

**INTEGRATED CANNABIS COMPANY, INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS  
THREE MONTHS ENDED  
OCTOBER 31, 2019**

(Expressed in Canadian Dollars)

*Set out below is a review of the activities, results of operations and financial condition of Integrated Cannabis Company, Inc. (the "Company") for the three months ended October 31, 2019. The discussion below should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months ended October 31, 2019 and the audited consolidated financial statements for the year ended July 31, 2019. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures included in the following Management Discussion and Analysis ("MD&A") are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at **December 30, 2019**. The Company is a reporting issuer in the provinces British Columbia, Alberta and Ontario and is listed on the Canadian Securities Exchange as ICAN. Additional information related to the Company, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

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## 1. BACKGROUND

Integrated Cannabis Company, Inc. ("iCannaCo" or the "Company") was incorporated on September 15, 2011 under the laws of the province of British Columbia and is registered extra-provincially under the laws of Ontario. The Company was a mineral exploration company engaged in the acquisition and exploration of mineral resource properties in Canada. Prior to January 29, 2016 CNRP was 85% owned by Winston Resources Inc. ("Winston" or the "Parent Company"). On January 18, 2016, Winston declared a special dividend to its shareholders by distributing all of its shareholding interest in the Company. The record date for the dividend is January 29, 2016. Winston no longer has any shareholder interest in the Company. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "ICAN". The head office of the Company is located at Suite 810 - 789 West Pender Street, Vancouver, BC V6C 1H2, Canada.

During the eight-month period ended July 31, 2018 iCannaCo completed the acquisition of all of the issued and outstanding shares of 1127466 B.C. Ltd., which through its wholly owned subsidiary XSPRAYS Industries Inc. owns the worldwide exclusive rights to market and sell as dietary supplements for nonmedical use only cannabinoid and cannabis-infused sprays. In addition, the company has a non-exclusive license to market and sell as dietary supplements for non-medical use of non-cannabis infused sprays.

### Reverse Takeover

On October 25, 2017, the Company and 1127466 B.C. Ltd. ("1127466BC") signed a share exchange agreement whereby the Company would acquire all of the issued and outstanding shares of the 1127466BC which holds, through a wholly owned subsidiary, a world-wide, exclusive license for X-SPRAYS – a brand of life-enhancement products administered via an optimal oral spray delivery system. Pursuant to the terms of the agreement, Integrated Cannabis issued an aggregate of 16,500,000 common shares in the capital of the Company (the "payment shares"). Also, as part of the transaction, the Company also issued a finder's fee of 1,650,000 common shares in the capital of the Company.

For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 *Business Combinations* ("IFRS 3") since the Company, formerly known as CNRP Mining Inc., ("CNRP") was considered as a shell company whose activities, prior to the acquisition, were limited to the management of cash resources and maintenance of its reporting issuer status and did not constitute a business. The transaction is accounted for in accordance with IFRS 2 *Share-based Payment* ("IFRS 2") whereby 1127466BC is deemed to have issued shares in exchange for the net assets of the Company together with its reporting issuer status at the fair value of the consideration received by 1127466BC. The accounting for this transaction resulted in the following:

- (i) The financial statements of the consolidated entities are considered a continuation of the financial statements of 1127466BC.
- (ii) Since 1127466BC is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the financial statements at their historical carrying values.
- (iii) As part of the completion of the reverse acquisition with CNRP to facilitate the reporting issuer status of 1127466BC, the original shareholders of CNRP retained 17,857,786 common shares and 2,425,230 warrants of the Company. A finders' fee of 1,650,000 common shares were also issued to finders.

Since the share and share-based consideration allocated to the former shareholders of CNRP on closing the reverse acquisition is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or services received in return for the allocation of the shares, the value in excess of the net identifiable assets of CNRP acquired on closing was expensed in the statement of comprehensive loss as listing expense.

The share-based compensation of \$13,550,387 recorded as listing expense included the fair value of the 17,857,786 common shares retained by the former shareholders of CNRP and 1,650,000 common shares issued to the finders at \$0.76 per share, the fair value of 2,136,457 private placements warrants and 288,733 finders' warrants at a fair value of \$0.507 and \$0.381 per warrant respectively and the net assets acquired. The \$0.76 value for the shares was based on the most recent closing price prior to the reverse acquisition. The fair value of warrants were calculated using Black Scholes option pricing model using the assumptions at the time of the RTO of risk free interest rates of 1.29%, expected life of between 0.32 to 1.04 years, expected volatility of 100%, forfeiture rate of 0% and a dividend rate of 0%.

#### **Acquisition of 1200665 B.C. Ltd.**

The Company acquired ownership of 1200665 B.C. Ltd. ("1200665BC"), a cannabis cultivation business and license and prospective owner of a cannabis manufacturing business and license in the state of Nevada. The Company: (a) has issued an aggregate of 30,645,161 common shares of the Company; (b) will pay \$5,019,900 in cash, payable within 120 days following the closing; and (c) will pay up to an additional \$7,480,100 in cash, payable upon completing certain milestones after the closing.

#### **Acquisition of Ganja Gold**

The Company acquired ownership of Ganja Gold Inc. ("Ganja Gold"), a licensed cannabis manufacturer in the State of California. The Company: (a) has issued an aggregate of 40,000,000 common shares of the Company; and (b) will issue up to an additional 40,000,000 common shares upon Ganja Gold completing certain milestones after the closing. The Company also issued 3,200,000 common shares to an arm's length third party finder.

#### **X-SPRAYS<sup>TM</sup>**

The Company's X-SPRAYS product line consists of eight market ready orally ingested spray products that are highly effective for overall health and well-being as well as general lifestyle. Four products are available infused with hemp-based cannabidiol (CBD) and four products are formulated without a cannabidiol (CBD) infusion. The state-of-the-art formulations are free from artificial flavours, artificial colours, sugar, starch, wheat, soy, gluten, eggs, salt and dairy. The sprays contain natural fruit and/or herbal flavours and are suitable for vegetarians and vegans. The products are highly bioavailable such that the active ingredients in the sprays are already fully dissolved, so the vitamins and minerals do not need to be further broken down once swallowed but are immediately available for use by the body.

The X-SPRAYS product line is packaged in precise, metered dose and convenient spray tubes including a child-resistant version, both of which easily fit into a purse or pocket and are ideal for travel. The container protects the liquid from light and air, ensuring the quality and shelf life of the ingredients.

#### **GANJA GOLD**

Ganja Gold is the industry leader in providing top grade cannabis products that are crafted for those who seek a top-shelf experience. The secret to our success can be summed up in one word, quality. Ganja Gold's entire line uses the absolute best materials and each item is personally inspected, smelled, and sampled, while also meticulously tested by one of the top regarded labs in the world.

## **2. COMPANY HIGHLIGHTS**

During the period ended October 31, 2019 and subsequent:

- The Company issued 693,594 common shares for total proceeds of \$260,100 upon exercise of share purchase warrants at \$0.375 per share.
- The Company reports sales revenue of \$1.8M from Ganja Gold and X-Sprays.

### 3. SELECTED FINANCIAL INFORMATION

#### 3.1 Results of Operations for the three months ended October 31, 2019

The Company had total sales of \$1,827,283 (2018 - \$1,102) and reported an overall net loss of \$1,996,315 (2018 - \$322,591).

In 2019, significant operating expenses include:

- The Company incurred advertising and promotion fees of \$818,481 (2018 - \$60,704) as the Company incurred costs to create brand awareness for the Ganja Gold and the X-Sprays products.
- The Company incurred filing and listing fees of \$27,129 (2018 - \$15,810) due to the Company's payment to the OTC Market to the U.S. listings.
- The Company incurred general office expenses of \$173,950 (2018 - \$39,904) as a result of additional head office activities related two new acquisition of cannabis related business in the United States as well as seeking new business targets for more acquisitions.
- The Company \$273,185 (2018 - \$23,368) in legal and professional fees due to the cost of acquiring U.S. based cannabis company as well as additional accounting and audit requirements for the growth.
- Management and consulting fees for the period were \$729,223 (2018 - \$179,520) and were comprised of costs for brand development of its Ganja Gold and X-Sprays products, and fees paid for the acquisition of 1200665BC and Ganja Gold.

The Company also granted stock options to certain officers, directors and consultants of the Company during a prior year that vest over different time periods resulting in non-cash share-based payments of \$494,163 for the quarter ended October 31, 2019 (2018 - \$Nil).

#### 3.2 Cash flows for the quarter ended October 31, 2019

The Company had \$1,597,812 cash on hand compared to \$4,681,677 as at July 31, 2019. The decrease is due to the following:

- The Company incurred cash outflows of \$2,342,343 from operating activities. See *Results of Operations* above for the discussion of operating activities.
- The Company provided \$233,230 to CA Brands further to the Term Sheet signed in August 2019 to acquire CannaAmerican Brands LLC.
- The Company purchased packaging equipment & machinery for \$410,825.
- The Company's subsidiary 1200665BC provided a loan of \$300,000 to V6E Holdings LLC ("V6E") and Sullivan Park Capital LLC ("Sullivan Park") which 1200665BC has agreed to acquire. The acquisitions of V6E and Sullivan are yet to close and are currently subject to closing conditions which are anticipated to close during the first half of fiscal 2020.

### 3.3 Financial position

- The Company had a cash balance of \$1,597,812 at October 31, 2019 (July 31, 2019 - \$4,681,677). Total assets as at October 31, 2019 was \$67,312,947 (July 31, 2019 - \$66,681,351). The increase is mainly due to the increase in inventory, prepaid expenses and equipment at Ganja Gold.
- Accounts payable and accrued liabilities for the period were \$545,437 (July 31, 2019 - \$615,564) which are typically due within 30-days of billing.
- As a result of the adoption of IFRS 16, Leases, the Company's lease liability as at October 31, 2019 was \$303,842, of which \$111,328 is due within 12 months.
- The Company had an accumulated deficit of \$22,907,072 (July 31, 2019 - \$20,910,757).

### 3.4 Summary of Quarterly Results

The Company did not report quarterly results for the past eight quarters.

	Q1 October 31, 2019	Q4 July 31, 2019	Q3 April 30, 2019	Q2 January 31, 2019
Sales	\$ (1,827,283)	\$ (157,430)	\$ 173,294	\$ 91,380
Operating expenses	2,525,322	2,967,032	163,087	544,669
Net loss	(1,996,315)	(3,718,680)	(53,123)	(481,406)
Loss per share	(0.01)	(0.80)	(0.00)	(0.01)
Total assets	67,312,947	66,681,351	1,845,231	1,610,745
Current liabilities	13,174,773	13,203,312	492,594	152,451

	Q1 October 31, 2018	Period ended July 31, 2018	Period ended November 30, 2017
Sales	\$ 1,102	\$ -	
Operating expenses	323,693	2,801,010	4,850
Net loss	(322,498)	(16,330,200)	(4,850)
Loss per share	(0.01)	(0.76)	(0.00)
Total assets	1,890,188	2,055,796	330,001
Current liabilities	64,547	46,508	4,850

## 4. LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2019 the Company had working capital deficit of \$2,765,882 and had a cash balance of \$1,597,812 of cash.

The Company's continued development is contingent upon its ability to raise sufficient financing both in the short and long-term. There are no guarantees that additional sources of funding will be available to the Company; however, management is committed to pursuing all possible sources of financing in order to execute its business plan.

## 5. OFF BALANCE SHEET ARRANGEMENTS

At October 31, 2019, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## 6. SUBSEQUENT EVENT

On November 5, 2019, the Company announced that it, together with certain shareholders of the Company have entered into a voluntary pooling agreement. The voluntary pooling agreement will restrict the sale of approximately 26 million shares of the Company, representing approximately 20% of the issued and outstanding shares of the Company for six months from the date of the pooling agreement to May 1, 2020, bringing the total restricted shares outstanding to approximately 66 million shares, which collectively represents approximately 50% of the total outstanding shares of the Company.

## 7. RELATED PARTY TRANSACTIONS

As of October 31, 2019, the due to related parties is \$18,008 (July 31, 2019 - \$18,009). This amount consists of amounts due to a former director of the Company. These amounts were made to provide working capital and are non-interest bearing and without fixed terms of repayment.

During the three months ended October 31, 2019, the Company paid/accrued management and consulting fees of \$32,500 (2018 - \$48,256) to companies controlled by Eugene Beukman, the Chief Financial Officer of the Company. As at October 31, 2019, \$997 (July 31, 2019 - \$578) remained outstanding.

## 8. CRITICAL ACCOUNTING ESTIMATES

### Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the year. 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 most significant accounts that require estimates as the basis for determining the stated amounts include recognition of deferred income tax amounts.

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

#### *Critical accounting estimates*

- i. Share-based payments and fair value adjustment to contingent liability are subject to estimation of the value of the award and warrants at the date of grant and measurement date using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.
- ii. The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.
- iii. Management reviews the useful lives of depreciable assets including property, plant and equipment and customer contracts at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence.

#### *Critical accounting judgments*

- i. The determination that the Company will continue as a going concern for the next year.
- ii. The revenue recognition of sale revenue.
- iii. The determination of related parties.

### Changes in accounting policies

#### IFRS 16 – Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019, with early application permitted.

The adoption of IFRS 16 did not have any material impact on the Company's consolidated financial statements as the Company had one lease commitment.

On adoption of IFRS 16, Leases, the Company recognized the right-of-use asset (note 6), and a corresponding increase in a lease liability, in the amount of \$303,364 which represented the present value of future lease payments using a discount rate of 12%.

During the three months ended October 31, 2019, the Company recorded an accretion expense of \$478 related to the lease liability.

## **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

### **Financial Risk Management Objectives and Policies**

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

### **Financial Risks**

The Company's main financial risk exposure and its financial risk management policies are as follows:

#### **Credit risk**

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is limited to the carrying value amount carried on the statement of financial position. Credit risk associated with the promissory note receivable and loans receivable arises from the possibility that the principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationship. The Company is not currently exposed to any significant credit risk associated with its trade receivable.

#### **Market and Other Risks**

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

#### **Liquidity Risk**

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. As at October 31, 2019, the Company has a working capital deficiency of \$2,765,882 and will require additional financing to meet its short term obligations.

## 10. RISK FACTORS

Investing in the common shares of the Company involves risk. Prospective investors should carefully consider the risks described below, together with all of the other information included in this MD&A before making an investment decision. If any of the following risks actually occurs, the business, financial condition or results of operations of the Company could be harmed. In such an event, the trading price of the common shares could decline, and prospective investors may lose part or all of their investment.

### **Risks Related to the United States Regulatory Regime**

#### ***Marijuana is illegal under U.S. federal law***

The cultivation, manufacture, distribution, and possession of marijuana is illegal under U.S. federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and state law, the federal law must be applied. Accordingly, federal law applies even in those states in which the use of marijuana has been legalized. Enforcement of federal law regarding marijuana would harm the Company's business, prospects, results of operation, and financial condition.

Under the Controlled Substances Act, 21 U.S.C., § 801 et seq. (the "CSA"), it is a felony to manufacture, distribute, dispense or possess with intent to manufacture, distribute or dispense a controlled substance, including marijuana (a Schedule I controlled substance under the CSA); to use a communication facility, which includes the mail, telephone, wire, radio, and all other means of communication, to cause or facilitate a violation of the CSA; and to place an advertisement knowing that the advertisement is intended to offer to sell or buy marijuana, or to use the internet to advertise the sale of marijuana. It is also a federal misdemeanor to knowingly or intentionally possess marijuana and a felony to attempt or conspire to violate the CSA. The CSA does not apply to conduct that takes place entirely outside the United States if the conduct involves cannabis that never reaches, and is never intended to reach, the United States.

Since the possession and use of marijuana and any related paraphernalia is illegal under U.S. federal law, the Company may be deemed to be aiding and abetting illegal activities. Its subsidiaries plan to manufacture and/or distribute medical and adult-use cannabis. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of marijuana and any related paraphernalia, may seek to bring an action or actions against the Company or its subsidiaries, including, but not limited to, a claim regarding the possession, use and sale of cannabis, and/or aiding and abetting another's criminal activities. The U.S. federal aiding and abetting statute provides that anyone who "commits an offense or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result, the U.S. Department of Justice could allege that the Company has "aided and abetted" violations of federal law by providing financing and services to its subsidiaries. Under these circumstances, the federal prosecutor could seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing. In these circumstances, the Company's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison. Such an action would result in a material adverse effect on the Company. Violations of federal law could result in significant fines, penalties, administrative sanctions, criminal prosecution, including arrest, pre-trial incarceration, and sentences including monetary fines or incarceration, disgorgement of profits, cessation of business activities or divestiture, and forfeiture of real and personal property. The federal government can seek, (i) civil forfeiture of property involved in or traceable to certain crimes, including money laundering and violations of the CSA; and (ii) prosecution of the Company's employees, directors, officers, managers and investors for criminal violations of the CSA, federal anti-money laundering laws, or the Travel Act. Even when the government does not bring criminal charges, it may use the threat of an investigation or charges to incentivize civil settlements. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded Common Shares. It is difficult to estimate the time or resources needed to respond to a government investigation or prosecution of such matters without knowing the nature and extent of any information requested by the applicable authorities involved. Such time or resources could be substantial.



***Marijuana is strictly regulated in those states which have legalized it for medical or recreational use***

U.S. states and territories that have medical and/or adult-use markets impose substantial regulatory and licensing burdens on marijuana businesses. The legal and regulatory framework applicable to cannabis businesses is different in each state and territory. Obtaining a license or permit to grow, distribute, or dispense marijuana can be a difficult, costly, and lengthy process. Violations of a state's legal and regulatory framework can result in revocation of licenses, civil penalties, and other punishments. No assurance can be given that the Company will receive the requisite licenses, permits, or cards to operate its businesses.

Local laws and ordinances could restrict the Company's business activity. Local governments may have the ability to limit or ban cannabis businesses from operating within their jurisdiction, or impose requirements in addition to those imposed by state law. Land use, zoning, local ordinances, and similar laws could be adopted or changed, which may have a material adverse effect on the Company's business.

The Company currently operates only in the State of California and the State of Nevada, but may consider opportunities in other jurisdictions as deemed appropriate by management. The Company is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. Other states may be in the process of reviewing such additional fees and taxation, or may impose them in the future. This could have a material adverse effect upon the Company's business, results of operations, financial condition, or prospects.

***Newly established legal regime***

The Company business activities will rely on newly established and/or developing laws and regulations in the states in which it operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, Securities and Exchange Commission, the Department of Justice, the Financial Industry Regulatory Advisory or other federal or 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 industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital.

***Restricted access to banking***

The Company may have limited or no access to banking or other financial services in the United States. Federal anti-money laundering statutes and regulations discourage financial institutions from working with marijuana businesses, regardless of whether marijuana is legal in the state in which the financial institution or its customers are located. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services, or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

Federally chartered financial institutions are subject to federal regulation, including oversight by the FinCEN bureau of the U.S. Treasury Department. Because marijuana is illegal under federal law, financial institutions may subject themselves to federal civil or criminal liability for banking the proceeds of marijuana businesses, and there are relatively few financial institutions who provide banking services to marijuana businesses.

The FinCEN Guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the U.S. Department of Justice, FinCen or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time.

Financial institutions which do provide financial services to marijuana businesses may charge increased fees to or impose additional requirements on marijuana businesses. Some financial institutions refuse to process debit or credit card payments to marijuana businesses. Financial institutions which do process such transactions may also charge fees higher than those imposed on other businesses. The Company may experience increased costs, or decreased profits, as a result of its inability to accept debit or credit card payments, or as a result of increased fees it pays to the financial institutions processing such transactions.

Further, because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and other related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

Participating in transactions involving proceeds derived from cannabis may constitute criminal money laundering. It is a federal crime to engage in certain transactions involving the proceeds of “Specified Unlawful Activities” (“SUA”) when those transactions are designed to promote an underlying SUA, or conceal the source of the funds. Violations of the CSA and violations of a foreign state’s laws are both SUA. It is a federal crime in the United States to engage in an international transaction into or out of the United States if the transaction is intended to promote an SUA, irrespective of the source of the funds. It is a federal crime to engage in a transaction in property worth greater \$10,000 knowing that the property is derived from a SUA. 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 anti-money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes of the United States 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 and other foreign jurisdictions from the United States.

#### ***Heightened scrutiny by Canadian and U.S. regulatory authorities***

The Company’s existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein. On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (the “MOU”) with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV.<sup>1</sup> The MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS Clearing and Depository Services Inc. (“CDS”) as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of common shares to make and settle trades. In particular, common shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the common shares through the facilities of the applicable stock exchange.

#### ***Foreign investors in ICannaCo and its directors, officers, and employees may be subject to entry bans into the United States***

It is a federal crime to engage in interstate or foreign travel or commerce with the intent to distribute the proceeds of or promote a SUA. News media have reported that United States immigration authorities have increased scrutiny of people who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States.

Those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada’s legalization of cannabis will not change CBP enforcement of United States laws regarding

controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in the United States. States where it is deemed legal or Canada may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada (such as the Company), who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal Canadian cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the United States for reasons unrelated to the cannabis industry will generally be admissible to the United States; however, if such person is found to be coming into the United States for reasons related to the cannabis industry, such person may be deemed inadmissible. Accordingly, the Company's directors, officers or employees traveling to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to the Company's directors, officers or employees, then this may reduce the Company's ability to manage its business effectively in the United States.

#### ***Constraints on developing and marketing products***

The development of the Company's business and operating results may be hindered by applicable restrictions on development, sales and marketing activities imposed by government regulatory bodies. The legal and regulatory environment in the United States limits the Company's ability to compete for market share in a manner similar to other industries. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Company's business, results of operation and financial condition.

If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

#### ***Unfavorable tax treatment of cannabis businesses***

Under Section 280E of the United States Internal Revenue Code of 1986 as amended ("Section 280E"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any state in which such trade or business is conducted." This provision has been applied by the U.S. Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Although the U.S. Internal Revenue Service issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants, and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation, processing, production and packaging operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

#### ***Risk of civil asset forfeiture***

United States federal law enforcement officials are empowered to seize property they allege has been involved in certain criminal activity. Because marijuana remains illegal under U.S. federal law, property owned by marijuana businesses could be subject to seizure and subsequent civil asset forfeiture by law enforcement, whether or not the owner is charged with a crime. Property can be seized and forfeited through criminal, civil, and administrative proceedings. Property owners seeking the return of their property must establish that the property was not involved in criminal activity, which can be a substantial burden.

#### ***Proceeds of crime statutes***

The Company is subject to a variety of laws and regulations domestically and in the United States relating to money laundering, financial recordkeeping, and proceeds of crime, including the BSA, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or

guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. In the event that any of the Company's license agreements in the United States are found to be illegal, proceeds of those licensing transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially adverse to the Company and, among other things, 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.

### ***Limited intellectual property protection***

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 of the Company, 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, there may be occurrences or impediments that may reduce the value of any of the Company's intellectual property, including the following:

1. the Company will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.
2. Patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products and as a result the Company may have to rely on goodwill associated with its trademarks, trade names and proprietary cannabis strains.
3. the Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the Company, could subject the Company to significant liabilities and other costs.

The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of cannabis without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

### ***Lack of access to U.S. bankruptcy protections***

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

### ***Potential FDA regulation***

Should the federal government legalize cannabis, it is possible that the FDA, would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact they would have on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.

### ***Legality of contracts***

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 inability to enforce any of the Company's contracts could have a material adverse effect on its business, operating results, financial condition, or prospects.

### **Risks Related to Integrated Cannabis Company, Inc.**

#### ***Limited operating history***

As the Company just begun to operate in the cannabis industry, there is no guarantee that the Company's products will be attractive to potential consumers or that the revenues generated from such products will meet the Company's projections. In addition, the Company is subject to all of the business risks and uncertainties associated with any early-stage enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues. The Company has been incurring operating losses. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. Furthermore, the Company expects to continue to increase operating expenses as it implements initiatives to grow its business. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of the Company's operations.

#### ***Competition***

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and production and marketing experience than the Company.

#### ***Financial Condition, Liquidity, and Requirements Outlook***

The Company's cash balance and working capital position are not adequate to sustain the Company's existing operations. If the Company is unable to continue to raise capital from issuances of shares, loans or by other means, its cash and working capital position could be affected.

#### ***Product recalls***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's 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. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's 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 the U.S. Food and Drug Administration, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses. Furthermore, any product recall affecting the cannabis industry more broadly could lead consumers to lose confidence in the safety and security of the products sold by Cannabis license holders generally, which could have a material adverse effect on the Company's business, financial condition and results of operations.

#### ***Product liability***

The Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various

product liability claims, including, among others, that the Company's products caused injury or illness or death, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

### **General economic and political risks**

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates, high rates of inflation or unemployment, consumer trends and spending. Changes in medicine and agricultural development or investment policies or shifts in political attitude in certain countries may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

### **Internal controls**

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company has undertaken a number of procedures and implemented a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of common shares.

## **11. INFORMATION REGARDING FORWARD LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements, including statements regarding the business and anticipated future financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, market price, continued availability of capital financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in the forward-looking statements. Investors are also directed to consider other risks and uncertainties discussed in the Company's required financial statements and filings.