

**Christina Lake Cannabis Corp.**  
**Management Discussion & Analysis**  
(Unaudited - Expressed in Canadian Dollars)

**For the nine-months ended August 31, 2020 and 2019**

October 30, 2020

*This management's discussion and analysis provides an analysis of our financial situation which will enable the reader to evaluate important variations in our financial situation for the nine months ended August 31, 2020, compared to the nine months ended August 31, 2019. This report prepared as at October 30, 2020 intends to complement and supplement our condensed interim financial statements (the "Financial Statements") as at August 31, 2020, which have been prepared in accordance with International Financial Reporting Standards, and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the financial statements and the accompanying notes. Readers are also advised to read the Company's audited financial statements and accompanying notes for the year ended November 30, 2019, (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards.*

*Our financial statements and the management's discussion and analysis are intended to provide a reasonable base for the investor to evaluate our financial situation.*

*All dollar amounts contained in this MD&A are expressed in Canadian dollars, unless otherwise specified.*

*Where we say "we", "us", "our", the "Company" we mean Christina Lake Cannabis Corp., as it may apply.*

## **OVERVIEW**

Christina Lake Cannabis Corp. (the "Company") was incorporated on October 26, 2014, under the laws of the province of British Columbia, Canada. On December 21, 2018, the Company changed its name from Cervantes Capital Corp. to Christina Lake Cannabis Corp. The Company, based in south-central British Columbia, is a licensed grower and extractor of cannabis and hemp under the Cannabis Act. The Company holds cultivation, processing and sales licenses as well as a research and development license. On October 1, 2020, the Company was began trading on the Canadian Securities Exchange under the ticker symbol "CLC."

The Company is a reporting Company in British Columbia and Alberta effective as of December 3, 2014. The Company's registered and records office is Suite 810 – 789 West Pender Street, Vancouver, BC, V6C 1H2, Canada.

Management is responsible for the preparation and integrity of the condensed interim financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including condensed interim financial statements and Management Discussion and Analysis ("MD&A"), is complete and reliable.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

## **DESCRIPTION OF BUSINESS**

The Company is a licensed cannabis producer and obtained a Standard Cannabis Cultivation License on March 27, 2020. This license was subsequently augmented by a Processing Amendment obtained September 11, 2020. The Company also has a Research and Development License (an "RDL") from Health Canada.

Christina Lake Cannabis is in the process of harvesting the Company's first cannabis crop, consisting of approximately 22,500 cannabis plants encompassing over 18 acres, and comprised of 8 proprietary outdoor strains.

## **HIGHLIGHTS**

The Company, a premier producer of high-quality, low cost, sun-grown and pesticide-free cannabis flower, oil cannabinoids, as well as hemp-based extracts and derivatives, serving domestic and international cannabinoid markets.

- On October 1, 2020 the Company commenced trading on the CSE under the ticker symbol "CLC".
- On September 11, 2020 the Company received approval on a Processing License Amendment from Health Canada.
- On May 20, 2020, the Company received a Research and Development License from Health Canada.
- On March 27, 2020 the Company was granted its Standard Cultivation License ("SCL") from Health Canada for the Company's 32-acre phase I facility. This license authorizes the cultivation and sale of cannabis under the Cannabis Act and provides the Company with over 950,000 square feet of licensed outdoor cultivation space.
- On its 32-Acre site, the Company has commenced harvest of over 22,500 cannabis plants consisting of eight cannabis strains. Many plants have demonstrated higher than average yields, with some over eight feet tall. As the region's largest employer, the Company's team has expanded to over 30 full-time staff members and seasonal workers.
- The majority of the Company's harvest will be refined into full spectrum oil, distillates, and isolates to be sold in the wholesale markets and to other licensed producers.
- The Company's state-of-the-art extraction facility and machinery, provides for high throughput and substantial capacity to carry out the Company's organic and aggressive expansion strategy. The Christina Lake Cannabis processing facility houses a state-of-the-art Vitalis R-200H CO<sub>2</sub>-based extraction system along with substantial space for expansion. The processing building was built to EU GMP standards and the Company has plans to pursue its EU GMP certification, enabling export and sale to European markets.
- The Company also has on hand a full state of ancillary equipment enabling its extraction team to take production through to the distillate and isolate phases.

## **BUSINESS DEVELOPMENT**

- On October 26, 2020, the Company announced that it had exceeded its first annual Cannabis production by 10,000 Kg or 44% above its 2020 target for a total harvested amount of 32,500 Kg of dried Cannabis.
- On October 15, 2020, the Company announced that it has completed the commissioning of its Vitalis Extraction Technology R200H-GMP-SS extraction system which will be used to produce premium quality extracts in the form of full-spectrum cannabis oil, distillates and terpenes.
- During October 2020, the Company appointed Ryan Smith as the Chief Financial Officer, a finance professional with a diversified portfolio primarily in the Banking and Telecommunication sectors both in Canada and the United States.
- During October 2020, the Company appointed Mervin Boychuk to the board of directors, a serial entrepreneur who has founded, built and sold four businesses in his 35-year career.
- During October 2020 the Company have hired Rob Jones as Executive Vice President of Business Development and Sales, and Milan Stefancik as Director of Sales and Marketing.
- During September 2020, the Company announced third-party service providers for investor relations, public relations as well as various production and management services for digital and social media.

## **BUSINESS DEVELOPMENT – FINANCING**

During the nine-month period ended August 31, 2020, the Company has successfully raised just over \$8,000,000 in capital, net of share issuance costs, to fund its operations. The Company's working capital position is \$5,704,380 at August 31, 2020 which is primarily comprised of \$2,362,902 in cash and \$3,607,810 in biological asset value.

## **BUSINESS OBJECTIVES AND OUTLOOK**

During the period ended August 31, 2020, the Company has reached several key milestones, including obtaining a standard cultivation license for phase 1 and the successful harvest of its 2020 crop. The Company is excited and is looking forward to the continued growth of the Company's business prospects and to bring value to the Company's shareholders.

## **RESULTS OF OPERATIONS**

For the nine-month period ended August 31, 2020 compared to the nine-month period ended August 31, 2019.

The Company recorded a loss and comprehensive loss of \$515,179 for the nine-months ended August 31, 2020 compared to a net loss of \$1,490,362 for the corresponding period in 2019 as activities increased. In the comparative period, the Company was relatively inactive until the Company completed a financing in the latter half of fiscal 2018 and purchased the Christina Lake facility.

Some of the significant charges to operations are as follows:

- Consulting fees of \$450,367 (2019 - \$87,057) increased as the Company has engaged consultants to assist in the execution of the Company's business plan. In general, business operations increased substantially period over period and as such, the Company experienced an overall growth in consulting fees. In the current period, the Company scaled down on consultants as the application for the Standard Cultivation License was submitted to Health Canada, whereafter it increased again.
- Salaries of \$652,711 (2019 - \$157,350) increased from the previous financial period, as the Company hired several part-time and full-time employees to supplement operations and assist with the build-out of the Company's facility.
- Regulatory fees of \$155,205 (2019 - \$22,725) increased as the Company was in the process of completing a listing statement with the Canadian Securities Exchange and amortization of debenture issuance costs was also accounted for as filing fees.
- Professional fees of \$222,266 (2019- \$141,356) increased as the Company engaged an arm's length cannabis compliance company to assist with obtaining a Standard Cultivation License and RDL license with Health Canada and to ensure the Company remains compliant with Health Canada's requirements.
- Office and miscellaneous of \$232,153 (2019- \$63,209) increased as the Company's operations grow, and incurred various expenditures related to the day to day operations.
- Share based compensation of \$1,429,777 (2019 - \$998,910) increased as the Company issued stock options to certain directors, officers, employees and consultants and vesting was accounted for. Share based compensation includes \$405,000 of share based payments paid to consultants and officers of the Company.
- Interest expense on convertible debentures of \$176,902 (2019 - \$Nil) was incurred in the current period as convertible debentures was issued to secure needed capital.
- Nursery expense of \$65,466 (2019 - \$825) was incurred in the current period as nursery expenses was incurred with the receipt of a cultivation license from Health Canada

During the three-month period ended August 31, 2020, the Company recorded an income of \$877,763 compared to a loss of \$1,190,718 in the comparative period. The decrease in losses is directly related to the fair value adjustment on growth of biological assets, totalling \$3,046,237 (2019 - \$Nil). The fair value adjustment represents the increase in value as the Company's cannabis crop matured following planting. General and administrative costs grew during the three-month period ended August 31, 2020, as the Company was ramping up operations to its first harvest and getting the Company's equipment and buildings ready to harvest. The variance and discussion of individual line items is similar to the discussion above for the nine months ended August 31, 2020.

**SUMMARY OF QUARTERLY RESULTS**

The table below presents selected financial data for the Company's eight most recently completed quarters, all prepared in accordance with IFRS.

	Aug 31, 2020 \$	May 31, 2020 \$	Feb 29, 2020 \$	Nov 30, 2019 \$
<b>Deficit and Cash Flow</b>				
Net income (loss )	877,763	(788,364)	(604,578)	(506,922)
Basic and diluted income (loss) per share	0.01	(0.01)	(0.01)	(0.01)
<b>Balance Sheet</b>				
Total Assets	14,419,530	8,198,464	6,447,460	6,202,790
	Aug 31, 2019 \$	May 31, 2019 \$	Feb 28, 2019 \$	Nov 30, 2018 \$
<b>Deficit and Cash Flow</b>				
Net loss	(1,190,718)	(102,302)	(362,370)	(555,897)
Basic and diluted loss per share	(0.02)	(0.00)	(0.01)	(0.05)
<b>Balance Sheet</b>				
Total Assets	4,120,379	3,180,382	1,957,467	2,333,922

During the quarter ending August 31, 2020, expenses increased following receipt by the Company of its Standard Cultivation License ("SCL") from Health Canada, the planting of its cannabis crop, and as a result of efforts to complete construction of the processing facility. The Company further increased its activities as can be seen from the payroll that increased from \$79,973 in the prior year in the third quarter to \$416,338 in the current period. The same trend can be seen in consulting fees increasing from \$29,106 to \$343,973 explaining the growth of the Company. The Company recorded a fair value adjustment on growth of biological assets totaling \$3,046,237, resulting in income for the three-month period ended August 31, 2020 of \$877,763. General and administrative expenses was \$2,168,474 (2019 - \$1,190,718).

In the quarter ending May 31, 2020, \$237,470 was spent on payroll compared to \$40,669 in the same quarter the prior year. On February 29, 2020, the Company invested significantly into the development of its cannabis property with an investment of \$646,948 cash. Net loss increased to \$604,578 (2019 - \$362,370) as the Company hired additional team members since February 28, 2019, and incurred non-cash share based compensation of \$128,477 (2019 - \$Nil). There are no general trends regarding the Company's quarterly results and the Company's business is not seasonal, as it can store and process cannabis and hemp on a year-round basis (funding permitting). Quarterly results may vary significantly depending mainly on whether the Company has engaged in new activities or abandoned any projects and these factors which may account for material variations in the Company's quarterly net income (losses) are not predictable.

**LIQUIDITY AND CAPITAL RESOURCES**

The financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. Continuing operations, as intended, are dependent on management's ability to raise required funding through future equity issuances, its ability to acquire resource property or business interests and develop profitable operations or a combination thereof, which is not assured, given today's volatile and uncertain financial markets. The Company may revise programs depending on its working capital position.

## **LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)**

As at August 31, 2020 the Company had working capital of \$5,704,380 (November 30, 2019 – \$600,989) which primarily consisted of cash of \$2,362,902 (2019 - \$740,973) and receivables of \$118,546 (2019 - \$180,348) and prepaid expenses of \$10,191 (2019 - \$6,130) and biological assets of \$3,607,810 (2019 - \$Nil). Current liabilities, being accounts payable and accrued – and lease liabilities of \$395,069 (2019 – \$421,467).

Cash used in operating activities was \$2,369,308 compared to cash used of \$514,684 in the same period of 2019. The Company completed a private placement in 2019, and acquired a new property, resulting in an overall increase in cash used in operating activities.

Cash used in investing activities for the nine-month period ending August 31, 2020 was \$4,041,038 compared to cash outflows of \$1,819,798 for the nine-month period ending August 31, 2019. The Company significantly-improved the pre-existing building in Christina Lake to provide for cultivation and nursery requirements as well as office space. In addition, the Company commenced work on its state-of-art and purpose-designed processing building. The company also spent a further \$2,222,016 on the acquisition of extraction equipment.

Cash provided by financing activities for the nine-month period ending August 31, 2020 was \$8,032,275 compared to \$2,245,366 for the same period during the prior year. Net proceeds raised from convertible debentures issued were \$4,104,261, from issuing preferred shares were \$2,000,000, and from private placements were \$1,630,415..

The Company had long term liabilities, of which the convertible debentures, bearing interest of 12%. The Company also applied for and received a Canada Emergency Response Loan, “CERB” \$40,000 of which 75% becomes due on December 31, 2021. The Company further has a long-term lease liability of \$13,414 for equipment.

On August 20, 2020 the Company closed a non-brokered private placement of 2,000,000 Class B preferred shares at a price of \$1.00 per preferred share for gross proceeds of \$2,000,000. In conjunction with the preferred shares the company recorded an obligation to issue 1,000,000 common shares with a fair value of \$300,000.

There can be no assurance that the Company will be able to obtain adequate financing in the future or if available that such financing will be on acceptable terms. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

The Executive Officers and Directors of the Company as of the filing date are as follows:

Mervin Boychuk	Director, non-executive chairman of BOD
Joel Dumaresq	CEO and Director
Ryan Smith	CFO
Jason Taylor	Director
Nicco Dehaan	Director
Peter Nguyen	Director
Timothy O'Donnell	Corporate Secretary
Arie Prins	Resigned during the first quarter - Former CEO and Director
Vicente Benjamin Asuncion	Resigned during the first quarter – Former Director

**TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

The Company has identified its directors and certain senior officers as its key management personnel.

During the period, the Company entered into transactions with related parties comprised of directors, officers and companies with common directors. The key management compensation and director fees consist of the following for the nine-month period ended August 31, 2020 and 2019:

	<b>August 31, 2020</b>	<b>August 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Consulting fees paid to a private company controlled by the former CEO	53,192	-
Accounting fees paid to a private company controlled by the former CEO	-	72,205
Consulting fees paid to a previous director of the Company	6,250	22,500
Consulting fees paid to a private company jointly controlled by the former CFO	77,289	38,000
Salaries paid to related parties	188,192	202,500
Share based payments	126,496	375,000
Shares issued in lieu of cash for consulting fees	225,822	-
	<b>677,241</b>	<b>710,205</b>

As at August 31, 2020, there was \$58,300 (November 30, 2019 - \$31,050) included in accounts payable and accrued liabilities for directors of the Company. The balance is unsecured, due on demand and are non-interest bearing.

During the nine-month period ended August 31, 2020, the Company issued convertible debentures to directors and officers of the Company in aggregate principal amount of \$115,000.

The Company entered into a departure agreement with the former CEO. Pursuant to the terms of the agreement, the Company was obligated to issue 604,110 compensation shares and pay an aggregate of \$51,662 over a six-month period. These shares were issued on January 27, 2020 with a fair value of \$120,822.

**PROPOSED TRANSACTIONS**

As at the date of this MD&A, there are no proposed transactions.

**CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS**

***Significant estimates and assumptions***

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions concerning the future. Estimates and assumptions 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 circumstances. However, actual outcomes can differ from these estimates. Areas requiring a significant degree of estimation relate to the fair value measurements for financial instruments, valuation of properties and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates.

## **CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS (CONTINUED)**

### ***Significant judgments***

The preparation of 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 financial statements include: the classification of expenditures as building improvements to be capitalized or as operating costs which are expensed; 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 a significant uncertainty.

### ***Biological assets***

Management is required to make a number of estimates in calculating the fair value less costs to sell of biological assets. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

## **FINANCIAL INSTRUMENTS AND RISKS**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and subscription receivable. The majority of cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. Credit risk related to cash is assessed as low. Subscription receivable was owed by subscribers to the Company's private placements. Credit risk related to subscription receivable was assessed as low.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. As of August 31, 2020, the Company has sufficient cash of \$2,362,902 (November 30, 2019 - \$740,973) to cover short term obligations.

Historically, the Company's sole source of funding has been loans from related parties and private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

### **Foreign exchange risk**

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at August 31, 2020, the Company did not have any financial instruments subject to interest rate risk.



## **FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)**

### Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity and cash. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

## **SUBSEQUENT EVENTS**

On September 8, 2020, the Company issued 450,000 stock options with an exercise price of \$0.25. 300,000 stock options expire on September 8, 2024 and 150,000 expire on September 23, 2023.

On September 28, 2020, the Company completed a private placement and issued 30,000 shares at a price of \$0.30 per common share for gross proceeds of \$9,000.

On September 29, 2020, the Company issued 1,250,000 stock options with an exercise price of \$0.20 and expires 5 years from the date of grant.

On September 30, 2020, the Company issued 1,000,000 common shares to Mervin Boychuk, a member of the Company's Advisory Committee, 250,000 common shares to Joel Dumaresq, CFO, and 1,000,000 common shares to Leede Jones Gable to provide strategic advisory services for 1 year.

## **ADDITIONAL SHARE INFORMATION**

As at the date of this MD&A, the Company had 86,631,815 common shares issued and outstanding. The Company has 16,777,499 warrants outstanding and 12,838,400 stock options outstanding.

## **CONTINGENCIES**

The Company is not aware of any contingencies or pending legal proceedings as of August 31, 2020 and as of the date of this report.

## **CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION**

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements.

## **ADDITIONAL DISCLOSURE FOR VENTURE COMPANYS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning the Company's general and administrative expenses is provided in the Company's statement of loss and comprehensive loss and note disclosures contained in its financial statements for the period ended August 31, 2020. These statements are available on SEDAR - Site accessed through [www.sedar.com](http://www.sedar.com).

## **DISCLAIMER**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

## **RISK FACTORS**

The following are certain risk factors relating to the business carried on by the Company that prospective holders of Shares should carefully consider.

### **Warrants are Speculative in Nature and may not have any Value**

The Warrants do not confer any rights of Common Share ownership on their holders, such as voting rights or the right to receive dividends, but rather merely represent the right to acquire Common Shares at a fixed price for a limited period of time. Moreover, the market value of the Warrants, if any, is uncertain and there can be no assurance that the market value of the Warrants will equal or exceed their imputed offering price. There can be no assurance that the market price of the Common Shares will ever equal or exceed the exercise price of the Warrants, and consequently, whether it will ever be profitable for holders of the Warrants to exercise their Warrants.

### **Volatility of Stock Price and Market Conditions**

The market price of the Common Shares may be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the Common Shares, even if the Company is successful in maintaining revenues, cash flows or earnings. The purchase of the Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Securities of the Company should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company should not constitute a major portion of an investor's portfolio.

### ***Risk Factors Associated with the Company's Business***

The following are certain risk factors relating to the business carried on by the Company that prospective holders of Shares should carefully consider.

### **Negative Cash Flow from Operations**

During the period ended August 31, 2020, the Company sustained net losses from operations. The Company's cash and cash equivalents as at August 31, 2020 was approximately \$2,362,902. Although the Company anticipates it will have positive cash flow from operating activities in future periods, it is possible the Company may have negative cash flow in any future period as the Company continues to progress its expansion plans and its capacity of operations.

## **RISK FACTORS (CONTINUED)**

### **Environmental Regulations and Risks**

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of cannabis, or more stringent implementation thereof, could have a material adverse impact on the company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

### **Early Stage of Development**

The Company, while incorporated in 2014, began carrying on business in 2018 and has yet to generate revenue from the sale of products to date. 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.

### **Reliance on Licenses**

The Company will be dependent on the Licenses, or the ability to obtain a license which is subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of these licenses or any failure to obtain or maintain those licenses could have a material adverse impact on the business, financial condition and operating results of the Corporation. There can be no guarantee that a license will be issued, extended or renewed or, if issued, extended or renewed, that it will be issued, extended or renewed on terms that are favorable to the Company.

In Canada, few applicants for a license from Health Canada ultimately receive a license to produce and sell cannabis. Major expenditures may be required in pursuit of a license and it is impossible to ensure that the expenditures will result in receipt of a license and a profitable operation. There can be no assurances that the Company will maintain a license to produce and sell cannabis and be brought into a state of commercial production. Should a license not be extended or renewed or should it be issued or renewed on terms that are less favorable to the Company than anticipated, the business, financial condition and results of the operations of the Company could be materially adversely affected.

## **RISK FACTORS (CONTINUED)**

### **Cultivation Risks**

The Company's business involves the growing of cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that any such growing will be completed indoors under climate-controlled conditions, and outdoors, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

### **Changes in Laws, Regulations and Guidelines**

On December 20, 2017, the Prime Minister communicated that the Canadian Federal Government intends to legalize cannabis in the summer of 2018, despite previous reports of a July 1, 2018 deadline. On June 7, 2018, Bill C45 passed the third reading in the Senate with a number of amendments to the language of the Cannabis Act. On June 20, 2018, Prime Minister Trudeau announced that cannabis would be legal by October 17, 2018. On June 21, 2018, the Government of Canada announced that Bill C-45 received Royal Assent. Bill-C-45 will come into force on October 17, 2018. On July 11, 2018, the regulations made pursuant 27 to the Cannabis Act were published. The regulations under the Cannabis Act contemplate the various licenses including cultivation, processing, analytical testing, sale (including medical sales), analytical testing and scientific research. The regulations introduced the nursery and made outdoor cultivation permissible. Finally, the requirements for packaging and labelling of products for both medical and non-medical consumption were explicitly set forth. The impact of changes in the regulatory enforcement by Health Canada under the Cannabis Act and its regulations, particularly in respect of product packaging, labelling, marketing, advertising and promotions and product approvals and its impact on the Company's business are unknown at this time.

In addition, when the Cannabis Act comes into effect, there is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult use purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the opportunities for growth anticipated by the Company. For example, the Provinces of Québec and New Brunswick have announced sales and distribution models that would create government-controlled monopolies over the legal retail and distribution of cannabis.

### **Legislative or Regulatory Reform and Compliance**

The commercial cannabis industry is a new industry and the Company anticipates that such regulations will be subject to change as the Federal Government monitors Licensed Producers in action. The Company's operations are subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, export, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. While to the knowledge of management, the Company is currently in compliance with all such laws, any changes to such laws, regulations, guidelines and policies due to matters beyond the control of the Company may cause adverse effects to its operations.

### **Negative Customer Perception**

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the medical benefits, safety, efficacy and quality of the cannabis distributed for medical purposes to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, political statements both in Canada and in other

## **RISK FACTORS (CONTINUED)**

### **Negative Customer Perception (continued)**

countries, media attention and other publicity (whether or not accurate or with merit) regarding the consumption of cannabis products for medical or recreational purposes, including unexpected safety or efficacy concerns arising with respect to the products of the Company or its competitors. 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 medical 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 and financial condition of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity (whether or not accurate or with merit), could have an adverse effect on any demand for the Company's products which could have a material adverse effect on the Company's business, financial condition and results of operations.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis for medical purposes in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

### **Constraints on Marketing Products**

In view of the restrictions on marketing, advertising and promotional activities set forth in the Cannabis Act and related regulations, the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. 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.

### **Reliance on Receiving a Research and Development License and subsequent Cultivation and Processors License**

The Company's ability to set up its Facility for the purposes of research and development and to grow, store and sell cannabis in Canada is dependent on Health Canada's approval of the Company's RDL and subsequent cultivation and processor licenses (the "Licenses"). The Licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of the Licenses or any failure to maintain the Licenses would have a material adverse impact on the business, financial condition and operating results of the Company. Although the Company believe they will meet the requirements for future extensions or renewals of the Licenses, there can be no guarantee that Health Canada will extend or renew these Licenses or, if extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licenses or should they renew the Licenses on different terms, the business, financial condition and results of the operation of the Company would be materially adversely affected

### **New product Development**

The Company's ability to sell cannabis in Canada is dependent on the Company's ability to develop product that exceeds the standards set by Health Canada. Although the Company believes management has the expertise to develop such products, there is no assurance that the Company will successfully develop new products.

## **RISK FACTORS (CONTINUED)**

### **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 experience than the Company. Currently, the cannabis industry generally is comprised of individuals and small to medium-sized entities, however, the risk remains that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of certain aspects of the industry. In doing so, these larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use cannabis industry. While most laws and regulations seemingly deter this type of takeover, this industry remains quite nascent, so what the landscape will be in the future remains largely unknown, which in itself is a risk. Because of the early stage of the industry in which the Company will operate, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support.

### **Additional Financing**

The Company may require equity and/or debt financing to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms that are commercially viable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

### **Market Development**

Due to the early stage of the legal cannabis industry, forecasts regarding the size of the industry and the sales of products are inherently subject to significant unreliability. A failure in the demand for products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

### **Reliance on Management**

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and employees. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

### **Operation Permits and Authorizations**

The Company may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate the businesses. In addition, the Company may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on a Licensee's ability to operate in the cannabis industry, which could have a material adverse effect on the Company's business.

## **RISK FACTORS (CONTINUED)**

### **Liability, Enforcement Complaints, etc.**

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

### **Product Liability**

Certain of the Company's proposed manufacture, process and/or distribute of cannabis products are designed to be ingested by humans, and therefore face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury. In addition, previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on the results of operations and financial condition of the Company.

### **Reliance on Key Inputs**

The cultivation, extraction and processing of cannabis and derivative products is dependent on a number of key inputs and their related costs including raw materials, electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers.

If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

### **Resale of Shares**

There can be no assurance that there will be an active and liquid market for the Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company. In addition, there can be no assurance that the publicly-traded stock price of the Company will be high enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company's shares would be diminished.

### **Price Volatility of Publicly Traded Securities**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. An active public market for the Company's shares might not develop or be sustained after the completion of the listing. If an active public market for the Company's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

## **RISK FACTORS (CONTINUED)**

### **Management of Growth**

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

### **Dividends**

The Company does not anticipate paying any dividends in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

### **Intellectual Property**

The success of the Company will depend, in part, on the ability to maintain and enhance trade secret protection over the various existing and potential proprietary techniques and processes of the Company. The Company may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary products and trade secrets of the Company. In addition, effective future patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions.

### **Insurance Coverage**

The Company will require insurance coverage for a number of risks. Although Management believes that the events and amounts of liability covered by such insurance policies should be reasonable, taking into account the risks relevant to the Company's business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects, could be adversely affected.

### **Costs of Maintaining a Public Listing**

As a public company, there are costs associated with legal, accounting and other expenses related to regulatory compliance. Securities legislation and the rules and policies of the CSE require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and disclose material information, all of which add to a company's legal and financial compliance costs. The Company may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

### **Litigation**

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

### **Difficulty Implementing Business Strategy**

The growth and expansion of the Company is heavily dependent upon the successful implementation of its business strategy. There can be no assurance that the Company will be successful in the implementation of its business strategy.



## **RISK FACTORS (CONTINUED)**

### **Operational Risks**

The Company may be affected by a number of operational risks and may not be adequately insured for certain risks, including: labor disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's Property and Facility, personal injury or death, environmental damage, adverse impacts on the Company's operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition on the Company. Also, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which they may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

### **Conflicts of Interest**

Certain of the Company's directors and officers are, and may continue to be, involved in other business ventures through their direct and indirect participation in corporations, partnerships, joint ventures, etc. that may become potential competitors of the technologies, products and services the Company intends to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors' and officers' conflict with or diverge from the Company's interests. In accordance with applicable corporate law, directors who have a material interest in or who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests.

However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Company.

### **Available Talent Pool**

As the Company grows, it will need to hire additional human resources to continue to develop the business. However, experienced talent in the areas of cannabis research and development, cultivation of cannabis and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.

### **Ability to Maintain Bank Accounts**

While the Company does not anticipate any banking restrictions at this time, there is a risk that banking institutions may not accept payments related to the cannabis industry. Such risks could increase costs for the Company. In the event financial service providers do not accept accounts or transactions related to the cannabis industry, it is possible that the Company may be required to seek alternative payment solutions. If the industry was to move towards alternative payment solutions the Company would have to adopt policies and protocols to manage these changes. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

### **Cautionary Statement**

Statements contained in this MD&A that are not historical facts are forward-looking statements (within the meaning of the Canadian securities legislation that involve risks and uncertainties. Forward-looking statements are frequently, but not always, identified by words such as “expects”, “anticipates”, “believes”, “intends”, “estimates”, “potential”, “possible” or variations of such words and phrases or the negative connotation thereof, or statements that events, conditions or results “will”, “may”, “could” or “should” occur or be achieved. The forward-looking statements may include statements regarding future financial conditions, results of operations, plans, objectives, performance or business developments, capital expenditures, timelines, strategic plans, market or industry growth, evaluation of the potential impact of future accounting changes, share-based payments and carrying value of intangible assets or other statements that are not statements of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors.

Risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, without limitation,

- treatment under government regulatory and taxation regimes;
- expectations regarding the Company's ability to raise capital;
- the Company's business strategies, intentions to develop its business and operations, objectives and plans to pursue the commercialization of its products;
- expectations for expansion plans for the Facility and its costs;
- the suitability of the Facility;
- expectations regarding production costs, capacity and yields of the Company's business and growth thereof;
- the Company's estimates of the size of the potential markets for its products and the rate and degree of market acceptance of such products and its competitive positions in relation thereto;
- projections of market prices and costs and the future market for the Company's products and conditions affecting same;
- estimates of the Company's future revenues and profits;
- the Company's anticipated cash needs, needs for additional financing and use of funds;
- statements relating to the business and future activities of, and developments related to the Company after the date of this Listing Statement and thereafter; and
- liquidity of the Common Shares following listing of the Shares.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- treatment under government regulatory and taxation regimes and potential changes thereto;
- limited operating history and negative operating cash flow;
- reliance by the Company on a single production facility and factors relating to the development of the Facility;
- expansion plans for the Facility being subject to Health Canada regulatory approvals;
- dependence on management and conflicts of interest;
- restrictions on marketing activities in the medical cannabis industry;
- competition for, among other things, customers, land and greenhouses, supply, capital, capital acquisitions of products and skilled personnel;
- consumer acquisition and retention;
- risks and liabilities inherent in medical cannabis and agricultural operations;
- unfavorable publicity or consumer perception;
- product liability and recall risks as well as general operating risks;
- environmental risks;
- availability of financing opportunities;
- risks relating to global financial and economic conditions;
- future liquidity and financial capacity; and
- other factors discussed under “*Risk Factors*”.

**RISK FACTORS (CONTINUED)**

It is the Company's policies that all forward-looking statements are based on the Company's beliefs and assumptions which are based on information available at the time these assumptions are made. The forward-looking statements contained herein are based on information available as at November 30, 2018 and are subject to change after this date. Forward-looking statements are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward looking statements. Consequently, all forward-looking statements made in this MD&A are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that

forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this MD&A and, other than as required by applicable securities laws, the Company assumes no obligation to update or revise them to reflect new events or circumstances.