**LOBE SCIENCES LTD.**

Management Discussion & Analysis

For the years ended August 31, 2020 and 2019

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Lobe Sciences Ltd. and its subsidiaries ("Lobe" or the "Company"), prepared as at December 18, 2020, is for the years ended August 31, 2020 and 2019. This MD&A is a supplement to and should be read in conjunction with the Company's audited consolidated financial statements for the years ended August 31, 2020 and 2019. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). All amounts presented herein are stated in Canadian dollars unless otherwise indicated. The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The years ended August 31, 2020 and 2019, are also referred to as "fiscal 2020" and "fiscal 2019", respectively.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information regarding Lobe is available through the SEDAR website at www.sedar.com

## Forward Looking Information

This MD&A contains "forward-looking statements" that involve risks and uncertainties. Such information, although considered to be reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. This MD&A may contain forward-looking statements that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Such statements reflect management's current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and known or unknown risks and contingencies. Many factors could cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. Please see the risk factors discussed under the heading "Risk Factors" in this MD&A.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## 1. LOBE SCIENCES LTD.

Lobe (formerly GreenStar Biosciences Corp.) was incorporated under the Business Corporations Act (British Columbia) on May 13, 2010. The head office, principal address and registered office of the Company are located at 1400 – 1199 West Hasting Street, Vancouver, B.C. V6E 3T5.

On May 30, 2019, the Company completed a reverse takeover with Green Star Biosciences Inc. The transaction was accounted for as a reverse take-over ("RTO"). On May 30, 2019, the Company changed its name to GreenStar Biosciences Corp. On November 16, 2020, the Company changed its name to LOBE. The Company's common shares are listed under the symbol "LOBE" on the Canadian Securities Exchange and under the symbol "GSTIF" on the OTCBB. In connection with the name change, the Company has new CUSIP and ISIN numbers 53946V107 and CA53946V1076 respectively.

Lobe is working to develop effective psilocybin-based therapeutics for the treatment of mild traumatic brain injuries and post-traumatic stress disorder and devices for the efficient application of medications. Based in Vancouver, B.C., Lobe intends to facilitate growth through acquisitions and development of additional assets, products, and technologies by leveraging its capital markets, branding, and operational expertise.is a growth-oriented technology and services The Company also provides real estate, financial, management, IP, and branding support for development of transformational medicine. The Company is committed to increasing shareholder value through aggressive expansion initiatives.

The Company owns cannabis related brands and provides management related services and leased real estate to a cannabis producer and processor. Following regulatory changes, management sees an opportunity for growth and expansion in this and other industries.

## 2. HIGHLIGHTS

### AUGUST 31, 2020 CONSOLIDATED FINANCIAL HIGHLIGHTS

- Revenue of $884,837, compared to $773,792 for fiscal 2019.
- Net loss of $3,436,073 or $0.05 per share, compared to net loss of $754,431 or $0.01 per share for fiscal 2019. Fiscal 2019 results were impacted by a net gain of $3,933,276 recognized on the fair value changes and derecognition of a derivative liability.
- Cash used in operating activities was $1,222,417, compared to $2,043,609 for fiscal 2019.

### AUGUST 31, 2020 COMPARED TO AUGUST 31, 2019 CONSOLIDATED BALANCE SHEET HIGHLIGHTS

- Cash was $172,107, compared to $512,777 at August 31, 2019, a decrease of 60%.
- Total assets were $12,971,092, compared to $6,721,072 at August 31, 2019, an increase of 94%.
- Working capital was $393,553, compared to $1,464,432 at August 31, 2019, a decrease of 73%.

## 3. 2020 BUSINESS DEVELOPMENT AND OVERVIEW

Lobe is working to develop effective psilocybin-based therapeutics for the treatment of mild traumatic brain injuries and post-traumatic stress disorder and devices for the efficient application of medications. The Company owns acquired brands, owns intellectual property, and leases office and production premises to a cannabis processor and retailer.

**Cowlitz County Cannabis Cultivation, Inc.**

The Company owns the property leases and brands of Cowlitz County Cannabis Cultivation Inc. ("Cowlitz"), a licensed cannabis producer and processor located in Washington State. Cowlitz is a leading producer, marketer, and vendor in the Washington State recreational cannabis market. Known for sourcing high-quality cannabis sold at affordable prices to a broad and established consumer base, Cowlitz's portfolio of branded products is available at approximately 90 cannabis retailers throughout Washington State. Cowlitz is one of the top five tier 2 producers and processors of cannabis in Washington and is the one of the largest independent buyers of dried flower, producing approximately 200,000 pre-rolls monthly. Currently, Cowlitz produces flower, dabs, pre-rolls, a full spectrum of cannabinoid powder, and infused joints under brand categories: "Dab Dudes" – affordably priced vape cartridges, BHO waxes and crystalline, "Hi Guys" – the 'working man's weed', including flower, joints, "Dabsquatch" – affordable priced waxes, and BHO, and "Cowlitz Gold" – premium flower, joints, BHO, and vape cartridges.

Cowlitz holds a Washington State marijuana processor license as granted by the Washington State Liquor and Cannabis Board which licenses Cowlitz to process, dry, cure, package, and label useable marijuana, marijuana concentrates, and marijuana-infused products for sale at wholesale to marijuana processors and marijuana retailers in the State of Washington.

The principal operations of the Company are located in Washington State and therefore highly regulated under regimes in the United States. Washington State regulations require that every individual with an ownership or equity interest, with a right to receive a percentage of gross or net profits, or who exercises control over a licensed marijuana operator must apply for licensing with the Washington State Liquor and Cannabis Board be approved. This requires applicants to be a Washington State resident. As such, regulations surrounding the Company are subject to change.

On November 30, 2020, the Company received and signed a non-binding letter of intent with IONIC Brands Corp. ("Ionic") (CSE:IONC) for the proposed sale to Ionic of certain assets held by the Company related to Cowlitz. The assets being sold to Ionic may include, but are not limited to, the assignment of all property leases relating exclusively to Cowlitz's business, the assignment of Lobe's option agreement to acquire all of the outstanding shares of Cowlitz, and the assignment of other contracts and rights related exclusively to Cowlitz including service contracts and equipment leases (the "Assets").

Closing is subject to several conditions as outlined in the December 1, 2020 press release. The sale price for the Assets shall be a minimum of $23 million, payable through the issuance of Ionic post-consolidation common shares (being approximately 49% of Ionic's estimated $47 million capitalization post-restructuring (after giving effect to the Ionic Consolidation and Debt Conversion)), prior to giving effect to the Ionic Concurrent Financing. Following the closing, it is expected that the Lobe will own approximately 49% of Ionic's common shares, on a post-consolidation and pre-Ionic Concurrent Financing basis. Ionic is expected to have a minimum total capitalization valuation of $47 million, pre-Ionic Concurrent Financing.

**Eleusian Biosciences Corp.**

On July 27, 2020, the Company acquired a 100% interest in Eleusian Biosciences Corp. (“Eleusian”) (the “Transaction”). The Transaction provides the following to the Company:

- Brings seasoned pharmaceutical leader and executive Maghsoud Dariani, Eleusian’s Chief Science Officer to the Company to join the Company’s executive team as Chief Science Officer.
- Expands the Company’s portfolio of brands in the life sciences space, opening access to the emerging psychedelic medicine sector.
- Provides development opportunities with brain health and mental wellness – pre-clinical studies in progress to lead to IND submission.
- Expands intellectual property portfolio with five provisional patent applications filed by Eleusian in the United States.

The Company, through a preclinical research study conducted by the University of Miami, intends to prove that clinical and physiological effectiveness in post-concussion syndrome and PTSD are enhanced by timely measured dosages of psilocybin plus N-Acetylcysteine (“NAC”) with superior clinical results as measured by objective outcomes. We expect this combination to elicit clinical outcomes that are superior to Psilocybin or NAC alone. On December 1, 2020, the Company announced the launch of the preclinical research study. The study is in collaboration with a multidisciplinary team of scientists and physicians at the University of Miami Miller School of Medicine under the lead of Michael E. Hoffer, M.D., professor of otolaryngology and neurological surgery.

The Company issued Eleusian shareholders a total consideration of $7,224,007, through the issuance of 60,200,056 common shares of the Company (each, a “Lobe Share”) at a price of $0.12 per share. All Lobe Shares to be issued will be subject to voluntary pooling arrangements, pursuant to which 25% of the Lobe Shares will be released on July 31, 2020 and further 25% released every three months thereafter. The Company issued a finder’s fee of 5% which was settled by the issuance of 3,001,002 Lobe Shares, to an arms-length finder as part of the Transaction.

On December 3, 2020, the Company announce that it has engaged VisionWorks Engineering of San Diego, CA to commence engineering work to complete and test a proof of concept prototype of its nasal mist device. This is a major milestone towards the ultimate goal for development of effective delivery methods and commercialization. The Company holds several provisional patent applications including for a nasal mist device entitled "Device and Method for the Treatment of Traumatic Brain Injuries and Post-Traumatic Stress Disorder". This device includes a nasal delivery system for administration of pharmaceutical agents such as a psilocybin-derived agent and/or NAC at preselected dosages and times. The device design allows for the precise control and delivery of medicines through the nasal cavity for faster and more efficient uptake of psychedelics and other medicines that target the brain

**Progressive Herbs, Inc.**

On February 1, 2019, the Company executed a joint venture agreement with Progressive Herbs, Inc. (“Progressive”) an Illinois-based agricultural technology company (the “Progressive JV Agreement”). Progressive and its affiliate, Aggressively Organic, Inc., are the owners of a proprietary technology for a sustainable, easy-to-use, inexpensive, productive growing system known as Micro Dendritic Pods™ (the “Progressive IP”). Pursuant to the Progressive JV Agreement, Progressive and the Company have formed a limited liability joint venture corporation, Capri PHGS, LLC

("Capri"), for the purposes of producing, processing, marketing and distributing cannabis, hemp, medicinal and bio pharmaceutical products for consumption worldwide utilizing the Progressive IP.

Progressive has executed an exclusive sublicense agreement with Capri (the "Capri Sublicense") for the use, reproduction, development, manufacture, commercialization, sublicense and exploitation of the Progressive IP solely in connection with the production, development, manufacture and sale of cannabis, hemp, medicinal and bio pharmaceutical products for consumption.

Capri remains inactive as of the date of this MD&A. Management is in discussions with Progressive regarding future plans for the Progressive JV Agreement and discussions regarding the repayment of the promissory note are ongoing. While management intends to exhaust every effort to collect the outstanding principal and accrued interest, including but not limited to litigation, uncertainty exists surrounding ultimate collection. The Company has provided an allowance for credit losses of $725,220 with respect to the promissory note.

**Delta One Consultants LLC**

On February 26, 2019, prior to the RTO, Green Star Biosciences Inc. entered into a non-binding letter of intent ("LOI") for a Partnership Agreement with Delta One Consultants LLC ("Delta1") whereby the Company is seeking to secure a 51% ownership interest in the Inkster, Michigan ("Inkster") indoor grow facility. Inkster consists of a 20,800 square foot facility, with access/ownership to up to five (5) class C grow licenses, each license representing the ability to grow in perpetuity 1,500 individual cannabis plants.

In connection with the LOI, the Company paid $201,435 (USD$150,000) to Delta1. The Company no longer anticipates completion of the acquisition of a 51% interest in the Inkster Michigan facility and has determined that there is significant doubt regarding the ability of the Company to collect the $139,930 (USD$100,000) deposit which is refundable per the LOI. As such, management has recorded an allowance of credit loss of $139,930 (USD$100,000). Management anticipates recovery of the remaining $65,210 (USD$50,000) deposit; however, the timing of receipt remains uncertain and as such has continued to classify as a non-current asset on the statement of financial position.

## 4. SUMMARY OF QUARTERLY RESULTS

| | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 |
|---|---|---|---|---|
| Revenue | 181,404 | $230,772 | $295,737 | $176,924 |
| Net loss | (1,435,596) | $(318,001) | $(999,202) | $(683,274) |
| Comprehensive loss | (1,723,048) | $(167,473) | $(943,591) | $(700,772) |
| Basic and diluted net loss per share | (0.02) | $(0.00) | $(0.01) | $(0.01) |
| Number of weighted average shares | 96,496,378 | 66,651,210 | 69,311,359 | 68,556,287 |

| | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|---|---|---|---|
| Revenue | 176,951 | $178,928 | $212,958 | $204,955 |
| Net loss | (943,251) | $1,065,106 | $(318,909) | $(557,378) |
| Comprehensive loss | (1,056,864) | $1,192,680 | $(323,784) | $(471,942) |
| Basic and diluted loss per share | (0.02) | $0.03 | $(0.01) | $(0.01) |
| Number of weighted average shares | 47,143,302 | 47,143,302 | 44,545,806 | 43,003,177 |

Number of weighted average shares decreased in Q3 2020 as compared to Q2 2020 as a result of the Company cancelling 4,568,524 common shares pursuant to a share cancellation agreement with prior management.

Comprehensive income of $1,192,680 for Q3 2019 was a result of the RTO whereby the Company recorded a gain on the derecognition of derivative liability of $8,647,744 which was partially offset by listing expense of $1,726,550 and a change in fair value of derivative liability of $5,188,200. Prior to the RTO, the Company's functional currency was the USD. As the Performance Warrants are exercisable in the Canadian dollar, the Performance Warrants were accounted for as a derivative liability. Pursuant to the RTO, the Company changed its functional currency from USD to Canadian dollars (consistent with the exercise currency) and as such, the Performance Warrants were no longer considered derivative liabilities.

## 5. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 AND 2019

| *For the three months ended* | | **Q4 2020** | | Q4 2019 |
|---|---|---|---|---|
| Revenues | $ | **181,404** | $ | 176,951 |
| General and administrative | | **25,683** | | 124,224 |
| Insurance | | **30,232** | | - |
| Advertising | | **241,448** | | 149,957 |
| Rent | | **10,046** | | 57,978 |
| Bad debt expense | | **773,105** | | 36,451 |
| Professional fees | | **147,825** | | 87,604 |
| Consulting fees | | **102,115** | | 141,798 |
| Management fees | | **94,268** | | 150,945 |
| Interest expense | | **8,277** | | - |
| Amortization | | **54,161** | | 53,313 |
| Depreciation | | **86,444** | | 40,377 |
| Share-based compensation | | **(28,146)** | | 274,398 |
| Foreign exchange | | **6,811** | | 3,888 |
| Other income | | **-** | | (13,345) |
| Listing expense | | **-** | | 9,013 |
| Gain on derecognition of derivative liability | | **-** | | 7,909 |
| Change in fair value of derivative liability | | **-** | | (4,308) |
| Loss on settlement of trade payables | | **64,731** | | - |
| Net loss | $ | **(1,435,596)** | $ | (943,251) |

**Revenue**

During Q4 2020, the Company recorded revenue of $181,404 (USD$135,073), compared to $176,951 (USD$133,497) during Q4 2019. Revenues were comprised of license royalties of $68,171 (USD$50,760), compared to $66,994 (USD$50,542) during Q4 2019, and lease revenue of $113,233 (USD$84,313), compared to $109,957 (USD$82,955) during Q4 2019. License royalties are earned based on Cowlitz's actual per-unit sales which may vary from period to period. Lease revenue is earned monthly over the lease term which expires in 2022. The increase in license royalties as compared to Q4 2019 is attributable to an increase in unit sales at Cowlitz.

**General and administration**

During Q4 2020, the Company incurred general and administration expenses of $25,683, compared to $124,224 during Q4 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

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**Insurance**
During Q4 2020, the Company incurred insurance expenses of $30,232, compared to $nil during Q4 2019. The expense relates to a director and officers insurance policy.

**Advertising**
During Q4 2020, the Company incurred advertising expenses of $241,448, compared to $149,957 during Q4 2019. The increase is due to timing of this discretionary expense.

**Rent**
During Q4 2020, the Company incurred rent expense of $10,046, compared to $57,978 during Q4 2019. The decrease is attributable to the adoption of IFRS 16, *Leases*, which resulted in a reduction in rent expense with a corresponding increase in depreciation expense and interest expense.

**Bad debt expense**
During Q4 2020, the Company incurred bad debt expense of $773,105, compared to $36,451 during Q4 2019. The increase relates primarily to an allowance for credit losses on the advances to Delta1 and Progressive.

**Professional fees**
During Q4 2020, the Company incurred professional fees of $147,825, compared to $87,604 during Q4 2019. The increase is attributable to legal fees incurred in relation to collection of promissory notes and general corporate matters.

**Consulting fees**
During Q4 2020, the Company incurred consulting fees of $102,115, compared to $141,798 during Q4 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

**Management fees**
During Q4 2020, the Company incurred management fees of $94,268, compared to $150,945 during Q4 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

**Interest expense**
During Q4 2020, the Company incurred interest expense of $8,277, compared to $nil during Q4 2019. The increase is attributable to interest expense on the lease liability recognized on the adoption of IFRS 16.

**Amortization**
During Q4 2020, the Company incurred amortization expense of $54,161, compared to $53,313 during Q4 2019. The expense represents the amortization of the intangible asset and remains consistent as compared to prior period.

**Depreciation**
During Q4 2020, the Company incurred depreciation expense of $86,444, compared to $40,377 during Q4 2019. The expense represents the depreciation of the lease asset and right of use asset. The increase is attributable to depreciation expense recognized on the right of use asset resulting from the adoption of IFRS 16.

**Share-based compensation**
During Q4 2020, the Company incurred share-based compensation recovery of $28,146, compared to share-based compensation expense of $274,398 during Q4 2019. The Company uses the Black-Scholes valuation model for options granted at fair value of shares issued to officers, management, and consultants. The decrease is primarily the result of cancellations and fewer stock options being granted to key management personnel during the quarter.

**Foreign exchange**
During Q4 2020, the Company incurred foreign exchange loss of $6,811 compared to a foreign exchange loss of $3,888 during Q4 2019. The amount will fluctuate from period to period with movements in the CAD to USD foreign exchange rates. The loss is due to variances in the value of the CAD relative to the USD in Q4 2020 as compared to Q4 2019.

**Other income**
During Q4 2020, the Company earned other income of $nil compared to $13,345 during Q4 2019. The amount recorded in Q4 2019 represents $13,345 in interest income on the $689,350 (USD$500,000) promissory note receivable which was advanced on February 4, 2019. There was no such income during Q4 2020.

**Listing expense**
During Q4 2020, the Company incurred listing expenses of $nil compared to $9,013 during Q4 2019. The amount represents costs incurred for the RTO which was completed on May 30, 2019.

**Loss on derecognition of derivative liability**
During Q4 2020, the Company recorded a gain on derecognition of derivative liability of $nil compared to $7,909 during Q4 2019. As the Performance Warrants are exercisable in the Canadian dollar, the Performance Warrants were accounted for as a derivative liability. Pursuant to the RTO, the Company changed its functional currency from USD to Canadian dollars (consistent with the exercise currency) and as such, the Performance Warrants were no longer considered derivative liabilities and the gain recorded represents the derecognition of the derivative liability associated with the Performance Warrants.

**Change in fair value of derivative liability**
During Q4 2020, the Company recorded a gain of change in fair value of derivative liability of $nil compared to $4,308 during Q4 2019. The amount represents the revaluation of the Performance Warrants prior to the RTO. Subsequent to the RTO, the warrants are no longer revalued.

**Loss on settlement or trade payables**
During Q4 2020, the Company recorded a loss on debt of $64,731 compared to $nil during Q4 2019. The amount resulted from the issuance of 2,007,692 common shares at fair values between $0.095 and $0.12 per common share for total fair value consideration of $228,231 as settlement of accounts payable in the amount of $141,000.

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**COMPARISON OF RESULTS FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

| *For the year ended* | | **2020** | | 2019 |
|---|---|---|---|---|
| Revenues | **$** | **884,837** | $ | 773,792 |
| General and administrative | | **77,931** | | 252,831 |
| Insurance | | **103,345** | | - |
| Advertising | | **936,698** | | 472,726 |
| Rent | | **43,281** | | 223,520 |
| Bad debt expense | | **913,035** | | 36,451 |
| Professional fees | | **335,509** | | 374,587 |
| Consulting fees | | **216,838** | | 325,231 |
| Management fees | | **275,691** | | 385,222 |
| Interest expense | | **43,048** | | - |
| Amortization | | **215,900** | | 210,411 |
| Depreciation | | **345,581** | | 160,628 |
| Share-based compensation | | **744,140** | | 1,234,697 |
| Foreign exchange | | **27,899** | | 84,156 |
| Other income | | **(22,717)** | | (34,224) |
| Listing expense | | **-** | | 1,735,263 |
| Gain on derecognition of derivative liability | | **-** | | (8,639,835) |
| Change in fair value of derivative liability | | **-** | | 4,706,559 |
| Loss on debt settlement | | **64,731** | | - |
| Net loss | **$** | **(3,436,073)** | $ | (754,431) |

**Revenue**

During fiscal 2020, the Company recorded revenue of $884,837 (USD$652,986), compared to $773,792 (USD$583,771) during fiscal 2019. Revenues were comprised of license royalties of $431,046 (USD$315,733), compared to $332,755 (USD$251,040) during 2019, and lease revenue of $453,791 (USD$332,731), compared to $441,037 (USD$249,548) during 2019. License royalties are earned based on Cowlitz's actual per-unit sales which may vary from period to period. Lease revenue is earned monthly over the lease term which expires in 2022. The increase in license royalties as compared to fiscal 2019 is attributable to a non-recurring one-time annual adjustment of $118,655 (USD$89,423) to reconcile calendar 2019 license royalties with Cowlitz.

**General and administration**

During fiscal 2020, the Company incurred general and administration expenses of $77,931, compared to $252,831 during fiscal 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

**Insurance**

During fiscal 2020, the Company incurred insurance expenses of $103,345, compared to $nil during fiscal 2019. The expense relates to a director and officers insurance policy.

**Advertising**

During fiscal 2020, the Company incurred advertising expenses of $936,698, compared to $472,726 during fiscal 2019. The increase is attributable to the recognition of expenses which were prepaid in Q4 2019.

**Rent**
During fiscal 2020, the Company incurred rent expense of $43,281, compared to $223,520 during fiscal 2019. The decrease is attributable to the adoption of IFRS 16 which resulted in a reduction in rent expense with a corresponding increase in depreciation expense and interest expense.

**Bad debt expense**
During fiscal 2020, the Company incurred bad debt expense of $913,035, compared to $36,451 during fiscal 2019. The increase relates to an allowance for credit losses on the advances to Delta1 and Progressive.

**Professional fees**
During fiscal 2020, the Company incurred professional fees of $335,509, compared to $374,587 during fiscal 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

**Consulting fees**
During fiscal 2020, the Company incurred consulting fees of $216,838, compared to $325,231 during fiscal 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

**Management fees**
During fiscal 2020, the Company incurred management fees of $275,691, compared to $385,222 during fiscal 2019. The decrease is attributable to management's review of all expenditures and a resulting reduction in discretionary spend.

**Interest expense**
During fiscal 2020, the Company incurred interest expense of $43,048, compared to $nil during fiscal 2019. The increase is attributable to interest expense on the lease liability recognized on the adoption of IFRS 16.

**Amortization**
During fiscal 2020, the Company incurred amortization expense of $215,900, compared to $210,411 during fiscal 2019. The expense represents the amortization of the intangible asset and remains consistent as compared to prior period.

**Depreciation**
During fiscal 2020, the Company incurred depreciation expense of $345,581, compared to $160,628 during fiscal 2019. The expense represents the depreciation of the lease asset and right of use asset. The increase is attributable to the depreciation expense recognized on the right of use asset resulting from the adoption of IFRS 16.

**Share-based compensation**
During fiscal 2020, the Company incurred share-based compensation expense of $744,140, compared to $1,234,697 during fiscal 2019. The Company uses the Black-Scholes valuation model for options granted at fair value of shares issued to officers, management, and consultants. The decrease is primarily the result of fewer stock options being granted to key management personnel during the year.

**Foreign exchange**
During fiscal 2020, the Company incurred foreign exchange loss of $27,899 compared to a foreign exchange loss of $84,156 during fiscal 2019. The amount will fluctuate from period to period with movements in the CAD to USD foreign exchange rates. The loss decreased due to variances in the value of the CAD relative to the USD in fiscal 2020 as compared to fiscal 2019.

**Other income**
During fiscal 2020, the Company earned other income of $22,717 compared to $34,224 during fiscal 2019. The amount represents $22,717 in interest income on the $689,350 (USD$500,000) promissory note receivable which was advanced on February 4, 2019.

**Listing expense**
During fiscal 2020, the Company incurred listing expenses of $nil compared to $1,735,263 during fiscal 2019. The amount represents costs incurred for the RTO which was completed on May 30, 2019.

**Gain on derecognition of derivative liability**
During fiscal 2020, the Company recorded a gain on derecognition of derivative liability of $nil compared to $8,639,835 during fiscal 2019. As the Performance Warrants are exercisable in the Canadian dollar, the Performance Warrants were accounted for as a derivative liability. Pursuant to the RTO, the Company changed its functional currency from USD to Canadian dollars (consistent with the exercise currency) and as such, the Performance Warrants were no longer considered derivative liabilities and the gain recorded represents the derecognition of the derivative liability associated with the Performance Warrants.

**Change in fair value of derivative liability**
During fiscal 2020, the Company recorded a loss on change in fair value of derivative liability of $nil compared to $4,706,559 during fiscal 2019. The amount represents the revaluation of the Performance Warrants prior to the RTO. Subsequent to the RTO, the warrants are no longer revalued.

**Loss on debt settlement**
During fiscal 2020, the Company recorded a loss on debt of $64,731 compared to $nil during fiscal 2019. The amount resulted from the issuance of 2,007,692 common shares at fair values between $0.095 and $0.12 per common share for total fair value consideration of $228,231 as settlement of accounts payable in the amount of $141,000.

## 6. LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

### 6.1 Liquidity

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

Factors that may affect the Company’s liquidity are continuously monitored. These factors include the units sold by Cowlitz, patent application costs, research and development costs to develop the Company’s patents, operating costs, capital costs, income tax refunds, foreign currency fluctuations, seasonality, market immaturity and a highly fluid environment related to state and federal law passage and regulations.

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

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

At August 31, 2020, the Company had working capital of $393,553, as follows:

| *As at* | | **August 31, 2020** | | August 31, 2019 |
|---|---|---|---|---|
| Cash | **$** | **172,107** | $ | 512,777 |
| Receivables | | **621,206** | | 401,590 |
| Prepaid expenses and deposits | | **377,123** | | 381,396 |
| Promissory note receivable | | **-** | | 696,227 |
| Total current assets | | **1,170,436** | | 1,991,990 |
| Accounts payable and accrued liabilities | | **595,066** | | 527,558 |
| Current lease liability | | **181,817** | | - |
| Total current liabilities | | **776,883** | | 527,558 |
| Working capital | **$** | **393,553** | $ | 1,464,432 |

While management intends to exhaust every effort to collect the outstanding principal and accrued interest on the promissory note receivable, including but not limited to litigation, uncertainty exists surrounding ultimate collection. The Company has provided an allowance for credit losses of $725,220 with respect to the promissory note.

On September 21, 2020, the Company closed Tranche 1 of a non-brokered private placement of units (the "Units") for gross proceeds of $831,748 (the "First Tranche Closing"). The First Tranche Closing consisted of the issuance of an aggregate of 10,396,852 Units at a price of $0.08 per Unit. Each Unit consists of one common share in the capital of the Company (each a "Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.20 per Warrant until March 31, 2022.

On October 5, 2020, the Company closed Tranche 2 of a non-brokered private placement of Units for gross proceeds of $866,499 (the "Second Tranche Closing"). The Second Tranche Closing consisted of the issuance of an aggregate of 10,831,234 Units at a price of $0.08 per Unit. Each Unit consists of a Share and one-half of one common share purchase warrant. Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.20 per Warrant until March 31, 2022.

### 6.2. Cash Flows

Review of cash flow for the three months ended Q4 2020 compared to Q4 2019:

| *Net cash provided by (used in)* | | **Q4 2020** | | Q4 2019 |
|---|---|---|---|---|
| Operating activities | **$** | **(613,786)** | $ | (962,860) |
| Investing activities | | **198,740** | | 9,912 |
| Financing activities | | **501,888** | | 94,565 |
| Effect of exchange rate changes on cash | | **(34,028)** | | 58,730 |
| Cash, beginning | | **158,878** | | 1,312,430 |
| Cash, end | **$** | **172,107** | $ | 512,777 |

Cash used in operating activities during Q4 2020 was $613,786, compared to cash used in operating activities of $962,860 during Q4 2019. The decrease in cash used in operating activities is attributable to the following:

- Net loss of $1,435,596 compared to net loss of $942,951 due primarily to a increase in bad debt expense which was partially offset by a decrease in share-based compensation and general and administrative expenses. Included in net loss are non-cash items of $856,729 for the three months ended August 31, 2020 as compared to $242,040 for the three months ended August 31, 2019.
- Movements in trade and other receivables increased cash by $29,059 compared to decreasing cash by $172,358 during the three months ended August 31, 2019.
- Movements in prepaid expenses decreased cash by $358,053 compared to decreasing cash by $356,052 during the three months ended August 31, 2019.
- Movements in trade payables and other liabilities increased cash by $229,344 compared to increasing cash by $266,461 during the three months ended August 31, 2019.

Investing activities used cash of $198,740 for the three months ended August 31, 2020, primarily related to cash acquired in acquisition as compared to $9,912 during the three months ended August 31, 2019.

Cash provided in financing activities for the three months ended August 31, 2020 was $501,888 as compared to cash provided by financing activities of $94,565 during the three months ended August 31, 2019. Cash provided by financing activities during the three months ended August 31, 2020 was the result of funds raised through private placements which was partially offset by the repayment of lease liability.

Review of cash flow for the year ended August 31, 2020 compared to the year ended August 31, 2019:

| *Net cash provided by (used in)* | | **2020** | | 2019 |
|---|---|---|---|---|
| Operating activities | **$** | **(1,222,417)** | $ | (2,043,609) |
| Investing activities | | **198,740** | | (463,758) |
| Financing activities | | **718,733** | | 474,745 |
| Effect of exchange rate changes on cash | | **(35,726)** | | 58,730 |
| Cash, beginning | | **512,777** | | 2,486,669 |
| Cash, end | **$** | **172,107** | $ | 512,777 |

Cash used in operating activities for fiscal 2020 was $1,222,417, compared to cash used in operating activities of $2,043,609 during fiscal 2019. The decrease in cash used in operating activities is attributable to the following:

- Net loss of $3,436,073 compared to net loss of $754,431 due to a decrease in gain on derecognition of derivative liability which was partially offset by a decrease in listing expense and change in fair value of derivative liability as the warrants are no longer revalued subsequent to the RTO. Included in net loss are non-cash items of $2,167,919 for the year ended August 31, 2020 as compared to $966,406 for the year ended August 31, 2019.

- Movements in trade and other receivables decreased cash by $237,605 compared to decreasing cash by $324,511 during the year ended August 31, 2019.

- Movements in prepaid expenses increased cash by $14,134 compared to decreasing cash by $379,838 during the year ended August 31, 2019.

- Movements in trade payables and other liabilities increased cash by $204,477 compared to increasing cash by $381,577 during the year ended August 31, 2019.

Investing activities provided cash of $198,740 for the year ended August 31, 2020, primarily related to cash acquired in acquisition, as compared to $463,758 used in the year ended August 31, 2019 related to additional intellectual property purchased from Cowlitz for $265,102 (USD$200,000) and the $199,761 (USD$150,000) deposit paid to Delta 1.

Cash provided by financing activities for the year ended August 31, 2020 was $718,733 as compared to $474,745 provided by financing activities during year ended August 31, 2019. During the year ended August 31 2020 we raised funds through the exercise of warrants and through private placements which was partially offset by lease payments as a result of the adoption of IFRS 16 during the year ended August 31, 2020. During the year ended August 31, 2019 we raised fund through private placements which was partially offset by the advance of note receivable of $662,754 (USD$500,000).

### 6.3 Capital Resources

The capital of the Company consists of consolidated equity, net of cash.

| *As at* | | **August 31, 2020** | | August 31, 2019 |
|---|---|---|---|---|
| Equity | **$** | **12,074,006** | $ | 6,193,514 |
| Less: cash | | **(172,107)** | | (512,777) |
| | **$** | **11,901,899** | $ | 5,680,737 |

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

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

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

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

## 7. OFF-BALANCE SHEET ARRANGEMENTS

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

## 8. RELATED PARTY DISCLOSURES

Key management personnel compensation for the years ended August 31, 2020 and 2019 were as follows:

| | | year ended August 31, | | |
|---|---|---|---|---|
| | | **2020** | | 2019 |
| Management fees | **$** | **384,674** | $ | 385,222 |
| Consulting fees | | **5,500** | | - |
| Share-based payments | | **291,477** | | 451,730 |
| | **$** | **681,651** | $ | 836,952 |

Share-based payments are the fair value of options granted to key management personnel as at the grant date.

Other related party transactions for the year ended August 31, 2020 and 2019 were as follows:

| | | Year ended August 31, | | |
|---|---|---|---|---|
| | | **2020** | | 2019 |
| Professional fees | **$** | **84,624** | $ | 202,632 |
| | **$** | **84,624** | $ | 202,632 |

During the year ended August 31, 2020, the Company incurred $45,971 (year ended August 31, 2019 - $nil) in accounting costs to a firm related to the Chief Financial Officer. The accounting costs are included in professional fees in the consolidated statement of comprehensive loss.

During the year ended August 31, 2020, the Company incurred $38,653 (year ended August 31, 2019 - $97,928) in accounting costs to a firm owned by the former Chief Financial Officer. The accounting costs are included in professional fees in the consolidated statement of comprehensive loss.

During the year ended August 31, 2020, the Company incurred $nil (year ended August 31, 2019 - $104,704) in legal costs to a law firm in which a former director is a partner. The legal costs are included in professional fees in the consolidated statement of comprehensive loss.

During the year ended August 31, 2020, the Company issued 1,500,000 common shares for total fair value consideration of $157,500 as settlement of accounts payable of $75,000 due to related parties which resulted in a loss on debt settlement of $82,500.

Due to related parties as at August 31, 2020 and 2019 were as follows:

| | | | | |
|---|---|---|---|---|
| | | **August 31, 2020** | | August 31, 2019 |
| Trade payables and other liabilities | **$** | **218,268** | $ | 196,442 |
| | **$** | **218,268** | $ | 196,442 |

As at August 31, 2020, included in trade payables and other liabilities is $14,453 (August 31, 2019 - $nil) payable to a Company owned by the Chief Executive Officer of the Company for management fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $5,381 (August 31, 2019 - $nil) payable to a Company related to the Chief Financial Officer for professional fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $7,489 (August 31, 2019 - $63,322) payable to a company owned by the former Chief Financial Officer for professional fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $14,883 (August 31, 2019 - $29,025) payable to a consulting firm owned by the former Chief Operations Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $176,062 (August 31, 2019 - $nil) payable to a company owned by the former Chief Executive Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $nil (August 31, 2019 - $21,000) payable to a former director of the Company for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $nil (August 31, 2019 - $62,301) payable to a Company owned by the former Chief Executive Officer of the Company for management fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2020, included in trade payables and other liabilities is $nil (August 31, 2019 - $20,794) payable to a company owned by the former President for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

## 9. OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's authorized share capital consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at December 18, 2020.

| Type of Security | Number Outstanding |
|---|---|
| Common Shares | 165,275,509 |
| Share Purchase Options | 8,368,836 |
| Agent Options | 445,095 |
| Performance Warrants | 4,655,992 |
| Share Purchase Warrants | 12,348,410 |
| **Fully Diluted** | **192,714,340** |

## 10. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Company's annual consolidated financial statements for the years ended August 31, 2020 and 2019, are consistent with new standards and amendments to standards, except for the following:

The Company adopted IFRS 16, *Leases* using the modified retrospective approach on September 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at September 1, 2019. There was no retained earnings adjustment as the right of use asset carrying amount was consistent with the lease liability. Accordingly, the comparative information presented for 2019 has not been restated and is presented as previously reported under IAS 17, *Leases* and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*.

On transition, the Company elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as lease under IAS 17. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), lease contracts for which the underlying asset is of low value (low-value assets). The transition and impact are further disclosed in note 3 to the audited consolidated financial statements for the years ended August 31, 2020 and 2019.

## 11. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events, or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. These financial statements do not include any accounts that require significant estimates as the basis for determining the stated amounts.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as the follows:

**Share-based payments**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

**Income taxes**

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law in the relevant jurisdiction. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

Management believes they have adequately provided for the probable outcome of these matters; however, the outcome may result in a materially different outcome than the amount included in the tax liabilities. In addition, the Company recognizes deferred tax assets relating to tax losses carried forward only to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

**Useful lives of property, plant and equipment and intangibles**

Property, plant, and equipment and intangible assets are amortized or depreciated over their useful lives. Useful lives are based on management's estimate of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of loss and other comprehensive loss in specific periods.

**Impairment**

Long-lived assets, including intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU"). Judgments and estimates are required in defining a CGU and determining the indicators of impairment and the estimates required to measure an impairment, if any.

### Going concern

The Company's ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

### Functional currency

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Foreign currency gains and losses on transactions or settlements are recognized in the statement of loss and comprehensive loss. The functional currency of Green Star Biosciences Inc., Green Star Washington LLC, and Green Star Biosciences Packing LLC is the United States dollar. Assets and liabilities are translated at the period end foreign exchange rate and revenue and expenses are translated at the average rate for the period.

The consolidated financial statements are translated into Canadian dollars with assets and liabilities translated at the current rate on the consolidated financial statements date and revenue and expense items translated at the average rates for the period. Translation adjustments are recorded as accumulated other comprehensive income (loss) in shareholders 'equity.

### Trade receivables

The Company accounts for impairment of trade receivables by recording allowances for doubtful accounts on an individual basis, as its sole customer is Cowlitz. The assessment of whether a receivable is collectible involves the use of judgment and requires the use of assumptions about customer defaults that could change significantly. Judgment is required when we evaluate available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur, and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary. Changes in our estimates about the allowance for doubtful accounts could materially impact reported assets and expenses, and our profit could be adversely affected if actual credit losses exceed our estimates.

### Promissory note receivable

The Company accounts for impairment of note receivables by recording allowances. The assessment of whether a note receivable is collectible involves the use of judgment and requires the use of assumptions about the financial situation of who the note was issued. Judgment is required when we evaluate available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur on the note receivable, and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary. Changes in our estimates about the allowance for doubtful accounts could materially impact reported assets and expenses, and our profit could be adversely affected if actual credit losses exceed our estimates.

### Deferred acquisition cost

On February 26, 2019, Green Star Biosciences Inc. entered into a non-binding letter of intent ("LOI") for a Partnership Agreement with Delta One Consultants LLC ("Delta1"). The Company planned to partner with Delta1 to purchase an interest in an indoor cannabis grow operation. In connection with the Letter of Intent, the Company paid $205,140 (USD $150,000) to Delta1. Management had used judgement and determined that the amount paid to Delta1 met the definition of an asset and it was reasonably expected to complete the acquisition of a 51% interest in the Inkster, Michigan facility.

The Company continually reassesses its capital allocation and has determined that proceeding with Delta1 at the current time is not in the best interest of the Company. During the year ended August 31, 2020, the Company recorded a bad debt expense of $139,930 (USD$100,000), respectively (year ended August 31, 2019 - $nil) representing an allowance for credit losses on the initial advance.

**Identifying whether a contract includes a lease**

IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.

**Incremental borrowing rate**

When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statement of loss and comprehensive loss.

**Estimate of lease term**

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

## 12. RISKS AND UNCERTAINTIES

Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors as well as the risk factors set out in the Company's other public disclosure.

The Company's business and results of operations are subject to a number of risks and uncertainties, including but not limited to the following:

**Limited operating history**

The Company is subject to many risks common to early stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, history of losses and lack of substantial revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its relatively early stage of operations. Because the Company has a relatively limited operating history in emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

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

Historically the Company has financed its operations through equity financing. While the Company generates revenues, these revenues may not be sufficient to support future operations or plans for business development. There is no assurance that the Company will be able to maintain the current level of revenue or access further equity. Due to the fact the Company operates a cannabis-related business certain financing options may not be available to the Company. If the Company is unable to sustain or grow its revenue and not be able to attract further equity financing, the Company may not be able to pay liabilities as they become due and thereby would suffer significant financial damage.

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

**Reliance on single stream of income**

Pursuant to the Cowlitz License Agreement, the Company relies on a single source of income, being its business relationship with Cowlitz. Cowlitz is a Washington State company engaging in the cannabis production, processing and retail business. Cowlitz holds a marijuana producer license and marijuana processor license, both issued by the Washington State Liquor Control Board ("WSLCB"). Cowlitz's activities and resources have been focused on Washington State. The Company expects to continue to primarily be in a business relationship with Cowlitz for the foreseeable future. Adverse changes or developments affecting Cowlitz, or marijuana businesses generally could have a material and adverse effect on the Company's business, financial condition.

**The Company may face significant competition from competitors**

Many other businesses in the Washington State engage in similar activities to the Company, leasing commercial space to marijuana producers and marijuana processors, and providing additional products and services to similar customers. The Company cannot assure you that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

**There is no assurance that the Company will turn a profit**

There is no assurance as to whether the Company will be profitable or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business. The payment and amount of any future dividends will depend upon, among other things, the results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends. In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

**The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.**

If the Company implements it business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of financial and management controls, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Company's common shares.

**The Company may be unable to adequately protect its proprietary and intellectual property rights, particularly in the U.S.**

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

(1) the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names, and its ability to register certain of its intellectual property under U.S. federal and state law is impaired by the illegality of cannabis under U.S. federal law;

(2) patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;

(3) issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;

(4) The Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;

(5) another party may assert 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; or

(6) the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Issuer's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

**The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.**

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the business. The existence and/or outcome of any such litigation could harm the business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions or under federal law, the Company may face additional difficulties in defending its intellectual property rights.

**The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.**

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

**The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.**

An increase in the companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

**If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.**

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including its Chief Executive Officer. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees could have a material adverse effect on its business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company and results of operations of the business. The loss of any of the Company's senior management could materially adversely affect its ability to execute its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all.

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

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

**Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the business strategy, may result in the Company's inability to realize any benefit from such acquisition**

The Company expects to grow by acquiring businesses. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

**Future offerings and dilution**

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. The Company's articles permit the issuance of an unlimited number of common shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional common shares will be issued on the exercise of options under the Option Plan and upon the exercise of outstanding Warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. 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 and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

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

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

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

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

**The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest**

Although certain officers and board members of the Company are bound by anti-circumvention agreements limiting their ability to enter into competing and/or conflicting ventures or businesses, the Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

**The cannabis industry is a new industry that may not succeed**

Cannabis is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit the Company to succeed. The Company is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures.

**The Company's operations the United States cannabis market may become the subject of heightened scrutiny**

The Company's operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in and/or operate in the United States or any other jurisdiction.

**Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.**

The Company's business activities rely on newly established and developing laws and regulations in Washington State. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes, including changes in the interpretation and/or administration of applicable regulatory requirements may adversely affect the Company's profitability or cause it to cease operations entirely. Any determination that the Company's business fails to comply with Washington's cannabis regulations would require the Company either to significantly change or terminate its business activities, which would have a material adverse effect.

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

**The Company's contracts may not be legally enforceable in the U.S.**

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

**The market price for the Company's common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control.**

The market price for the Company's common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

(1) actual or anticipated fluctuations in the Company's quarterly results of operations;
(2) recommendations by securities research analysts;
(3) changes in the economic performance or market valuations of companies in the industry in which the Company operates;
(4) addition or departure of the Company's executive officers and other key personnel;
(5) release or expiration of lock-up or other transfer restrictions on outstanding Company common shares;
(6) sales or perceived sales of additional Company common shares;
(7) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or the Company's competitors;
(8) operating and share price performance of other companies that investors deem comparable to the Company; fluctuations to the costs of vital production materials and services;
(9) changes in global financial markets and global economies and general market conditions, such as interest rates;
(10) operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies;
(11) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets; and
(12) regulatory changes in the cannabis industry.

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

**Currency Fluctuations**

The Company's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.