CHEMESIS INTERNATIONAL INC. (FORMERLY CANADIAN MINING CORP.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended December 31, 2018

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated condensed interim financial statements and notes thereto for the six months ended December 31, 2018 of Chemesis International Inc. (formerly Canadian Mining Corp.) (the "Company"). Such financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

DATE

This MD&A is prepared as of March 1, 2019.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking statements, which reflect our management's expectations regarding our future growth, results of operations, performance and business prospects and opportunities including statements related to the development of existing and future property interests, availability of financing and projected costs and expenses. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this report. These assumptions, which include management's current expectations, estimates and assumptions about current mineral property interests, the global economic environment, the market price and demand for commodities and our ability to manage our property interests and operating costs, may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions, (2) a decreased demand or price of precious and base metals, (3) delays in the start of projects with respect to our property interests, (4) inability to locate and acquire additional property interests, (5) the uncertainty of government regulation and politics in the state of Arizona regarding mining and mineral exploration, (6) potential negative financial impact from regulatory investigations, claims, lawsuits and other legal proceedings and challenges, and (7) other factors beyond our control.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these and other assumptions, risks and uncertainties are set out in the section entitled "Risk Factors" below.

DESCRIPTION OF BUSINESS

The Company was incorporated under the laws of the province of British Columbia on April 26, 2013 under the name Canadian Zeolite Corp. The Company is a junior mineral exploration company engaged in the business of acquiring, exploring and evaluating natural resource properties in British Columbia and Arizona, USA. The Company has recently focused on the acquisition of interests in the State of Arizona, USA, through its wholly-owned subsidiary, Canadian Mining Company of Arizona Inc. The Arizona subsidiary was incorporated April 17, 2007 under the name Canadian Mining Company of Arizona Inc. The Company acquired the wholly-owned subsidiary and all of its issued and outstanding shares along with all of its assets as part of the plan of arrangement with the Company's then parent company Canadian Zeolite Corp. ("CNZ"), a publicly traded company.

Canadian Zeolite Corp. and Canadian Mining Corp. entered into an agreement (the "Vend-In Agreement") dated February 17, 2017. Under the terms of the Vend-In Agreement, Canadian Mining issued 2,826,838 common shares to

Canadian Zeolite valued at $16,243 in exchange for Canadian Zeolite's 100% interest in Canadian Mining Company of Arizona Inc. (through which Canadian Zeolite holds its interest in the Bullard Pass Project).

On February 17, 2017, Canadian Zeolite and Canadian Mining also entered an Arrangement Agreement (the "Arrangement Agreement"). Under the terms of the Arrangement Agreement, the capital of Canadian Zeolite was reorganized by renaming and redesigning all of the issued and unissued Canadian Zeolite common shares as Class A shares and creating an unlimited number of common shares without par value as the new Canadian Zeolite common shares ("New Canadian Zeolite Common Shares"). Each issued and outstanding Class A share was deemed to be exchanged for one New Canadian Zeolite Common Share and for every five (5) Canadian Zeolite Shares held, one (1) Canadian Mining Share. Each Canadian Zeolite Warrant to the extent it had not been exercised as of May23, 2017, was cancelled and exchanged for one (1) Canadian Zeolite Amended Warrant and for every five (5) Canadian Zeolite Warrants held, one (1) Canadian Mining Warrant rounded down to the nearest whole Canadian Mining Warrant. The Arrangement was approved by the shareholders of Canadian Zeolite on April 28, 2017 and by the Supreme Court of British Columbia on May 1, 2017. As part of the Arrangement, Canadian Mining applied to list its common shares on the TSX Venture Exchange (the "Exchange"). All conditions of the Arrangement were completed as of May 30, 2017. Shares of Canadian Mining will began trading on the TSX Venture Exchange on June 5, 2017 under the symbol "CNG." For further details, please see the related documents of the Company which are available on SEDAR at www.sedar.com.

The Company currently has one material exploration property, the Bullard Pass Property located in Arizona, USA, the details of which are set out below. The Company has not yet determined whether its property interests contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the resource property and upon future profitable production or proceeds from the disposition thereof.

On July 17, 2018, the Company acquired 1145411 B.C. Ltd., a Canadian corporation ("B.C. Ltd."), whereby B.C. Ltd. became a wholly owned subsidiary of the Company by issuing 46,807,559 common shares to B.C. Ltd. shareholders. Upon consummation of the transaction, all of B.C. Ltd.'s assets, liabilities, and business operations became the assets, liabilities, and business operations of the Company, which will constitute a change of business for the Company. B.C. Ltd. is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc., a California corporation ("Bonhomie"). Bonhomie is the owner of 51% of the issued and outstanding capital stock of SAP Global, a California corporation ("SAP"). SAP is the assignee, pursuant to a management agreement (the "Management Agreement"), of various entitlements that allow it to operate cannabis businesses in the State of California. On July 19, 2018, the Company increased its holdings to 80% of the issued and outstanding capital stock of SAP in exchange for investing USD$700,000 in capital expenditures.

Under the Management Agreement, SAP is entitled to manage, consult and supervise all operations of a medical marijuana (inclusive of cannabidiol ("CBD")) cultivation and manufacturing facility, along with all marketing and sales of medical marijuana products (inclusive of CBD) arising from operations as well as all financial and operational matters. In addition, SAP has the sole authority and responsibility to manage, deposit, disburse and invest the funds received by the assignor from operation of the business. SAP is responsible for all operating costs, including, but not limited to, rent, payroll, advertising, sales, power, gas, electricity, security, water, and building insurance.

In exchange for these services, SAP is entitled to receive a management fee (the "Management Fee") from the assignor equal to the gross revenues less product costs and operating costs. The Management Fee shall constitute SAP's sole compensation and all other amounts represent reimbursement to SAP for all indirect costs, including all overhead, legal, accounting, financial, marketing, management and administrative assistance provided by SAP corporate staff. Until SAP's net collections exceed the product costs and operating costs, on a cumulative basis, SAP shall not receive payment of the Management Fee.

Pursuant to the Management Agreement, SAP has been assigned all right, title, and interest in and to all intellectual property, branding rights, good will, customer lists, leasehold rights, and any and all other interests and rights associated with the operation of the business. Additionally, SAP has the ultimate authority, control and direction of the officers of the assignor and all other assets, affairs and business of the assignor, including all financial and operational matters. SAP provides the assignor with overall supervision and administration of the business, including general business and office administration services, and cultivation and harvesting activities. In exchange, the assignor maintains their permits to cultivate, manufacture, harvest, sell marijuana and engage in commercial cannabis related activities, and any other business licenses required to operate the business. The Management Agreement also provides SAP the absolute right to manage any new permit, venture or business opportunity presented to the assignor or proposed by the assignor's Board of Directors.

The Management Agreement will continue indefinitely, subject to the occurrence of certain events, which include, among other things, the enactment of federal, state, or local laws or regulations which prohibit the relationship of the parties as structured under the Management Agreement. Should such circumstances arise, the parties have agreed to employ diligent good faith efforts to modify the Management Agreement to the minimum extent necessary to comply with such newly enacted laws or regulations.
The shares issued to B.C. Ltd. were issued on a post-consolidation basis. Concurrent with the transaction, the Company changed its name to Chemesis International Inc. and started trading on the Canadian Securities Exchange ("CSE") under the symbol "C.CSI".

On August 13, 2018 Chemesis acquired 100% of Desert Zen, a state-compliant, recreational and medicinal cannabis manufacturing, distribution, and transportation company based in Cathedral City, California. The facility is licensed under state and local laws to manufacture, package, and transport quality cannabis products. Desert Zen was acquired for USD$500,000 of Chemesis stock at a deemed value of CDN $1.00 per share and a cash payment of USD$200,000.

On October 12, 2018 the Company acquired the license rights from Rapid Dose Therapeutics Inc. ("RDT") a Canadian bio-technology company which provides proprietary drug delivery technologies. RDT's QuickStrip is an oral fast-dissolving drug delivery system. Under the terms, the Company receives rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. The Company paid $130,570 and issued shares to settle USD$300,000 (subsequently issued), measured at a fair value of $390,480 and included in contributed surplus.

On November 9, 2018 Chemesis acquired 80% of Puerto Rico based Natural Ventures PR LLC. The company has been operational since early 2017 and currently is expanding to meet its growing patient demand. Natural Ventures is licensed to cultivate 100,000 ft^2 of cannabis and has 35,000 ft^2 of manufacturing floor space for quality cannabis products. In exchange for 80% interest in the capital stock of Natural Ventures PR LLC, the Company paid USD$2,250,000 cash and USD$1,682,085 of stock valued at $1.00 per common share.

On November 14, 2018 Chemesis entered a multi-year licensing deal with Kevin Smith and Jason Mewes (Jay and Silent Bob) for the development and promotion of cannabis products in the US. The Company will pay an initial fee of USD$50,000 on signing and three payments of USD$25,000 on each of the three-month anniversaries of signing. In addition, the Company will issue common shares worth USD$400,000 on signing and USD$150,000 in stock on each annual anniversary. Additional payments for up to a total of USD$600,000 in stock may be payable on the date certain states in the USA legalize marijuana. All shares are based on the 5-day volume-weighted average prices on the date the shares become payable. The Company will owe a 12% royalty on sales related to the Jay and Silent Bob brand with a minimum royalty of USD$120,000 each year of the license term.

HIGHLIGHTS

On August 23, 2018 the Company entered into a definitive agreement to acquire 80% of Puerto Rico Based PR LLC via its subsidiary Chemesis PR, a 100% Puerto Rican company, in exchange for USD$2,250,000 cash and USD$1,682,085 of stock valued at CAD$1.00 per common share.

On July 17, 2018 announced a new director, Mike Aujla to replace outgoing director, Dave Mcmillan. The Company also announced an aggregate of grant of 4,800,000 options with an exercise price of $1.00, expiring July 17, 2023 to officers, directors and consultants.

On July 19, 2018 the Company Increased ownership interest in SAP GLOBAL to 80% by paying an additional $700,00 CDN toward additional capital expenditures for the facility. The Company also acquired the California SAP licensed rights to IP, brand and product catalogue by issuing $500,00 USD in stock at $1.00 CDN.

On July 26, 2018 the Company Signed a binding supply agreement with a California distribution company to provide 10,000 lbs/month of clean tested trim which must yield a minimum of 10% return upon processing.

On July 31, 2018 the Company Signed two binding agreements for sale and distribution of 100 litres per month of high-quality tested cannabis oil.

On August 10, 2018 the Company acquired 100% of Desert Zen, a licensed recreational and medical cannabis distribution and manufacturing company.

On August 23, 2018 the Company entered into a definitive agreement to acquire 80% of Puerto Rico based Natural Ventures PR LLC via it's subsidiary Chemesis PR, a 100% Puerto Rican company, in exchange for USD$2,250,000 cash and USD$1,682,085 of stock valued at CAD$1.00 per common share. As of On September 25, 2018 the Company will be entering the cannabis infused beverages market by leveraging licenses and assets it has recently acquired to build out production, storage, and a transportation network for its beverages.

On September 28, 2018 the Company announced the addition of Eli Dusenbury as the Company's new Chief Financial Officer to replace outgoing CFO Mathew Lee.

Granted an aggregate 150,000 incentive stock options to a consultant of the company. The options are exercisable at $1.00 per share for a one-year term. Granted an aggregate 200,000 incentive stock options to the CFO of the Company. The options are exercisable at $1.74 per share for a five-year term.

On October 10, 2018 the Company will be entering the cannabis edibles market by using its existing facilities and licenses to streamline entry and provide services for business that need manufacturing, packaging, and distribution while maintaining compliance.

On October 11, 2018 the Company signed a fulfilment and distribution agreement for the Julian Marley JuJu Royal brand with rights for the packaging, fulfilment, and distribution for all of JuJu Royal's Southern California operations.

On October 12, 2018 the Company signed a definitive agreement for the rights to produce, distribute, and sell QuickStrips with rights for cannabis markets in California.

On November 5, 2018 the Company entered into a binding letter of intent to acquire 100% of Columbia based, La Finca Interacviva-Arachna Med SAS in exchange for CDN$13,500,000 in a combination of cash and common shares to be determined upon execution of a definitive agreement.

On November 7, 2018 the Company signed a definitive agreement for the rights to produce, distribute, and sell QuickStrips with rights for cannabis markets in Puerto Rico.

On November 12, 2018 the Company signed a fulfilment and distribution agreement for the Julian Marley JuJu Royal brand with rights for the packaging, fulfilment, and distribution for all of JuJu Royal's Southern California operations.

On November 14, 2018 the Company entered a multi year licensing deal with Kevin Smith and Jason Mewes (Jay and Silent Bob) for the development and promotion of cannabis products in the US in exchange for USD$400,000 stock and USD$150,000 in stock on each annual anniversary, both based on the 5-day volume-weighted average prices.

On December 4, 2018 the Company closed tranche one of convertible debt for CDN$2,000,000.

Each Convertible Debenture will bear interest at a rate of 8.0% per annum and have a two-year maturity date. Each Convertible Debenture will be unsecured and will be convertible at the option of the holder into common shares of the Company at a price of $1.25 per Common Share. In addition, for every convertible share received, a warrant will be issued for a period of 2-years at an exercise price of $1.50 per warrant.

On December 11, 2018 the Company provided a corporate update for Puerto Rico based operations. Revenue of $336,600 earned from period of November 6 – December 6, 2018. Since the transfer of the state cannabis license, the Company has been aggressively expanding Natural Ventures operations.

On December 12, 2018 the Company obtained approval from the OTC Markets Group to upgrade and quote the Company's common shares on its OTCQB Venture Market under the symbol "CADMF" effective December 13,

2018. The Company's common shares will continue to trade on the Canadian Securities Exchange under the symbol "CSI" as well as the Frankfurt exchange under the symbol "CWAA."

On December 20, 2018 the Company completed a second tranche of convertible debentures financing for gross proceeds of an additional CDN $1,750,000.

Each Convertible Debenture will bear interest at a rate of 8.0% per annum and have a two-year maturity date. Each Convertible Debenture will be unsecured and will be convertible at the option of the holder into common shares of the Company at a price of $1.25 per Common Share. In addition, for every convertible share received, a warrant will be issued for a period of 2-years at an exercise price of $1.50 per warrant.

On December 17, 2018 the Company acquired Viverian, a hemp-derived CDB product line that promotes healthy living and provides consumers with quick and easy methods of consumption. The Company will expand into a retail strategy and additional states for online shipping in 2019, once state-by-state regulations have been established for CBD manufacturing and distribution.

On December 20, 2018 the Company entered into an arrangement agreement with IMC International Mining Corp dated November 29, 2018 pursuant to which the Company intends to spin out its various interests in mineral claims located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property") into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC will own the Bullard Pass Property. The spin out was completed January 2019.

On January 2, 2019 the Company announced the Annual General and Special Meeting of Shareholders to be held on Wednesday, January 9, 2019.

On January 9, 2018 the Company entered into a definitive agreement for the acquisition of 100% of La Finca Interacviva-Arachna Med SAS, an integrated cannabis company that has been operational since late 2017 and which has CDN $2,300,000 in working capital on hand. To complete the acquisition, the Company is issuing CDN $8,000,000 in stock at a deemed price of CDN $1.25 per share and is agreeing to pay a further CDN $5,500,000 within the next 24 months. The stock issued is subject to a 36-month contractual escrow agreement.

On January 17, 2019 the Company's subsidiary Natural Ventures has entered into a licensing agreement to produce "Dragonglass" for Project 1493 LLC., a subsidiary of GSRX Industries Inc.

On January 28, 2019 the Company's subsidiary, La Finca Interacviva-Arachana Med SAS plans to commence construction of its GMP certified extraction facility before the end of Q1 2019. La Finca has also been granted a Seed Producer Licence after a verification visit from ICA (Columbia Ministry of Agriculture).

On February 7, 2019 the Company acquired intellectual property and the physical equipment for an extraction methodology to preserve all the phytocnnabinoids and terpenes from cannabis. The Company will relocate the extraction assets from a licensed facility in San Diego, CA to its extraction facility in Cathedral City, CA. With this transaction, the Company has initial monthly purchase orders in excess of USD $200,000. Under the terms of this acquisition, Chemesis will issue 1,597,633 shares priced at a deemed value of CDN $1.69. The stock issued is subject to a 36-month lock-up/leak-out guidelines.

On February 11, 2018 the Company announced plans to add an additional 25,000 ft2 of manufacturing in Cathedral City, California.

On February 25, 2019, the Company announced a non-brokered private placement of up to CDN $5,800,000 or 3,152,174 units at a price of CDN $1.84 per unit with New York based Global Emerging Markets and participation from Canadian institutional investors. Under the terms of the offering, each unit will be comprised of one common share and one common share purchase warrant exercisable for one comm share at an exercise price of CDN $2.50 for a period of 24 months from the closing date.

On February 28, 2019, the Company's subsidiary Natural Ventures signed a definitive agreement for an annual purchase order of a minimum total of USD $4,000,000.

On March 1, 2019 the Company completed a private placement of 1,500,000 units at a price of $1.84 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at $2.50 for a period of 60 months.

On March 1, 2019 the Company entered into a $10,000,000 share subscription agreement with Global Emerging Markets ("GEM"). The agreement provides that the Company may, at any time while the agreement is in effect, deliver a draw-down notice to GEM specify the number of common shares for which GEEM will then have an obligation to subscribe up to a maximum of $10,000,000.

EXPLORATION ACTIVITY

BULLARD PASS PROPERTY – ARIZONA, USA

In 2007 the Canadian Mining Company of Arizona Inc. staked the DB 1 to 176 mineral claims totalling 3,420 acres and acquired 476.52 acres of Arizona State land under mineral exploration permit #08-111861, for total land holdings of 3,896.52 acres, located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property"). The Company subsequently reduced its ownership interest in the Bullard Pass Property to 22 claims. The Company has recently staked additional claims to increase the Property to 171 claims. The Company is evaluating the property to determine if further exploration will be performed.

On September 27, 2017, the Company announced it had entered into a letter of intent (LOI) with Crust Resources Corp., a British Columbia-registered company, to acquire a 100-per-cent direct or indirect interest in its operating subsidiary, Care Mining Company Ltd., a company registered in the Republic of Ghana. Upon closing, Canadian Mining shall issue to, or as directed by, Care, up to 4.8 million common shares in the capital of Canadian Mining in exchange for transferring all of the issued and outstanding shares of Care to Canadian Mining. During the quarter-ended December 31, 2017, the Company announced that it had terminated the LOI with Crust Resources Corp.

On November 29, 2018, the Company entered into an arrangement agreement with IMC International Mining Corp. ("IMC") pursuant to which the Company intends to spin out its various interests in mineral claims located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property") into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC will own 100% of the Bullard Pass Property. As a result of the Arrangement, Shareholders will receive one-twentieth of one IMC Common Share for every Chemesis Common Share held as at the Arrangement Record Date and own all of the outstanding IMC Common Shares, post-Arrangement. The Shareholders will receive one-twentieth of one IMC option and warrant for every Chemesis option and warrant held as at the Arrangement Record Date. The spin-out transaction completed in January 2019.

OVERALL PERFORMANCE

Pursuant to the reverse acquisition transaction, the Company changed its business focus from mineral exploration to the continuation of the Company's business of pursuing opportunities in the cannabis industry; and as such, this will be the Company's first full year of operations within the cannabis space.

The net assets of the Company increased from $3,210,243 at June 30, 2018 to $9,667,835 at December 31, 2018, an increase of $6,457,592. The most significant assets at December 31, 2018 include: Cash of $1,102,844 (June 30, 2018 - $1,030,284), Inventory of $729,236 (June 30, 2018 - $nil), Amounts receivable of $405,540 (June 30, 2018 - $nil), Equipment and leasehold improvements of $6,436,153 (June 30, 2018 - $2,210,347), Intangible assets of $1,433,173 (June 30, 2018 - $nil), and Goodwill of $4,471,440 (June 30, 2018 - $nil).

Cash increased by $72,560 pursuant to financing activities which are offset by cash used in investing activities of $2,330,348 and cash used in operating activities of $1,802,148. The Company has spent $1,276,283 on equipment and facilities that will be used in manufacturing, processing and distribution of cannabis products. The company has spent $238,262 on intangible assets consisting of licensed IP rights from SAP, Jay and Silent bob and RDT Therapeutics. Goodwill arose pursuant to the acquisition of Dessert Zen and the acquisition of 80% of Natural Ventures PR LLC.

The Company's liabilities at December 31, 2018 consisted of accounts payable and accrued liabilities of $1,571,493 (June 30, 2018 - $206,642), excise tax payable of $639,747 (June 30, 2018 - $nil), and convertible debt of $3,081,809 (June 30, 2018 - $nil).

DISCUSSION OF OPERATIONS

Pursuant to the reverse takeover transaction with 1145411 BC Ltd. (the "Company" or "1145411"), pursuant to which Chemesis acquired all of the issued and outstanding shares of 1145411 in exchange for 46,807,559 common shares of Chemesis. The condensed consolidated interim financial statements include the historical consolidated financial information of 1145411 up to the completion of the RTO. 1145411 was incorporated under the laws of British Columbia on December 15, 2017 and as such, the comparative periods for the consolidated statement of loss and comprehensive loss and the consolidated statement of cash flows are not presented. The following highlights the key operating expenditures during the current six months ended December 31, 2018.

For the six months ended December 31, 2018 compared to the period from incorporation to December 31, 2017

During the six months ended December 31, 2018, the Company incurred a net loss of $31,095,002 (2017 - $29,314). The net loss for the six months ended December 31, 2018 consists primarily of the following:

- Gross margin of $622,132 (2017 - $nil) consists of primarily of net revenues generated from packaging and distribution of cannabis and CBD oil. The Company anticipates the gross margins will improve as the Company begins its own manufacturing and processing;

- Advertising and marketing of $988,810 (2017 - $nil) consists of aggressing advertising and marketing campaigns to increase market awareness and brand generation activities;

- Consulting of $516,091 (2017 - $6,325) consists of services used in operational and corporate activities and reflects the changing needs of the Company as it transitions from exploration and evaluation to the Cannabis market;

- Professional fees of $648,048 (2017 - $nil) consist of the fees incurred to complete significant acquisitions and listing transaction;

- Rent of $486,208 (2017 - $12,647) consist of corporate head office, California head office, Puerto Rico head office and the building facilities that will be used in the manufacture and distribution of our products;

- Share based payments of $2,567,302 (2017 - $nil) consists of the non-cash fair value as measured by the Black-Sholes option pricing model to reflect the grant of 5,450,000 options during the six months ended December 31, 2018;

- Listing acquisition expense of $25,278,174 (2017 - $nil) is a non-cash number and reflects the excess of the shares issued over the net assets of Chemesis.

During the six months ended December 31, 2018, the Company incurred a comprehensive net loss of $30,491,320 (2017 - $29,314). The difference from net loss arises on a foreign currency translation adjustment of $603,683 (2017 - $nil) arising from non-cash presentation currency adjustment of its US and Puerto Rico subsidiaries financial information.

For the three months ended December 31, 2018 compared to the period from incorporation to December 31, 2017

During the three months ended December 31, 2018, the Company incurred a net loss of $2,335,979 (2017 - $29,314). The net loss for the three months ended December 31, 2018 consists primarily of the following:

- Gross margin of $501,103 (2017 - $nil) consists of primarily of net revenues generated from packaging and distribution of cannabis and CBD oil. The Company anticipates the gross margins will improve when the Company begins its own manufacturing and processing;

- Advertising and marketing of $686,504 (2017 - $nil) consists of aggressing advertising and marketing campaigns to increase market awareness and brand generation activities;

- Consulting of $163,297 (2017 - $6,325) consists of services used in operational and corporate activities and reflects the changing needs of the Company as it transitions from exploration and evaluation to the Cannabis market;

- Professional fees of $429,148 (2017 - $nil) consist of the fees incurred to complete acquisitions and listing transaction;

- Rent of $251,104 (2017 - $nil) consist of corporate head office, California head office, Puerto Rico head office and the building facilities that will be used in the manufacture and distribution of our products;

- Share based payments of $323,722 (2017 - $nil) consists of the non-cash fair value as measured by the Black-Sholes option pricing model to reflect the grant of 300,000 options during the three months ended December 31, 2018;

During the three months ended December 31, 2018, the Company incurred a comprehensive net loss of $1,757,355 (2017 - $29,314). The difference from net loss arises on a foreign currency translation adjustment of $578,625 arising from non-cash presentation currency adjustment of its US and Puerto Rico subsidiaries financial information.

SEGMENTED REPORTING

The Company currently has three operating segments and generates external revenues from the sale of cannabis products. The operating segments have been disclosed by geographical region as follows:

	Assets	Revenue	Profit (loss)
Canada	$ 6,589,768	$ -	$ (29,880,417)
United States	4,177,989	4,287,097	(1,069,134)
Puerto Rico	4,193,127	452,038	(145,452)
	$ 14,960,884	$ 4,739,135	$ (31,095,003)

Currently, the Company's US subsidiaries, SAP and Dessert Zen, generate the bulk of the total revenues. With the acquisition of Natural Ventures, the Puerto Rico subsidiary accounts for only a portion of the total revenues during the period, but the Company anticipates growth as resources are allocated and operations ramp up.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the Company's completed quarters since inception:

	Quarter Ended December 31, 2018 $	Quarter Ended September 30, 2018 $	Quarter Ended June 30, 2018 $	Quarter Ended March 31, 2018 $	Period from inception to December 31, 2017 $
Revenue	2,820,105	1,919,030	Nil	Nil	Nil
Operating Expense	(2,840,038)	(3,619,243)	(246,974)	(122,265)	(18,972)
Net loss	(2,335,980)	(28,759,023)	(399,350)	(236,780)	(29,314)
Comprehensive loss	(1,757,355)	(28,733,965)	(354,180)	(206,263)	(29,314)

Basic and diluted loss per share, basic and diluted	(0.03)	(0.52)	(3,689)	(2,063)	(523)

On a quarter-by-quarter basis the loss can fluctuate significantly due to a number of factors including first year of operations of a start-up cannabis Company, timing of stock option grants, changes in nature of the business and significant one-time transactions (RTO transaction) .

An analysis of the quarterly results over the quarters from inception shows a significant change in financial performance primarily due to the completion of the RTO and activities to go from a start-up to a listed public Company with revenues. The first period of the Company consisted of 16-days of start-up activities and as a result were less compared to the following quarters. In the quarter ended March 31, 2018, the Company had acquired significant fixed assets and had begun to build its operations in California. In the quarter ended June 30, 2018, the Company wrote off inventory of $136,857 due to changing regulations in California and equipment of $130,034 that wasn't built to specifications. In the quarter ended September 30, 2018, the Company completed an RTO transaction with Chemesis and 1145411 BC Ltd. and as a result, became the listed entity. Listing acquisition expense for that period was $25,278,174. The Company also issued stock-options with a fair value of $2,243,580. The Company began earning some revenues on sale of Cannabis related products of $1,919,030. In the quarter ending December 31, 2018, the Company continued earning some revenues on sale of Cannabis related products of $2,820,105, acquired Natural Ventures PR LLC and a number of licenses. The Company expects to the significant increase in revenues to continue with start-up operations set to begin during the next two quarters.

LIQUIDITY

The Company has generated cash from operations but is considered minimal to date. The Company has funded activities through raising capital from equity markets and plans to continue to pursue equity and debt sources of cash until operations reach profitability.

The Company has cash of $1,102,844 at December 31, 2018, inventory of $729,236 and $405,540 in accounts receivable. The Company has a working capital deficit of $2,857,221 (working capital at June 30, 2018 – $874,240).

During the six months ended December 31, 2018:

a. The Company received cash from completed acquisitions of $2,725,638; and

b. The Company received cash of $122,500 pursuant to the exercise of options; and

c. The Company received cash of $3,500,000 pursuant to the issuance of convertible debt; and

d. The Company received cash of $250,000 pursuant to subscriptions receipts;

The Company is in the process of closing a non-brokered private placement of up to $10,000,000 at a price of CDN $1.84 per unit. This will be used to fund operating capital needs.

The Company also has access to additional equity financing agreement for up to $25,000,000, with Alumina Partners, LLC, a New York-based private equity firm that has made substantial investments in the cannabis space.

The agreement details the purchase of up to $25,000,000 of units of the Company, consisting of one common share and one common share purchase warrant, at discounts ranging from 15% to 25% of the market price of the Company's shares, with each equity financing occurring exclusively at the option of the Company, throughout the 24-month term of the agreement. The Company has used $250,000 of this lending facility to date.

If additional funds are required, the Company plans to raise additional capital primarily through the private placement of its equity securities. Under such circumstances, there is no assurance that the Company will be able to obtain further funds required for the Company's continued working capital requirements.

LIQUIDITY AND CAPITAL RESOURCES

The Company has commitments with certain rental leases agreements in California. The Company has commitments related to acquisitions of its subsidiaries and newly acquired licenses. Please refer to note 16 and note 11 of the December 31, 2018 financial statements for summary of commitments and acquisitions respectively.

Operating Activities

The Company used net cash of $1,802,148 in operating activities during the six months ended December 31, 2018.

Investing Activities

The Company used net cash of $2,330,348 in investing activities during the six months ended December 31, 2018. Investing activities primarily consisted of cash received pursuant to acquisitions of $2,725,638; cash spent on leasehold improvements and equipment to be used in manufacturing and distribution of cannabis products of $1,276,283; cash paid of $3,633,419 on the acquisition of Dessert Zen and Natural Ventures PR LLC.

Financing Activities

The Company received $3,872,500 from financing activities during the six months ended December 31, 2018. Financing activities primarily consisted of cash of $122,500 received pursuant to the exercise of options; cash of $3,500,000 received pursuant to the issuance of convertible debt; cash received of $250,000 pursuant to subscription receipts.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2018, $23,625 (June 30, 2018 - $nil) is owed to directors of the Company for unpaid fees and expenses.

During the six months ended December 31, 2018, the Company paid $84,191 included in consulting fees to Edgar Montero, the CEO and Director of the Company pursuant to CEO and Director services provided. Edgar Montero was also granted 500,000 options measured at a fair value of $324,025 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $22,500 included in consulting fees to Mathew Lee, the previous CFO of the Company pursuant to CFO services provided. Mathew Lee was also granted 250,000 options measured at a fair value of $135,011 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $62,500 included in consulting fees to Aman Parmar a Director of the Company pursuant to Director services provided. Aman Parmar was also granted 700,000 options measured at a fair value of $378,029 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $19,500 included in consulting fees to Brian Thurston, the corporate secretary of the Company pursuant to corporate secretary services provided. Brian Thurston was granted 500,000 options measured at a fair value of $270,021 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $40,000 in cash and granted 200,000 options to the new CFO of the Company measured at a fair value of $345,698 recorded within share-based payments.

PROPOSED TRANSACTIONS

There are no proposed transactions.

SUBSEQUENT EVENTS

i) On January 8, 2019, the company issued 312,500 common shares at a price of $0.80 and issued 312,000 warrants at an exercise price of $1.50, for a period of five years from the closing date. This was pursuant to the Company receiving $250,000 from the $25,000,000 equity facility with Alumina Partners Ltd. (Note 19) on December 20, 2018.

ii) On January 9, 2019 the Company issued 6,400,000 common shares for the acquisition of 100% of La Finca Interacviva-Arachna Med SAS, an integrated cannabis company that has been operational since late 2017 and has $2,300,000 in working capital on hand. The Company will pay an additional $5,500,000 within the next 24 months to complete the acquisition.

iii) On January 23, 2019, the Company issued 65,000 common shares pursuant to options exercised with an exercise price of $1.00 per share;

iv) On February 25, 2019, the Company issued 101,240 common shares to settle USD$85,233 pursuant to the license agreement with Jay and Silent Bob, of which 64,792 of the common shares was issued to settle the remaining acquisition fee which totalled USD$400,000 (Note 10).

v) On March 1, 2019 the Company completed a private placement of 1,500,000 units at a price of $1.84 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at $2.50 for a period of 60 months.

vi) On March 1, 2019 the Company entered into a $10,000,000 share subscription agreement with Global Emerging Markets (“GEM”). The agreement provides that the Company may, at any time while the agreement is in effect, deliver a draw-down notice to GEM specify the number of common shares for which GEEM will then have an obligation to subscribe up to a maximum of $10,000,000.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Accounting Standards Issued and Effective for the Company’s year beginning July 1, 2019:
- IFRS 16 Leases;

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company’s financial instruments are exposed to certain financial risks which are discussed in detail in note 17 of the Company’s condensed consolidated interim financial statements for the six months ended December 31, 2018.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

During the six months ended December 31, 2018, the Company incurred the following expenses:

	2018
	$
Revenues	4,739,135
Cost of goods sold	4,117,003
Operating expenses	
Advertising and marketing	988,810
Consulting	516,091
Professional fees	648,048

Rent	486,208
Share-based payments	2,567,302
Other items	
Listing acquisition expense	25,278,174

An analysis of material components of the Company's general and administrative expenses is disclosed in the condensed consolidated interim financial statements for the six months ended December 31, 2018 to which this MD&A relates as well as in the *Discussion of Operations* section of this MD&A. An analysis of the material components of acquisitions and the reverse takeover is disclosed in the notes to the condensed consolidated financial statements for the six months ended December 31, 2018 to which this MD&A relates.

The Company completed an RTO with Chemesis and became a listed entity on the CSE under the symbol "CSI". Pursuant to which, the Company acquired Dessert Zen to facilitate growth and sales of Cannabis products which has resulted in $4,739,135 in revenues for the six months ended December 31, 2018.

DISCLOSURE OF OUTSTANDING SHARE DATA

Common Shares

The Company's common shares are listed on the CSE under the symbol "CSI". The Company's authorized share capital consists of an unlimited number of common shares without par value. As at March 1, 2019 the Company had 75,650,921 common shares issued and outstanding.

Share Purchase Warrants

As at March 1, 2019, the following share purchase warrants were outstanding:

Expiry date	Warrants	Exercise Price	
August 3, 2019	4,580,282	$	1.00
December 4, 2020	1,600,000	$	1.50
December 21, 2020	1,200,000	$	1.50
January 17, 2024	312,500	$	1.50

Stock Options

As at March 1, 2019, the following stock options were outstanding:

	Outstanding and exercisable			
Expiry date	Number of Options	Exercise price		Remaining contractual life (years)
September 18, 2019	150,000	$	1.00	0.72
June 9, 2022	350,000		0.50	3.44
August 18, 2022	250,000		1.10	3.63
July 22, 2023	4,485,000		1.00	4.56
September 27, 2023	200,000		1.74	4.74
September 27, 2023	300,000		1.40	4.85
	5,735,000			

RISK FACTORS

Much of the information included in this report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by the Company and its management in connection with the Company's business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. The Company cautions readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating the Company, its business and any investment in its business, readers should carefully consider the following factors:

Risks Related to the Company's Business

Because of the unique difficulties and uncertainties inherent in mineral exploration ventures, the Company faces a high risk of business failure.

Potential investors should be aware of the difficulties normally encountered by mineral exploration companies and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration program that the Company intends to undertake on its properties and any additional properties that the Company may acquire. These potential problems include unanticipated problems relating to exploration, and additional costs and expenses that may exceed current estimates. The expenditures to be made by the Company in the exploration of its properties may not result in the discovery of mineral deposits. Any expenditures that the Company may make in the exploration of any other mineral property that it may acquire may not result in the discovery of any commercially exploitable mineral deposits. Problems such as unusual or unexpected geological formations and other conditions are involved in all mineral exploration and often result in unsuccessful exploration efforts. If the results of the Company's exploration do not reveal viable commercial mineralization, the Company may decide to abandon some or all of its property interests.

Loss of Interest in Properties

The Company's ability to maintain an interest in the properties optioned by the Company will be dependent on its ability to raise additional funds by equity financing. Failure to obtain additional financing may result in the Company being unable to make the periodic payments required to keep the property interests in good standing and could result in the delay or postponement of further exploration and or the partial or total loss of the Company's interest in the properties optioned by the Company, including the Qualifying Property.

Because of the speculative nature of the exploration of mineral properties, there is no assurance that the Company's exploration activities will result in the discovery of any quantities of mineral deposits on its current properties or any other additional properties the Company may acquire.

The Company intends to continue exploration on its current properties and the Company may or may not acquire additional interests in other mineral properties. The search for mineral deposits as a business is extremely risky. The Company can provide investors with no assurance that exploration on its current properties, or any other property that the Company may acquire, will establish that any commercially exploitable quantities of mineral deposits exist. Additional potential problems may prevent the Company from discovering any mineral deposits. These potential problems include unanticipated problems relating to exploration and additional costs and expenses that may exceed current estimates. If the Company is unable to establish the presence of mineral deposits on its properties, its ability to fund future exploration activities will be impeded, the Company will not be able to operate profitably, and investors may lose all of their investment in the Company.

The potential profitability of mineral ventures depends in part upon factors beyond the control of the Company and even if the Company discovers and exploits mineral deposits, the Company may never become commercially viable and the Company may be forced to cease operations.

The commercial feasibility of an exploration program on a mineral property is dependent upon many factors beyond the Company's control, including the existence and size of mineral deposits in the properties the Company explores the proximity and capacity of processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental regulation. These factors cannot be accurately predicted and any one or a combination of these factors may result in the Company not receiving an adequate return on invested capital. These factors may have material and negative effects on the Company's financial performance and its ability to continue operations.

Exploration and exploitation activities are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated causing an adverse effect on the Company.

Exploration and exploitation activities are subject to federal, provincial, state and local laws, regulations and policies, including laws regulating the removal of natural resources from the ground and the discharge of materials into the environment. Exploration and exploitation activities are also subject to federal, provincial, state and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment.

Environmental and other legal standards imposed by federal, provincial, state or local authorities may be changed and any such changes may prevent the Company from conducting planned activities or may increase its costs of doing so, which would have material adverse effects on its business. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on the Company. Additionally, the Company may be subject to liability for pollution or other environmental damages that the Company may not be able to or elect not to insure against due to prohibitive premium costs and other reasons. Any laws, regulations or policies of any government body or regulatory agency may be changed, applied or interpreted in a manner which will alter and negatively affect the Company's ability to carry on its business.

Title to mineral properties is a complex process and the Company may suffer a material adverse effect in the event one or more of its property interests are determined to have title deficiencies.

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. Although the Company has either staked property or entered into property option agreements or joint venture agreements on its existing Project interests, the Company cannot give an assurance that title to such property will not be challenged or impugned. Further, the Company cannot give an assurance that the existing description of mining titles will not be changed due to changes in policy, rulings, or law in the jurisdiction where the property is located. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that the Company does not have title to one or more of its properties could cause the Company to lose any rights to explore, develop and mine any minerals on that property, without compensation for its prior expenditures relating to such property.

The properties optioned by the Company may now or in the future be the subject of first nations land claims. The legal nature of aboriginal land claims is a matter of considerable complexity. The impact of any such claim on the Company's ownership interest in the properties optioned by the Company cannot be predicted with any degree of certainty and no assurance can be given that a broad recognition of aboriginal rights in the area in which the properties optioned by the Company are located, by way of a negotiated settlement or judicial pronouncement, would not have an adverse effect on the Company's activities. Even in the absence of such recognition, the Company may at some point be required to negotiate with first nations in order to facilitate exploration and development work on the properties optioned by the Company.

Because the Company's property interests may not contain mineral deposits and because it has never made a profit from its operations, the Company's securities are highly speculative and investors may lose all of their investment in the Company.

The Company's securities must be considered highly speculative, generally because of the nature of its business and its stage of operations. The Company currently has exploration stage property interests which may not contain mineral deposits. The Company may or may not acquire additional interests in other mineral properties, but the Company does not have plans to acquire rights in any specific mineral properties as of the date of this report. Accordingly, the Company has not generated significant revenues nor has it realized a profit from its operations to date and there is little likelihood that the Company will generate any revenues or realize any profits in the short term. Any profitability in the future from the Company's business will be dependent upon locating and exploiting mineral deposits on the Company's current properties or mineral deposits on any additional properties that the Company may acquire. The likelihood that any mineral properties that the Company may acquire or have an interest in will contain commercially exploitable mineral deposits is extremely remote. The Company may never discover mineral deposits in respect to its current properties or any other area, or the Company may do so and still not be commercially successful if the Company is unable to exploit those mineral deposits profitably. The Company may not be able to operate profitably and may have to cease operations, the price of its securities may decline and investors may lose all of their investment in the Company.

As the Company faces intense competition in the mineral exploration and exploitation industry, the Company will have to compete with the Company's competitors for financing and for qualified managerial and technical employees.

The Company's competition includes large established mining companies with substantial capabilities and with greater financial and technical resources than the Company. As a result of this competition, the Company may have to compete for financing and be unable to acquire financing on terms it considers acceptable. The Company may also have to compete with the other mining companies for the recruitment and retention of qualified managerial and technical employees. If the Company is unable to successfully compete for financing or for qualified employees, the Company's exploration programs may be slowed down or suspended, which may cause the Company to cease operations as a company.

The Company's future is dependent upon its ability to obtain financing and if the Company does not obtain such financing, the Company may have to cease its exploration activities and investors could lose their entire investment.

There is no assurance that the Company will operate profitably or will generate positive cash flow in the future. The Company requires additional financing in order to proceed with the exploration and development of its properties. The Company will also require additional financing for the fees it must pay to maintain its status in relation to the rights to the Company's properties and to pay the fees and expenses necessary to operate as a public company. The Company will also need more funds if the costs of the exploration of its mineral claims are greater than the Company has anticipated. The Company will require additional financing to sustain its business operations if it is not successful in earning revenues. The Company will also need further financing if it decides to obtain additional mineral properties. The Company currently does not have any arrangements for further financing and it may not be able to obtain financing when required. The Company's future is dependent upon its ability to obtain financing. If the Company does not obtain such financing, its business could fail and investors could lose their entire investment.

The Company's directors and officers are engaged in other business activities and accordingly may not devote sufficient time to the Company's business affairs, which may affect its ability to conduct operations and generate revenues.

*T*The Company's directors and officers are involved in other business activities. As a result of their other business endeavours, the directors and officers may not be able to devote sufficient time to the Company's business affairs, which may negatively affect its ability to conduct its ongoing operations and its ability to generate revenues. In addition, the management of the Company may be periodically interrupted or delayed as a result of its officers' other business interests.

Sales of Substantial Amounts of the Shares May Have an Adverse Effect on the Market Price of the Shares

Sales of substantial amounts of the Shares of the Company, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Common Shares. A decline in the market prices of the Shares of the Company could impair the Company's ability to raise additional capital through the sale of securities should it desire to do so.

Volatile Market Price for the Shares

The market price for the Shares of the Company may be volatile and subject to wide fluctuations in response to numerous factors, many of which will be beyond the Company's control, including, but not limited to the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company will operate;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Shares of the Company;
- sales or perceived sales of additional Shares of the Company;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations both domestically and abroad;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

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

Additional Financing

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The Company's business activities will rely on newly established and/or developing laws and regulations in California. 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 U.S. Food and Drug Administration, Securities and Exchange Commission, the Department of Justice, the Financial Industry Regulatory Advisory or other federal, California or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the 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.

The Company will require additional financing to fund its operations to the point where it is generating positive cash flows. Continued negative cash flow may restrict the Company's ability to pursue its business objectives.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that any such financing will be available to the Company when needed or on terms which are acceptable. 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.

Co-ownership Arrangement

Bonhomie currently owns 80% of the share capital of SAP, with one other party holding the remaining 20%. This arrangement is subject to the risks normally associated with the conduct of co-ownership structures. The existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on the Company's business prospects, results of operations and financial condition, including the viability of its interest in SAP, the company that owns or is the assignee of various cannabis licenses in the State of California: (i) disagreements between parties on how to conduct business operations; (ii) inability of the parties to meet their obligations to third parties; and (iii) disputes or litigation between the parties regarding budgets, business activities, business and contractual requirements and other matters.

Regulation of Marijuana in the United States

Unlike in Canada which has proposed to have federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the State level. To the Company's knowledge, there are to date a total of 29 States, plus the District of Columbia, that have legalized cannabis in some form. The State of California is among those States.

Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the "CSA") in the United States and as such, remains illegal under federal law in the United States.

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all United States district attorney acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US States had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In March 2017, the newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, on January 4, 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum effective immediately (the "Sessions Memorandum"). The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress and to follow well-established principles when pursuing prosecutions related to marijuana activities. The inconsistency between federal and state laws and regulations is a major risk factor.

Federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. The Sessions Memorandum lays the groundwork for United States Attorneys to take their cues on enforcement priority directly from Attorney General Jeff Sessions by referencing federal law enforcement priorities set by the Attorney General Jeff Sessions. If the Department of Justice policy under Attorney General Jeff Sessions was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, (ii) the arrest of its employees, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Notably, current federal law (in the form of budget bills) prevents the Department of Justice from expending funds to intervene with states' rights to legalize cannabis for medical purposes. The Ninth Circuit Court of Appeals, which governs California federal courts, has ruled that this federal law means that the Department of Justice cannot spend any federal funds to shut down state-law compliant medical cannabis operators. In the event Congress fails to renew this federal law in its next budget bill, the foregoing protection for medical cannabis operators will be void.

Now that the Cole Memorandum has been repealed by Attorney General Jeff Session, the Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Company and its Board and, potentially its shareholders, "aided and abetted" violations of federal law by providing finances and services to its portfolio cannabis companies. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. 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.
On January 12, 2018, the Canadian Securities Administrators issued a statement that they are considering whether the disclosure-based approach for issuers with U.S. marijuana-related activities remains appropriate in light of the rescission of the Cole Memorandum.

Notwithstanding the foregoing, in March 2018, as part of the Congressional omnibus spending bill, Congress renewed, through the end of September 2018, the Rohrabacher Blumenauer Amendment ("RBA") which prohibits the Department of Justice from expending any funds for the prosecution of medical cannabis businesses operating in compliance with state and local laws. Should the RBA not be renewed upon expiration in subsequent spending bills there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. 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 shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Proceeds of Crime Statutes

The Company will be subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the 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 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, or any proceeds thereof, in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially averse 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.

Regulatory Scrutiny of the Company's Interests in the United States

For the reasons set forth above, the Company's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the United States.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of holders of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. In addition, third party service providers could suspend or withdraw services. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Our business is dependent on laws pertaining to the marijuana industry.

Continued development of the marijuana industry is dependent upon continued legislative authorization of the use and cultivation of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of marijuana, which would negatively impact our proposed business.

Currently, twenty-nine states and the District of Columbia allow its citizens to use medical marijuana. Additionally, nine states have legalized cannabis for adult use, including the State of California. The state laws are in conflict with the federal CSA, which makes marijuana use and possession illegal on the federal level. The Obama administration, pursuant to the Cole Memorandum, previously effectively stated that it is not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, the Sessions Memorandum under the Trump administration has reversed this position which creates a risk of prosecution by a number of federal agencies. Additionally, there can be no assurance as to the position any new administration may take on cannabis and could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Company and its shareholders.

Marijuana remains illegal under Federal law

Marijuana is a Schedule 1 controlled substance and is illegal under federal U.S. law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal law. Since federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would harm the Company's business, prospects, results of operation, and financial condition.

Unfavorable Tax Treatment of Cannabis Businesses

Under Section 280E of the U.S. Internal Revenue Code ("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 IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its income tax expenses.

State Regulatory Uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. The Company's legal team will provide guidance in regard to any rulemaking processes and resulting regulatory changes. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Company's business activity. Although legal under California state law, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Company's business.

Restricted Access to Banking

In February 2014, the Financial Crimes Enforcement Network ("FinCEN") bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the 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 by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States. In addition, federal money laundering statutes and Bank

Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/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.

Limited Trademark Protection

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 State of California by one or more other persons could have a material adverse effect on the value of such trademarks.

Potential FDA Regulation

Should the federal government legalize cannabis, it is possible that the U.S. Food and Drug Administration (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 certified 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 would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If 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

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

Nature of Licenses

Certain licenses, the rights to which are owned by or assigned to SAP, will be relied upon by the Company to operate its business. These licenses, which include two licenses for the manufacturing of medical and adult-use cannabis granted by the Department of Public Health, Manufactured Cannabis Safety Branch and two medical cannabis business local licenses granted by Cathedral City are temporary and their renewal is not guaranteed. The licenses granted by the Department of Public health, Manufactured Cannabis Safety Branch are set to expire on April 30, 2018 and the licenses granted by Cathedral City are set to expire on May 18, 2019. Due to the temporary nature of the licenses, there is a risk that the Company will be unable to renew these licenses and to continue to rely on their terms to operate its business.

The Company has no operating history

The Company has no operating history and may not succeed. The Company is subject to all risks inherent in a developing business enterprise. The Company's likelihood of continued success must be considered in light of the problems, expenses, difficulties, undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenues, complications, and delays frequently encountered in connection with the competitive and regulatory environment in which it operates. For example, the adult use marijuana industry is a relatively new industry which, as a whole may not succeed, particularly should the federal government of the United States decide to prosecute various parties under federal law. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

The Company's products

As a relatively new industry, there are not many established players in the recreational cannabis industry whose business model the Company can follow or build on the success of. Similarly, there is no information about comparable companies available for potential investors to review in making a decision about whether to invest in the Company.

Shareholders and investors should further consider, among other factors, the Company's prospects for success in light of the risks and uncertainties encountered by companies that, like the Company, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur, and they may result in material delays in the operation of The Company's business. The Company may not successfully address these risks and uncertainties or successfully implement its operating strategies. If the Company fails to do so, it could materially harm the Company's business to the point of having to cease operations and could impair the value of the Company Shares to the point investors may lose their entire investment.

The Company has committed, and expects to continue to commit, significant resources and capital to develop and market existing products and new products and services. These products are relatively untested, and the Company cannot assure shareholders and investors that it will achieve market acceptance for these products, or other new products and services that The Company may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business. In addition, new products and services may pose a variety of challenges and require the Company to attract additional qualified employees. The failure to successfully develop and market these new products and services could seriously harm the Company's business, financial condition and results of operations.

Unfavourable Publicity or Consumer Perception

Proposed management of the Company believes the recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the recreational cannabis produced. Consumer perception of the Company's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the recreational 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 favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of recreational cannabis in general, or the Company's proposed products specifically, or associating the consumption of recreational 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 appropriately or as directed.

History of Losses

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

Risks Inherent in an Agricultural Business

The Company's business may, in the future, involve the growing of recreational 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 all such growing is expected to be completed indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

Energy Costs

The Company's recreational cannabis growing operations will consume considerable energy, which will make it vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of the Company and its ability to operate profitably.

Reliance on Management

Another risk associated with the production and sale of recreational cannabis is the loss of important staff members. The Company is currently in good standing with all high-level employees and believes that with well managed practices will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company Will Be an Entrant Engaging in a New Industry

The recreational cannabis industry is fairly new. There can be no assurance that an active and liquid market for shares of the Company will develop and shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that the Company will be successful in the long term.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the recreational cannabis industry in the State of California. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal Controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement 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 the Company's shares.

Liquidity

The Company cannot predict at what prices the Company will trade and there can be no assurance that an active trading market will develop or be sustained. There is a significant liquidity risk associated with an investment in the Company.

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 Reporting Issuer's shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Reporting Issuer resources.

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, 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 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.

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, the California Department of Public Health, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

ADDITIONAL INFORMATION

Additional information about the Company is available on SEDAR at http://www.sedar.com.

BOARD APPROVAL

The board of directors of the Company has approved this MD&A.