# IONIC BRANDS CORP.
# (FORMERLY ZARA RESOURCES INC.)

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

**(EXPRESSED IN UNITED STATES DOLLARS)**

## GENERAL

The following Management's Discussion and Analysis ("MD&A") has been prepared by management and is provided to enable readers to assess the results of operations and financial condition of Ionic Brands Corp. ("Ionic" or the "Company") for the three months ended March 31, 2019. This MD&A should be read in conjunction with our condensed consolidated interim financial statements and related notes for the three-month period ended March 31, 2019 and the annual audited financial statements and MD&A at December 31, 2018 and are based on known risks and uncertainties. The terms "Ionic", the "Company", "we", "us", and "our" in the following MD&A refer to IONIC BRANDS Corp. All amounts, unless noted otherwise, are in United States dollars and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements, along with additional information on the Company, are available on SEDAR at www.sedar.com, or on the Company's website at www.ionicbrands.com. The Board of Directors of the Company under the recommendation of its Audit Committee has approved the contents of this MD&A, and this report covers other relevant information available up to May 29, 2019.

### Forward-Looking Information

This MD&A contains forward-looking statements or forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995, and applicable Canadian securities laws. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimated," "potential," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are statements concerning the Company's current beliefs, plans and expectations about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, the risks that: (i) any of the assumptions in the resource estimates turn out to be incorrect, incomplete, or flawed in any respect; (ii) the methodologies and models used to prepare the resource estimates either underestimate or overestimate the resources due to hidden or unknown conditions, (iii) operations are disrupted or suspended due to acts of god, unforeseen government actions or other events; (iv) the Company experiences the loss of key personnel; (v) the Company's operations are adversely affected by other political or military, or terrorist activities; (vi) the Company becomes involved in any material disputes with any of its key business partners, lenders, suppliers or customers; or (vii) the Company is subjected to any hostile takeover or other unsolicited attempts to acquire control of the Company. Other factors that could cause the actual results to differ include market prices, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Other risks are more fully described under the heading "RISKS AND UNCERTAINTIES" below. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company assumes no obligation to update such forward-looking statements in the future, except as required by law. For the reasons set forth above, investors should not place undue reliance on the Company's forward-looking statements.

## COMPANY OVERVIEW

Ionic Brands Corp. (formerly Zara Resources Inc.) ("Ionic", "Zara" or the "Company") was incorporated on October 9, 2012 in the province of Ontario. On July 3, 2013, the Company received its Certificate of Continuation to be governed under the British Columbia Business Corporation Act. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "IONC". The head office of the Company is located at 1142 Broadway, Suite 300, Tacoma, Washington, USA.

On March 22, 2019, the Company completed the acquisition of Blacklist Holdings Inc. ("Blacklist"), a private Washington-based company that was incorporated on February 26, 2014. Blacklist's business is the sale of cannabis related hard goods (such as cartridges, applicators, pens, jars, etc.), the licensing of it's intellectual property ("Licensed IP") and the leasing of equipment to processors. The Company acquired all of the issued and outstanding shares of Blacklist under a share purchase agreement (the "Reverse Takeover Transaction", the "Transaction", or the "RTO"). In connection to the Transaction, the Company changed its name from Zara Resources Inc. to Ionic Brands Corp. and operating the primary business of Blacklist.

On the closing of the RTO, Blacklist became a wholly owned subsidiary of the Company. As Blacklist is deemed to be the accounting acquirer for accounting purposes, its assets and liabilities and operations since incorporation on February 26, 2014 are included in the consolidated financial statements at their historical carrying value. The Company's results of operations are included from the closing date: March 22, 2019 onwards. Please refer to the Reverse Acquisition in Note 5 of the Q1 2019 financial statements for more details.

Ionic Brands is a national cannabis holdings company based in Washington State, led by a team of successful entrepreneurs. The company is focused on building a multi-state consumer-focused cannabis concentrate brand portfolio focusing on the premium and luxury segments of the market. The cornerstone brand of the portfolio, Ionic, is the #1 vaporizer brand in Washington State. The Company has aggressively expanded throughout the west coast of the United States and is currently operating in Washington, Oregon, California and Nevada.

## OVERALL PERFORMANCE

During the three months ended March 31, 2019, the Company's main focus was to successfully list the Company's shares on the Canadian Securities Exchange. The Company also increased its product growth, especially in its product sales. For the three months ended March 31, 2019, revenue from product sales was $1,834,908, representing an increase of 185%, compared to product sales revenue of $643,029 during the same period in the prior year. The increase in product sales is primarily due to the Company's effort in developing its business.

In addition, business development expenses increased in Q1 2019 from the prior year due to increased marketing expenditures connected with new product introductions and expansion initiatives into the states of Oregon and California.

### Summary of Quarterly Results

The following table sets forth selected financial information for the Company for the three months ended March 31, 2019 and 2018. Such information is derived from the financial statements of the Company and should be read in conjunction with such financial statements.

| | | **3 months ended March 31, 2019** | | **3 months ended March 31, 2018** |
|---|---|---|---|---|
| Revenues | $ | 2,009,988 | $ | 888,286 |
| Cost of Goods Sold | | 915,126 | | 466,887 |
| Gross Income | | 1,094,862 | | 421,399 |
| Total Operating Expenses | | 8,833,060 | | 418,755 |
| Income (Loss) from Operations | | (7,738,198) | | 2,644 |
| Other Items | | (915,815) | | - |
| Net Income (Loss) | $ | (8,654,013) | $ | 2,644 |

| | | **As at March 31, 2019** | | **As At December 31, 2018** |
|---|---|---|---|---|
| Current Assets | $ | 6,844,646 | $ | 6,363,896 |
| Property Plant& Equipment | | 748,198 | | 381,111 |
| Total Assets | $ | 7,592,844 | $ | 6,745,007 |
| Current Liabilities | $ | 5,519,405 | $ | 20,027,584 |
| Long Term Liabilities | | 80,674 | | 87,773 |
| Shareholders' Equity | | 1,992,765 | | (13,370,350) |
| Total Liabilities and Equity | $ | 7,592,844 | $ | 6,745,007 |

## Results of Operations for the Three Months ended March 31, 2019

### Revenue

Revenue for the three months ended March 31, 2019, increased by $1,121,702 (126%) from 2018 mainly due to an increase in revenue from the increased sales of packaging and ancillary products and also an increase in licensing revenue. This was a result of growth in the underlying sales of our customers.

### Gross Profit

For the three months ended March 31, 2019, gross profit increased by $673,463 (160%) compared to the Q1 2018 quarter as a result of the improved overall sales volume and an increase in Gross Margin. Gross margins increased to 54% from Q1 2018's 47% and were primarily attributable to an increase in licensing revenue and higher margins from ancillary products.

### Total Expenses

Expenses for the three months ended March 31, 2019 were $8,833,060, an increase of $8,414,305 from $418,755 incurred during the same period in the prior year. The significant differences in expenses were as follows:

- Business development: $389,693 for the three months ended March 31, 2019 compared to $51,677 during the same period in prior year, as the Company has expanded and is looking for more business opportunities;
- Interest and finance charges: $794,158 for the three months ended March 31, 2019 compared to $18,249 during the same period in prior year, as the Company borrowed money to finance its expansion and growth.
- As a result of the RTO, listing expenses of $444,049 were recorded representing the difference between the cost of the assets and fair value of the net assets acquired;
- Professional fees: $454,885 for the three months ended March 31, 2019 compared to $21,890 during the same period in prior year, as the Company engaged advisors and consultants to assist in the RTO, as well as the growth in the business;
- Share-based payments: $5,751,652 for the three months ended March 31, 2019 compared to $nil during the same period in 2018, as the Company issued performance warrants to directors, management, employees and consultants.
- Salaries and Wages increased to $627,863 from $177,115 as the Company hired additional people to assist in its growth,

### OUTLOOK

The Company successfully completed a C$20 million debenture financing in May 2019. It plans to continue to reinvest into its premium and luxury branding products while completing its planned acquisitions over the coming months; this will expand the Company's product offerings as well as introduce its products to other markets. The Company anticipates this strategy will increase the IONIC BRANDS branding recognition and thereby translate into faster and continuous sales growth quarter over quarter.

## CAPITAL STRUCTURE

As of the date of this MD&A, the Company has 108,436,175 common shares issued and outstanding. In addition, there are outstanding share purchase warrants and stock options for a further 42,686,371 and 5,700,000 common shares, respectively.

## CAPITAL RESOURCES

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of Shareholder's equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the year ended March 31, 2019.

## LIQUIDITY

The Company's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements. The Company has historically financed its operations primarily through the sale of share capital by way of private placements.

The Company's Q1 2019 financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation in the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At March 31, 2019, the Company had a working capital of $1,325,241 (December 31, 2018 – deficiency of $13,663,688). The Company had a deficit of $23,489,520 as at March 31, 2019 (December 31, 2018 – $14,835,507).

To maintain liquidity, on May 16, 2019, the Company closed a brokered offering of 17,227 convertible debenture units for gross proceeds of CAD $17,227,000 pursuant to a private placement of Units with a concurrent non-brokered offering of 2,532 Units for gross proceeds of CAD $2,532,000. The Units sold under the Concurrent Offering have the same terms and conditions as those Units sold under the Brokered Offering. Each Unit consists of (i) CAD $1,000 principal amount of 8.0% unsecured debentures convertible into common shares of the Company at a conversion price of CAD $0.75 per share, maturing on May 16, 2022, and (ii) 1,333 common share purchase warrants of the Company. Each warrant entitles the holder to purchase a common share at an exercise price of CAD $0.90 until May 16, 2022, subject to acceleration in certain circumstances.

The development of the Company in the future will depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the issuance of equity and debt securities to meet its cash requirements. Funding for potential future development obligations, in excess of funds on hand, will depend on the Company's ability to obtain financing through debt and equity financing, or other means. There can be no assurances that the Company will be successful in obtaining any such financing; failure to obtain such additional financing could result in the delay or indefinite postponement of further development of the Company's operations.

## OUTLOOK

The Company plans to expand the licensing of the IONIC™ brand and line of products into other U.S. states where recreational marijuana is legal by contracting with local state license holders in those states to produce and distribute IONIC™ brand products. The Company will be paid an amount equal to sales made by its Customers to third parties less fees charged by them for distribution and production, negotiated on a state-by-state basis, for each unit or a derivative thereof sold. The Company may also enter into financial transactions to support licensees or affiliated manufacturing companies in order to promote, support, and develop sales and distribution of IONIC™ products including through investment in joint ventures in various states. The Company currently provides and will continue to provide consulting services to manufacturers and retailers, in compliance with applicable state law; serve as a real estate, fixtures and equipment holding and management company that will acquire, lease, develop and/or manage real property, industrial fixtures and equipment and lease and/or sublease such infrastructure to manufacturers and retailers; invest in such companies, in compliance with applicable state law; and enter into financial transactions to support such, including, without limitation, loan transactions, in order to promote, support, and develop sales and distribution of products utilizing its portfolio of intellectual property.

## RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the three months ended March 31, 2019 and 2018 was as follows:

| | | March 31, 2019 | | March 31, 2018 |
|---|---|---|---|---|
| Salaries and wages | $ | 303,975 | $ | 62,662 |
| Rent | | 9,000 | | 12,000 |
| | $ | 312,975 | $ | 74,662 |

### Accounts Payable and Accrued Liabilities

As at March 31, 2019, the following amounts in accounts payable were due to related parties:

- $41,167 (December 31, 2018 - $41,167) owing to a director for services rendered;
- $3,000 (December 31, 2018 - $3,000) owing to a director for services rendered;
- $57,000 (December 31, 2018 - $57,000) owing to a company controlled by a director for rent.

### Loans Payable

As at March 31, 2019, $604,002 (December 31, 2018 - $474,423) in loans payable were owed to related parties (Note 13). During the three months ended March 31, 2019, the Company recorded interest expense of $14,737 (March 31, 2018 - $8110) paid to related parties for these loans.

### Accounts Receivable

As at March 31, 2019, $4,653,433 (December 31, 2018 - $57,193) in accounts receivable were due from a company related to another company jointly owned by the CEO and former CFO.

### Transactions with Related Parties

During the three months ended March 31, 2019, the Company had product sales to a company jointly owned by the CEO and former CFO of $1,487,050 (March 31, 2018 - $nil).

On October 1, 2017, Blacklist entered into a commercial lease agreement with a company controlled by a director for its head office. Under the agreement, Blacklist is required to make lease payments for a term of 3 years. During the three months ended March 31, 2019, the Company recorded rent expense of $9,000 (March 31, 2018 - $12,000) to the related party.

During the year ended December 31, 2016, Blacklist entered into an asset lease agreement with a company controlled by the CEO and former CFO. Under the agreement, Blacklist is the lessee and has leased the equipment for monthly fees of $10,000. Shortly after the execution of the agreement, both parties mutually filed amendments for fees payable when new equipment was added to the original leased equipment. During the three months ended March 31, 2019, the Company recognized equipment rental income of $99,996 (March 31, 2018 - $87,996).

On January 1, 2017, Blacklist entered into an agreement with a company jointly controlled by the CEO and former CFO (the "Licensee"). Under the agreement, Blacklist granted the Licensee a non-exclusive, non-transferrable, non-assignable royalty bearing license to reproduce, distribute, publicly display, and publicly use the IONIC trademark. As consideration of the license granted, the Licensee shall pay royalty fees of 5% of its gross revenue for 3 years. On January 1, 2018, the consideration was increased to 10% of gross revenue. During the three months ended March 31, 2019, the Company recognized royalty income of $108,422 (March 31, 2018 - $245,257).

## OFF BALANCE SHEET ARRANGEMENTS

The Company currently has no off-balance sheet arrangements.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access as at the measurement date.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly or indirectly.
- Level 3 fair value measurements are those derived from inputs that are unobservable inputs for the asset or liability.

The fair value of cash approximates their carrying value due to the short-term maturity. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value due to the demand nature or short-term maturity of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

### Financial Risk Factors

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

*Market risk*

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

*Credit risk*

The Company's exposure to non-payment or non-performance by our counterparties is a credit risk. The maximum credit exposure as at March 31, 2019 is the carrying amount of cash, accounts receivable and other receivables and promissory notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of March 31, 2019. The Company mitigates its credit risk on its other receivables through its review of the counterparties and business review.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's cash holdings. As at March 31, 2019, the Company's financial liabilities consist of accounts payable, accrued liabilities, and notes payable which have contractual maturity dates within one-year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company's ability to meet its financial obligations is based on its ability to complete equity cash raises or to borrow money.

*Asset forfeiture risk*

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property is never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

*Banking risk*

Notwithstanding that many states have legalized recreational cannabis, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

*Interest rate risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates. The Company considers interest rate risk to be immaterial.

**Subsequent Events**

A. On April 10, 2019, the Company announced it had entered into a Letter of Intent ("LOI") to acquire licensed cannabis volatile extraction and manufacturing assets of Kavry Management LLC ("Kavry"). The Company signed the LOI dated April 4, 2019 with Kavry subject to definitive documentation and for a purchase price of US$2,900,000 in cash and shares, with the shares valued based on the closing price of the Company's shares immediately preceding the date of closing.

B. On April 12, 2019, the Company granted 5,700,000 stock options to its directors, employees and consultants. These stock options may be exercisable within 5 years from grant date at a price of CAD $0.65 per share and have vesting periods of 0 to 9 months.

C. On April 25, 2019 the company entered into a Master Equipment Lease with a third party allowing the company to acquire $718,370 of new production equipment. The Lease calls for an initial payment of $101,430 and 23 subsequent monthly payments of $31,972

   On May 16, 2019, the Company closed a brokered offering of 17,227 convertible debenture units for gross proceeds of CAD $17,227,000 pursuant to a private placement of Units with a concurrent non-brokered offering of 2,532 Units for gross proceeds of CAD $2,532,000. The Units sold under the Concurrent Offering have the same terms and conditions as those Units sold under the Brokered Offering. Each Unit consists of (i) CAD $1,000 principal amount of 8.0% unsecured debentures convertible into common shares of the Company at a conversion price of CAD $0.75 per share, maturing on May 16, 2022, and (ii) 1,333 common share purchase warrants of the Company. Each warrant entitles the holder to purchase a common share at an exercise price of CAD $0.90 until May 16, 2022, subject to acceleration in certain circumstances.

**Critical Accounting Estimates**

The preparation of the financial statements in conformity with IFRS requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates, and assumptions affect the reported amounts of assets and liabilities at the reporting date and reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of its financial statements.

*Areas of Judgment*

Estimated Useful Lives and Depreciation of Property and Equipment

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment

The carrying value of long-lived assets is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is recognized in the statement of operations. The assessment of fair values require the use of estimates and assumptions for recoverable production discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of long-lived assets could impact the impairment analysis.

Allowance for Doubtful Accounts, and the Recoverability of Receivables

Significant estimates are involved in the determination of recoverability of receivables and no assurance can be given that actual proceeds will not differ significantly from current estimations. Management has made significant assumptions about the recoverability of receivables. During the three months ended March 31, 2019, the Company recorded an impairment expense of $nil (March 31, 2018 - $nil) for receivables where collection is doubtful.

Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. IN assessing loss contingencies related to legal proceedings that are pending against the Company that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the annual consolidated financial statements.

Income Taxes

The assessment of income taxes involved the probability of realizing deferred tax assets, in relation to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position will be sustained upon examination by applicable tax authorities. In making its assessment, management give additional weight to positive and negative evidence that can be objectively verified.

*Significant Judgments*

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's condensed consolidated interim financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The fair value and classification of financial instruments; and
- The classification of leases as either operating or finance type leases.

## RISKS AND UNCERTAINTIES

***Overview***

There are a number of risk factors that could cause future results to differ materially from those described herein. The following sets out certain of the principal risks faced by the Company. Additional risks and uncertainties, including those that the Company does not know about or that it currently deems immaterial, could also adversely impact the Company's business and results of operations. Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

*The Company Will Not be Able to Deduct Many Normal Business Expenses.* Under Section 280E of the Internal Revenue Code ("**Section 280E**"), many normal business expenses incurred in the trafficking of cannabis and its derivatives are not deductible in calculating federal income tax liability. A result of Section 280E is that an otherwise profitable business may in fact operate at a loss, after taking into account its income tax expenses. The application of Section 280E likely will have a material adverse effect on businesses that the Company provides financing, consulting services and brand licensing to and may, in turn, have a material adverse effect on the Company. Although the Company does not presently believe it is subject to the provisions of Section 280E, there is no assurance that the Internal Revenue Service will agree. Therefore, the Company faces the risk of not being able to deduct many normal business expenses in calculating its federal income tax liability. As a result, the Company may be subject to paying income tax at a higher rate than the Company anticipates along with resulting penalties and interest if the IRS does not agree with the Company's interpretation of the Internal Revenue Code.

*Risks Related to 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 malfunctioning hardware, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Recall of products could lead to adverse publicity, decreased demand for the Company's products and could have significant reputational and brand damage. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses.

*Risk Related to Contaminates.* The Company tests all of its products with state licensed third party laboratories to ensure that its products are free of contaminates. These laboratory's analyses may be inaccurate and thereby result in the Company unknowingly shipping products with certain impurities. The potential for contaminated product reaching the retail market and therefore the consumer exists and could have a negative impact both on sales and the image of the brand.

*Limited Operating History.* As a high growth enterprise, the Company does not have a history of profitability. The Company 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. 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.

*Inability to Protect Intellectual Property.* The Company may have certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary products. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Company's ability to successfully implement its business plan depends in part on its ability to obtain, maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Company's names and logos. If the Company's efforts to protect its intellectual property are unsuccessful or inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs. See also: *Risks Specifically Related to the United States Regulatory System – Limited Trademark Protection*.

*Intellectual Property Claims.* Companies in the retail and wholesale industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. The Company may be subject to intangible property rights claims in the future and its products may not be able to withstand any third-party claims or rights against their use. Any intangible property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert Management resources and attention. An adverse determination also could prevent the Company from offering its products to others and may require that the Company procure substitute products or services.

With respect to any intangible property rights claim, the Company may have to pay damages or stop using intangible property found to be in violation of a third party's rights. The Company may have to seek a license for the intangible property, which may not be available on reasonable terms and may significantly increase operating expenses. The technology also may not be available for license at all. As a result, the Company may also be required to pursue alternative options, which could require significant effort and expense. If the Company cannot license or obtain an alternative for the infringing aspects of its business, it may be forced to limit product offerings and may be unable to compete effectively. Any of these results could harm the Company's brand and prevent it from generating sufficient revenue or achieving profitability.

*The Market Price of the Common Shares May be Subject to Wide Price Fluctuations*. The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, 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 the Common Shares.

*Competitive Product Risks.* The market is characterized by a growing number of new market entrants competing in the same product categories as the Company. As such there is considerable competition in the marketplace.

Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the Company's business, financial condition and results of operations.

To remain competitive, the Company will require a continued 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.

To succeed in the marketplace the Company needs to differentiate itself which it has done via innovative design and technology

*Brand Perception.* The Company is a new entrant in the marketplace with no prior history. This is partially mitigated by the targeted acquisitions of companies with market acceptance and by the experience of the founders. The Company believes its industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products and perceptions of regulatory compliance. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. In particular, vaporizers, electronic cigarettes and related products have only recently been developed and the long-term effects have yet to be examined. Currently, there is no way of knowing whether these products are safe for their intended use. If the scientific community was to determine conclusively that use of any or all of these products poses long-term health risks, market demand for these products and their use could materially decline.

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 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 cannabis-related products in general, or the Company's products specifically, or associating the consumption of cannabis- related products with illness or other negative effects or events, could have such a material adverse effect.