 in interest expense accrued on the note payable issued as part of the \$700,000 Loan Agreement with an arms-length entity, and \$250,329 loss on impairment of advances issued to an affiliated entity.

During the quarter ended March 31, 2019, the Company generated \$2,714,801 in sales from its cannabis products. The cost of revenue was calculated to be \$3,182,575 and comprised of \$2,488,254 in direct cost of goods sold and \$694,321 in allocated overhead. The Company's operating expenses totaled \$2,368,326 and comprised of \$512,818 in wages and salaries paid to employees working in the Adelanto Facility not directly associated with the manufacturing, as well as to the top management, \$254,688 in consulting fees payable to management and external consultants for their services, \$146,398 in marketing and advertising expenses, and \$50,313 in meals and entertainment expenses. In addition to the above operating expenses, the Company recorded \$52,835 in interest expense accrued on the note payable issued as part of the Loan Agreement with an arms-length entity for \$700,000, and \$88,279 loss on settlement of debt with Ms. Elrod pursuant to the settlement and release agreement the Company negotiated with Ms. Elrod. The largest item that contributed to the overall net income during the three-month period ended March 31, 2019, was associated with \$4,176,411 gain the Company recorded on its equity investments into common shares of Transcanna, as Transcanna's share price increased from \$0.50, the value the Company received its shares at pursuant to the Intellectual Property License and Royalty Agreement to \$4.28 per share, being a fair market value of Transcanna shares on March 29, 2019.

During the quarter ended December 31, 2018, the Company generated \$3,164,407 in sales from its cannabis products. The cost of revenue was calculated to be \$5,351,335 and included \$901,713 in allocated overhead costs, \$131,478 in City of Adelanto tax on gross revenue from cannabis business operations, and \$689,604 in inventory impairment costs. The Company's operating expenses totaled \$1,074,569 and comprised of \$326,237 in wages and salaries paid to employees working in the Adelanto Facility not directly associated with the manufacturing, as well as to the top management, \$273,723 in consulting fees payable to management and external consultants for their services, \$135,529 in meals and entertainment expenses, \$113,211 in advertising, promotions, and corporate awareness fees. In addition to the above operating expenses, the Company recorded \$21,000 in interest expense accrued on the note payable issued as part of the Loan Agreement with an arms-length entity for \$700,000 and \$1,204,405 impairment of its advances receivable from a related company.

During the quarter ended September 30, 2018, the Company's operating expenses totaled \$3,868,308 and comprised of \$1,790,688 in share-based compensation of which \$850,793 was associated with the fair market value of options to acquire up to 2,825,820 common shares the Company granted to its director and CEO, \$892,500 in adjusted fair value of 1,200,000 shares released from escrow for technology, as well as \$47,395 in adjusted fair value of 108,333 finder's shares associated with acquisition of technology from CDS; \$561,123 in office and other general expenses the Company incurred during the quarter, \$460,950 in wages and salaries paid to employees working in the Adelanto facility, \$180,685 in research and development costs, \$289,872 in consulting fees, of which \$208,525 included consulting fees paid to the top management team, and \$233,879 the Company incurred in legal fees. During the quarter ended September 30, 2018, CSPA received a temporary distribution and transportation license from the Bureau of Cannabis Control of California, which allowed CSPA to start its operations resulting in total sales of \$1,007,187, of this revenue \$755,390 were attributed to LDS Scientific under the management agreement between LDS Scientific and CSPA.

During the quarter ended June 30, 2018, the Company's operating expenses totaled \$3,169,180 and comprised of \$615,807 the Company incurred in research and development costs, \$294,013 in consulting



fees, which included \$206,700 in consulting fees paid to the top management team, \$50,508 in share-based compensation which included an adjustment to a fair market value of an option to acquire up to 500,000 shares the Company granted to its director and market value of the services provided to the Company by the new members of the Company's advisory board, \$602,316 in office and other general expenses, and \$932,798 the Company spent on its advertising and investor relation activities.

During the quarter ended March 31, 2018, the Company's operating expenses totaled \$2,123,875 and comprised of \$528,673 the Company incurred in research and development costs, \$440,706 in consulting fees, which included \$202,593 in consulting fees paid to the top management team, \$301,623 in share-based compensation for an option to acquire up to 500,000 shares the Company granted to its director, \$246,830 in office and other general expenses, and \$181,683 the Company spent on its advertising and investor relation activities.

During the quarter ended December 31, 2017, the Company's operating expenses totaled \$6,867,801. The largest expense item during the quarter ended December 31, 2017, was associated with \$2,679,469 share-based compensation the Company recorded on 4,200,000 shares released from escrow associated with the Canna Acquisition, and for 315,000 shares the Company issued as finders' fees for the Canna Acquisition. Research and development costs amounted to \$1,443,744 and included \$1,132,928 the Company paid for fresh frozen whole plant material; advertising and promotion fees amounted to \$1,407,382, of which \$595,453 was attributed to vested portion of options to acquire up to 1,532,900 common shares issued to the consultants for investor relations. The research and development, and advertising and promotion expenses were followed by office and other general expenses of \$387,913, which included rent of Adelanto Facility, among other general expenses, and consulting fees of \$291,283. Other significant items included meals and entertainment expenses for a total of \$91,698, costs of maintaining IT infrastructure for a total of \$77,332, audit and accounting fees of \$70,000, and regulatory fees of \$32,752. The restructuring of the Company's organization and setting up strategic partnerships to streamline the operations in anticipation of the completion of the Adelanto Facility resulted in \$203,394 in legal fees. During the quarter ended December 31, 2017, the Company's net loss was further increased by \$54,385 reversal of net revenue, as the Company determined that certain long-term projects that were initially recorded through revenue were not completed as at December 31, 2017, and as such the revenue was deferred to future periods.

During the quarter ended September 30, 2017, the Company's operating expenses totaled \$4,006,387, and included \$2,751,336 in share-based compensation the Company recognized in association with the options to acquire up to 7,311,000 common shares the Company granted to its executive officers and directors, consulting fees of \$213,274, research and development costs of \$220,715, advertising and promotion of \$215,635, of which \$80,303 was associated with vested portion of options to acquire up to 1,532,900 common shares issued to the consultants for investor relations, office and other general expenses of \$215,642, regulatory fees of \$83,842, and audit and accounting fees of \$26,000. The restructuring of the Company's organization and setting up strategic partnerships to streamline the operations in anticipation of the completion of the Adelanto Facility resulted in \$143,899 in legal fees.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2019, the Company had \$402,139 (2018 – \$452,295) in cash and cash equivalents and had a working capital of \$4,954,161 (2018 – deficit of \$916,432). The Company's share capital was \$49,474,336 (2018 - \$42,797,498) representing 139,465,194 (2018 – 119,741,031) common shares, and reserves of \$5,834,720 (2018 - \$4,502,317). As at June 30, 2019, the Company had accumulated \$32,504,350 in deficit (2018 – \$30,426,172), recorded other comprehensive income of \$244,977 (2018 - \$903,903) and allocated a portion of its comprehensive loss and equity totaling \$1,580,350 (2018 - \$1,495,623) to non-controlling interests associated with a 25% ownership of LDS Agrotech, and LDS Scientific, as well as a 50% ownership of Agrotech LLC held by Minority Shareholders of these subsidiaries.

During the six-month period ended June 30, 2019, the Company generated \$3,773,118 in revenue from its operations, which was offset by the cost of sales totaling \$4,790,974; therefore, the revenue generated was not substantial to support the working capital needs of the Company. As such, the Company continues to depend on the equity and debt markets as its additional source of operating capital. The Company's agricultural activities resulted in \$1,043,811 unrealized gain on changes in fair value of biological assets; however, since this revenue stream is in its infancy for the Company's business operations, the ability of the Company to realize the expected returns is uncertain.



Until the Company is able to increase its revenue from the main business activities and effectively control costs associated with generating the revenue, the Company will have to continue relying on equity and debt financing. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

## CONTRACTUAL OBLIGATIONS

A summary of the Company's contractual obligations at June 30, 2019, is detailed in the table below.

<b>Payments Due by Period</b>					
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>4 – 5 Years</b>	<b>After 5</b>
Accounts Payable	\$ 2,105,926	\$ 2,105,926	n/a	n/a	n/a
Accrued Liabilities	\$ 293,359	\$ 293,359	n/a	n/a	n/a
Wages Payable	\$ 165,186	\$ 165,186	n/a	n/a	n/a
Amounts due to Related Parties	\$ 372,753	\$ 372,753	n/a	n/a	n/a
Advances Payable	\$ 209,661	\$ 209,661	n/a	n/a	n/a
Crop-share arrangements	\$ 1,024,322	\$ 1,024,322	n/a	n/a	n/a
Unearned Revenue	\$ 687,326	\$ 687,326	n/a	n/a	n/a
Other Commitments <sup>(1)</sup>	\$ 7,434,238	\$ 963,601	\$2,733,759	\$2,891,060	\$845,818
<b>Total</b>	<b>\$12,292,771</b>	<b>\$ 5,822,134</b>	<b>\$2,733,759</b>	<b>\$2,891,060</b>	<b>\$845,818</b>

(1) Other Commitments are associated with office and facility rent as contemplated under operating lease agreements and include additional rental fees associated with the new warehouse space the Company leased in April 2019. In addition, the commitments include property taxes payable for the facility and vacant land the Company acquired during its fiscal 2017.

Management believes that the Company will be able to generate sufficient cash to meet its current obligations for the next twelve months.

## OFF-BALANCE SHEET ARRANGEMENTS

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

## RELATED PARTY TRANSACTIONS

		<b>June 30, 2019</b>	<b>June 30, 2018</b>
Management consulting services	a)	\$ 278,379	\$ 409,293
Consulting services for research and development	b)	\$ 46,763	\$ 319,310
Share-based compensation	c)	\$ 653,803	\$ 342,391
Management salaries	b)	\$ 336,683	\$ -

a) Management consulting services consist of the following:

- \$199,283 (2018 – \$192,370) in consulting fees paid or accrued to Mr. Eckenweiler, the CEO and director of the Company pursuant to a consulting agreement with Mr. Eckenweiler. The Company agreed to pay Mr. Eckenweiler US\$25,000 per month for his services for a term expiring on February 28, 2021, and automatically renewable for successive one-year periods thereafter. In case the Company decides to terminate the consulting agreement with Mr. Eckenweiler without due cause, the Company agreed to pay Mr. Eckenweiler a lump sum amount equal to the product of monthly remuneration otherwise payable to Mr. Eckenweiler under the consulting agreement multiplied by 18 months regardless of the length of time remaining under the then current term.





- \$Nil (2018 – \$38,182) in consulting fees paid or accrued to Mr. Pakulis, the Company’s former President and a member of the board of directors pursuant to a management consulting agreement. Mr. Pakulis resigned from his management and directorship positions with the Company on November 16, 2018, effectively terminating the management consulting agreement.
  - \$60,153 (2018 - \$57,277) in consulting fees paid to Ms. Silina, the Company’s Chief Financial Officer (the “CFO”). The Company agreed to pay Ms. Silina US\$7,500 per month for her services pursuant to a management consulting agreement which expired on May 1, 2019, and was automatically renewed for an additional year, as provided under the renewal provision included in the agreement.
  - \$12,500 (2018 - \$30,000) in consulting fees paid to Mr. Johannson, a former member of the board of directors of the Company. The Company agreed to pay Mr. Johannson \$5,000 per month for his services pursuant to a consulting agreement expiring January 1, 2020. Mr. Johannson resigned as a director of the Company on March 15, 2019, effectively terminating his management consulting agreement with the Company.
  - \$6,443 (2018 - \$91,464) in consulting fees paid to Mr. McEnulty, director and executive officer of the Company’s wholly-owned California subsidiaries. The Company agreed to pay Mr. McEnulty US\$12,000 per month for his services pursuant to a consulting agreement expiring December 30, 2020. During the second quarter of its Fiscal 2019, the Company re-negotiated the consulting agreement with Mr. McEnulty due to a change in the scope of services provided by Mr. McEnulty. Pursuant to the amended agreement, Mr. McEnulty’s consulting fees were set at US\$6,000 per month and were retroactively adjusted from August 1, 2018.
- b) Consulting services for research and development consist of the following:
- \$39,775 (2018 – \$39,405) in consulting fees paid or accrued to Dr. Sanderson, Chief Science Officer (the “CSO”) of the Company. On July 1, 2017, the Company and Dr. Sanderson entered into a consulting agreement for US\$5,000 per month extending for a term of three years expiring on June 30, 2020, with automatic renewals for successive one-year periods thereafter.
  - \$6,988 (2018 - \$Nil) in consulting fees paid or accrued to Nanostrips Inc. a company controlled by Dr. Sanderson (“Nanostrips”). In addition to the research and development fees, during the six months ended June 30, 2019 the Company incurred \$44,261 with Nanostrips, which were associated with the manufacturing of CannaStrips™ and therefore included in cost of sales.
  - \$Nil (2018 – \$95,858) in consulting fees paid to Ms. Elrod, former President and a 25% shareholder of LDS Scientific, and a 25% owner of Omni Distribution Inc. (Note 14). The Company agreed to pay Ms. Elrod US\$12,500 per month for her services. As of August 1, 2018, Ms. Elrod chose to receive her fees as part of regular monthly payroll, and as such her remuneration was included in salaries and wages expense. On January 31, 2019, the Company and Ms. Elrod entered into a settlement agreement and release (the “Settlement Agreement”). Pursuant to the Settlement Agreement the Company reacquired shares of Omni Distribution held by Ms. Elrod in exchange for forgiveness of \$88,279 (US\$70,400) of cash advances the Company extended to Ms. Elrod during the year ended December 31, 2018, and Ms. Elrod resigned from all the positions she held with the Company and its subsidiaries.
  - \$Nil (2018 – \$88,189) in consulting fees paid or accrued to Mr. Ferguson, President and a 25% shareholder of LDS Agrotech. As of August 1, 2018, Mr. Ferguson is being remunerated through the regular monthly payroll. Mr. Ferguson is entitled to a monthly salary of US\$11,500 in addition to all regular payroll benefits the Company set up for its US-based employees.
  - \$Nil (2018 – \$95,858) in consulting fees paid to Mr. Hunt, President and a 25% shareholder of LDS Scientific. As of August 1, 2018, Mr. Hunt is being remunerated through the regular monthly payroll. Mr. Hunt is entitled to a monthly salary of US\$12,500 in addition to all regular payroll benefits the Company set up for its US-based employees.





c) Share-based compensation consists of the following:

- On February 6, 2019, the Company granted options to acquire up to 2,000,000 common shares to its President, Mr. Fenwick. The options vest over a two-year period in equal quarterly installments of 250,000 shares beginning on February 7, 2019, and may be exercised at \$0.465 per share expiring five years after each vesting date. The Company recorded \$437,182 as a share-based compensation for the six-month period ended June 30, 2019.
- On February 6, 2019, the Company granted warrants to acquire up to 1,000,000 common shares to Mr. McEnulty. The warrants vest over a two-year period in equal quarterly installments of 125,000 shares beginning on February 7, 2019, and may be exercised at \$0.465 per share expiring five years after each vesting date. The Company recorded \$216,621 as a share-based compensation for the six-month period ended June 30, 2019.
- During the comparative period ended June 30, 2018, the share-based compensation consisted of an option to acquire up to 500,000 common shares the Company granted to its former director on January 11, 2018. The options were initially valued at \$342,391 and could have been exercised at a price of \$1.15 per share expiring on January 11, 2020.

Related party payables

	June 30, 2019	December 31, 2018
Brad Eckenweiler	\$ 44,964	\$ 37,424
Casey Fenwick	166,946	-
Dr. John Sanderson	19,631	20,463
James Pakulis	-	57,903
Yanika Silina	19,902	1,581
Arni Johannson	49,875	36,750
Frank McEnulty	63,650	81,852
Crystal Elrod	-	(99,450)
Jonathan Hunt	2,621	6,139
Nanostrips Inc.	-	18,008
Matt Ferguson	5,164	-
<b>Total payable to related parties</b>	<b>\$ 372,753</b>	<b>\$ 160,670</b>

**SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

All significant accounting policies and critical accounting estimates are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2018.

**FINANCIAL INSTRUMENTS**

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any of the financial assets or financial liabilities on the transition date.



The following is the Company's new accounting policy for financial instruments under IFRS 9:

*i) Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

<b>Financial assets/liabilities</b>	<b>Original classification IAS 39</b>	<b>New classification IFRS 9</b>
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Unearned revenue	Amortized cost	Amortized cost
Marketable securities	n/a	FVTPL
Biological assets	n/a	FVLCS
Accounts payable	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholder's equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact on the opening accumulated deficit nor to the opening balance of accumulated comprehensive loss on January 1, 2018.

*ii) Measurement*

*Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

*Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value, and transaction costs are expensed in the consolidated statements of net loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net loss in the period in which they arise.

*Debt investments at FVTOCI*

These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

*Equity investments at FVTOCI*

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

*Fair Value Measurement*

The Company classifies the fair value of its financial instruments according to the following hierarchy based on the number of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide



pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair values of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

There were no transfers between levels during the six-month period ended June 30, 2019, and during the year ended December 31, 2018.

Assets measured at fair value on a recurring basis were presented on the Company’s statement of financial position as at June 30, 2019, and December 31, 2018, as follows:

	Fair Value Measurements Using			Balance, June 30, 2019	Balance, December 31, 2018
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
	\$	\$	\$	\$	\$
Cash	402,139	-	-	402,139	420,180
Funds held in trust	-	-	-	-	20,615
Term deposit	-	-	-	-	11,500
Marketable securities	4,519,241	-	-	4,519,241	541,237
<b>Total Fair Value</b>	<b>4,921,380</b>	<b>-</b>	<b>-</b>	<b>4,921,380</b>	<b>993,532</b>

The Company’s financial instruments are exposed to a number of financial and market risks, including credit, liquidity, interest rate, and currency risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company’s management does not believe that the current size, scale, and pattern of its operations would warrant such hedging activities.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investments. The Company limits its exposure to credit loss by placing its cash and short-term investment with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks, and GIC carried at floating interest rates with reference to the market. The Company’s operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instruments to hedge potential fluctuations in interest rates. The exposure to interest rate risk for the Company is considered minimal.

The Company considers its interest rate risk policies to be effective and has been following them consistently.



### Price Risk

The Company is not exposed to commodity price risk as its current business operations do not depend on fluctuations in the market price of commodities.

### **OUTSTANDING SHARE DATA**

As of August 29, 2019, the Company had the following securities issued and outstanding:

Type	Amount	Exercise Price	Expiry Date
Common shares <sup>(1)</sup>	139,465,194	n/a	Issued and outstanding
Stock options	2,860,820	\$0.58	August 15, 2020
Stock options	3,000,000	\$0.465	Vest over 2 years in 8 equal quarterly installments beginning on Feb 7, 2019; As at May 30, 2019, options to acquire up to 375,000 have vested
Stock warrants	3,000,000	\$0.465	Vest over 2 years in 8 equal quarterly installments beginning on Feb 7, 2019; As at May 30, 2019, warrants to acquire up to 375,000 have vested
Stock purchase warrants	19,424,163	\$0.50	May 9, 2020
Broker warrants	665,931	\$0.50	May 9, 2020
	168,416,108		Total shares outstanding (fully diluted)

<sup>(1)</sup> Authorized: Unlimited common shares without par value.

### **ACCOUNTING STANDARDS AND INTERPRETATIONS**

Certain new accounting standards and interpretations have been published and are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2018. Management is assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

### **RISKS AND UNCERTAINTIES**

The following are certain risk factors relating to the business carried out by the Company which prospective investors should carefully consider before deciding whether to purchase the Company's securities. The risks presented below may not be all of the risks that the Company may face. The Company will face a number of challenges in the development of its business. Due to the nature of the Company's business and the present stage of the business, the Company may be subject to significant risks. Sometimes new risks emerge, and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. Readers should not rely upon forward-looking statements as a prediction of future results. Readers should carefully consider all such risks, including those set out in the discussion below.

### Regulatory Risks

The activities of the Company will be subject to strict regulation by governmental authorities imposed on the affiliates of the Company. Achievement of the Company's business objectives is contingent, in part, upon compliance of its affiliates with regulatory requirements enacted by various governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of their products. The Company cannot predict the time required for its affiliates and itself to secure all appropriate regulatory approvals for the Company's technology and the related 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 by the Company and its affiliates and could have a material adverse effect on the business, results of operations and financial condition of the Company.



Although the Company and mainly its affiliates actively seek to comply with U.S. local and state marijuana laws, marijuana remains a Schedule I drug under the United States Controlled Substances Act of 1970 (the “CSA”), and the and distribution of marijuana and marijuana-related products remains illegal under U.S. federal law. Although the State of California has enacted laws legalizing the use, cultivation, extraction, manufacture, and distribution of cannabis and cannabis products, U.S. federal law criminalizing the use of marijuana may pre-empt state laws that legalize its use and production. Although Congress has prohibited the US Justice Department from spending federal funds to interfere with the implementation of state medical marijuana laws, this prohibition must be renewed each year to remain in effect. There are no assurances that these spending prohibitions will continue in the future. If these spending prohibitions are not renewed, unless the CSA is amended, of which there can be no assurance, the Company’s operations and operations of its affiliates may be deemed to be in violation of United States federal law and the Company and/or its affiliates could become subject to enforcement proceedings under United States federal law. Active enforcement of United States federal law as it currently exists could adversely affect the Company’s future business prospects, cash flows, earnings, results of operations and financial condition and would likely prevent the Company from being able to proceed with its current business plan.

#### Change in Laws, Regulations, and Guidelines

The Company’s operations are subject to a variety of laws, regulations and guidelines relating to the business activities of its affiliates, the acquisition, manufacture, management, transportation, storage and disposal of cannabis and cannabis-related products as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations, and guidelines due to matters beyond the control of the Company and its affiliates and may cause adverse effects to the operations of the Company’s affiliates thereby affecting the results of operations of the Company.

As of the date of this MD&A, thirty-three states and the District of Columbia allow the use of cannabis.

These jurisdictions have passed laws either decriminalizing or legalizing the medicinal and/or recreational use of cannabis. While the Company believes that the number of states legalizing the use of cannabis will increase, there is no assurance of the trend. There is no assurance that the thirty-three existing states or the District of Columbia will not reverse their position on cannabis and revoke the legal use of cannabis. These changes would materially impact the growth of the Company’s business, and the Company may experience declining revenues if the market for its product and services declines as a result of such changes.

Even in areas where the recreational and/or medicinal use of cannabis is legal under state law, there are local laws and regulations that affect the Company’s licensees. In some municipalities, a retail cannabis dispensary is prohibited from being located within a certain distance from schools, community centers and/or churches. These local laws and regulations may cause some of the licensee’s customers to close, which will impact the revenue of the Company and have a material effect on the Company’s business and operations. The enforcement of identical rules or regulations with respect to cannabis may vary from municipality to municipality or city to city.

While the impact of such changes is uncertain and highly dependent on the specific laws, regulations or guidelines being changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Company’s operations that are materially different from the effect on similar-sized companies in the same business as the Company.

Internet websites are accessible everywhere, not just in jurisdictions where the activities described therein are considered legal. The assets of the Company include several domain names and websites which provide information about the Company’s business and business and products of its affiliates. The Company may face legal action from a state or other jurisdiction for engaging in an activity or abiding the activity that is illegal in that state or jurisdiction by way of its website.

#### Summary of California Regulatory Environment for Marijuana-Related Businesses

Currently, California’s medicinal and adult-use cannabis regulatory frameworks are merged under one licensing structure under the Medicinal and Adult-Use Cannabis Regulation and Safety Act (“MAUCRSA”).

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the “MCSB”), issues licenses to cannabis manufacturers and (3) the California



Department of Consumer Affairs, via the Bureau of Cannabis Control (the “BCC”), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses.

To operate legally under state law, cannabis operators must obtain a state license and local approval. A local authorization is a prerequisite to obtaining state licensure, 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. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license.

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

CSPA currently holds Conditional Use Permits from the City of Adelanto for the extraction and manufacturing of medicinal cannabis products at the Adelanto Facility.

As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as the facility's books and records to monitor and enforce compliance with state law.

#### Risks Related to Conflicting Federal and State Laws

The cannabis industry is currently conducted in thirty-three states and the District of Columbia. These jurisdictions have passed laws either decriminalizing or legalizing the medicinal or recreational use of cannabis. However, under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis remains illegal. The Federal, and, in some cases, State law enforcement authorities have frequently closed down retail dispensaries, growers, and producers of cannabis products and have investigated or closed physician offices that provide medicinal cannabis recommendations. To the extent that an affected retail dispensary, grower, producer, or physician office is a customer of the Company, it will affect the Company's revenue. Enforcement actions that impact new retail dispensaries, growers, producers and physician offices entering the cannabis industry may materially affect the Company's business and operations.

#### Banking Risks

As the use, cultivation, manufacture, and distribution of marijuana remain illegal under U.S. federal law, U.S. banks may not be able or willing to accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding banks willing to accept their business. An inability to open or maintain bank accounts in the U.S. may make it difficult for the Company to operate its business.

#### Liability, Enforcement Complaints, etc.

The participation of the Company's affiliates in the marijuana industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company, its subsidiaries, or its affiliates. Litigation, complaints, and enforcement actions involving the Company could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

#### Operation Permits and Authorizations

The regulatory environment for marijuana operations in California remains complex. Although the Company's wholly-owned subsidiary, CSPA Group, Inc., currently has state and local licenses and permits for its existing operations, maintaining those licenses and permits can be a complex process. The Company, its subsidiaries, and affiliates may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its medical marijuana business. In addition, the Company its subsidiaries, or affiliates may not be able to comply fully with the wide variety of laws and regulations applicable to the marijuana industry. Failure to comply with or to obtain the





necessary licenses, permits, authorizations or accreditations could result in restrictions on the Company's ability to operate its business and ability to execute its business plan.

#### Supply of Raw Cannabis Material

The Company, its subsidiaries, and affiliates currently obtain raw cannabis materials from third parties. However, there can be no assurance that there will continue to be a supply of raw cannabis material available to meet the production needs. Additionally, the price of raw cannabis may be volatile which would increase the cost of goods. If the Company's affiliates are unable to acquire raw cannabis in amounts sufficient to meet its business needs or if the price of raw cannabis increases significantly, the Company's affiliates, as well as the Company's business prospects, operations and financial condition, could be adversely affected.

#### Lack of Operating History

The Company has only recently started to carry on its business and is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. The failure by the Company to meet any of these conditions could have a material adverse effect on the Company and may force it to reduce, curtail, or discontinue operations. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations. The Company may not successfully address all of the risks and uncertainties or successfully implement its existing and new products and services. If the Company fails to do so, it could materially harm its business and impair the value of its common stock, resulting in a loss to shareholders. Even if the Company accomplishes these objectives, the Company may not generate the anticipated positive cash flows or profits. No assurance can be given that the Company can or will ever be successful in its operations and operate profitably.

#### Reliance on Management and Key Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The Company attempts to enhance its management and technical expertise by recruiting qualified individuals who possess the desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees as well as information technology, engineering, and technical support resources could have a material adverse impact on the Company's financial condition and results of operation. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

#### Additional Financing

The Company's future capital requirements depend on many factors, including its ability to successfully market its products, cash flows from operations, locating and retaining talent, and competing for market developments. The Company's business model requires spending money (primarily on raw material, human capital, advertising and marketing) in order to generate revenue. Based on the Company's current financial situation, the Company may have difficulty continuing operations at the current level, or at all, if it does not start generating sufficient revenue from its operations and control its input costs in the near future.

In order to execute the Company's business plan, the Company will require some additional equity and/or debt financing to undertake capital expenditures. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing or earn revenue to support on-going operations or to fund capital expenditures could limit the Company's operations and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences, and privileges superior to those of current holders of the Company Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital or to pursue business opportunities, including potential acquisitions. If adequate funds are not obtained, the Company may be required to reduce, curtail, or discontinue operations. There is no assurance that the Company's existing cash flow will be adequate to satisfy its existing operating expenses and capital requirements.



### Competition

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

Because of the early stage of the industry in which the Company provides its services, the Company expects to face additional competition from new entrants. If the number of users of medical or recreational marijuana in the United States increases, the demand for products based on the Company's technology or on similar technologies will increase and the Company expects that competition will become even more intense, as current and future competitors begin to offer an increasing number of diversified products and develop technologies similar to the Company's core technology. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

### Growth and Consolidation in the Industry

The cannabis industry is undergoing rapid growth and substantial change, which may result in increased consolidation and formation of strategic relationships. The Company expects this consolidation and strategic partnering to continue. Acquisitions or other consolidating transactions could have adverse effects on the Company and its affiliates. The Company could lose strategic relationships if its partners are acquired by or enter into agreements with a competitor, causing the Company to lose access to distribution, content and other resources. The relationships between the Company and its strategic partners may deteriorate and cause an adverse effect on the business. The Company could lose customers if competitors or users of competing technologies consolidate with the Company's current or potential customers and affiliates. Furthermore, the Company's current competitors could become larger players in the market, or new competitors could form from consolidations. Any of the foregoing events could put the Company at a competitive disadvantage, which could cause the Company to lose customers, revenue, and market share. Consolidation in the industry could also force the Company to divert greater resources to meet new or additional competitive threats, which could harm the Company's operating results.

### Intellectual Property Risks

The Company's ability to compete largely depends on the superiority, uniqueness, and value of its intellectual property and technology, including both internally-developed technology and the ability to acquire patent protection and/or trademark protection. To protect its proprietary rights, the Company will rely on a combination of trademark, copyright, and trade secret laws, trademark and patent applications, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, certain risks may reduce the value of the Company's intellectual property. The Company's applications for trademarks and copyrights relating to its business may not be granted, and if granted, may be challenged or invalidated. There is no guarantee that issued trademarks, and registered copyrights will provide the Company with any competitive advantages. The Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of its technology and may not prevent the development and design by others of products or technology similar to, competitive with, or superior to those the Company develops. There is a risk that another party may obtain a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products.

### Risks Inherent in an Agricultural Business

The Company's business will indirectly rely on the growing of cannabis, an agricultural product, for use by its subsidiaries and affiliates. As a result, the business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. There can be no assurance that natural elements will not have a material adverse effect on the production of its products.

### Unfavorable Publicity or Consumer Perception

The Company believes the marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the product. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana 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 marijuana 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 the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy, and quality of marijuana in general, or the Company's products specifically, or associating the consumption of marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

#### Product Liability

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

#### Product Recalls

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

#### Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts, and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts, and components.

#### Difficulty to Forecast

The Company will have to 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 cannabis industry in the United States. A



failure in demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### Operating Risk and Insurance Coverage

The Company maintains insurance to protect its assets, operations, and employees. Due to the nature of the Company's business, insurance such as workers compensation, general liability, directors and officer's insurance, even though available, is more costly. There are no guarantees that the Company will be able to renew current insurance policies or that the cost will be affordable to the Company. While the Company believes its insurance coverage is adequate to protect it from the material risks to which it is exposed as of the date of this MD&A, no assurance can be given that such insurance will be adequate to cover the Company's future liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

#### Growth Management

The Company and its affiliates have, and may in the future, experience rapid growth and development in a relatively short period of time by aggressively marketing its technology and services. The Company and its affiliates may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company and its affiliates to manage growth effectively will require them to continue to implement and improve the operational and financial systems and to expand, train and manage their employee base. The inability of the Company and its affiliates to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

#### Conflicts of Interest

Certain directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

#### Litigation

The Company may be forced to litigate, enforce, or defend its intellectual property rights, protect its trade secrets, or determine the validity and scope of other parties' proprietary rights. Such litigation would be a drain on the financial and management resources of the Company which may affect the operations and business of the Company. Furthermore, because the content of most of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions, the Company may face additional difficulties in defending its intellectual property rights.

The Company may become a party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue its

operations, the market price for Company Shares, and could significantly drain the Company's resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

#### The Market Price of the Company Shares may be Subject to Wide Price Fluctuations

The market price of the Company shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Company shares.

#### Environmental and Employee Health and Safety Regulations

The Company's operations will be 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 the Company's manufacturing operations. In addition, changes in environmental, employee health and safety, or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### **CONTINGENCIES**

There are no contingent liabilities.

#### **ADDITIONAL INFORMATION**

Additional information about the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).