**CHEMESIS INTERNATIONAL INC.**
(the "Company")

# MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED DECEMBER 31, 2019

This Management Discussion and Analysis ("MD&A") has been prepared by management in accordance with the requirements of National Instrument 51-102 and should be read in conjunction with the condensed consolidated financial statements and accompanying notes for the six months ended December 31, 2019, and the related notes contained therein which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar amounts are expressed in Canadian dollars, the reporting and functional currency of the Company, unless otherwise indicated.

## DATE

This MD&A is prepared as of March 2, 2020.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "*anticipate*", "*believe*", "*estimate*", "*expect*" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the Company's operations. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or our achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. This MD&A should be read in conjunction with the risk factors described in the *Risk Factors* section of this MD&A. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

## DESCRIPTION OF BUSINESS

Chemesis International Inc. ("Chemesis") is a vertically integrated company focused in the cannabis industry providing cultivation, manufacturing, distribution and retail. Chemesis currently has operations in California, Puerto Rico, and Columbia.

## KEY BUSINESS ACTIVITIES

Chemesis International Inc. (formerly Canadian Mining Corp.) was incorporated on April 26, 2013 and was a wholly-owned subsidiary of International Zeolite Corp. Chemesis' registered records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver BC V6C 3E8 and the corporate head office is at 2710 – 200 Granville Street, Vancouver, BC V6C 1S4. During fiscal 2017, Chemesis was spun out pursuant to a plan of arrangement as disclosed in Note 8 of the consolidated financial statements. On June 5, 2017, Chemesis began trading on the TSX Venture Exchange under the symbol CNG.

On July 17, 2018, Chemesis completed a reverse takeover transaction ("RTO") with 1145411 BC Ltd. ("1145411"), pursuant to which Chemesis acquired all of the issued and outstanding shares of 1145411. This transaction was recorded as a reverse acquisition with 1145411 being the acquirer for accounting purposes. The historical assets and liabilities are of 1145411 while the share capital is that of the Company. The Consolidated 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.

Effective July 17, 2018, the Company completed a share consolidation of its share capital on the basis of two existing common shares for one new common share.

The shares issued to 1145411 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 "CSI".

Pursuant to the reverse acquisition transaction, Canadian Mining Corp., under the trading symbol, CNG changed its name to Chemesis International Inc. and has de-listed from TSX-V and listed its shares on the CSE. Chemesis has since changed its business focus from mineral exploration to the continuation of 1145411's business of pursuing opportunities in the cannabis industry.

On February 1, 2019, The Company and IMC International Mining Corp. ("IMC") completed a reorganization transaction by way of a plan of arrangement whereby, the Company undertook a reorganization and spin-out of various interests in minerals located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona to IMC.

On February 1, 2019, Chemesis transferred all of the issued and outstanding common shares of its wholly owned subsidiary, Canadian Mining of Arizona Inc. ("CMAI"), to IMC in exchange, the shareholders of Chemesis at the record date received 3,246,625 common shares, 305,000 options and 229,014 warrants of IMC.

Effective December 20, 2019, the Company completed a share consolidation of its share capital on the basis of ten existing common shares for one new common share.

***Subsidiaries and their activities***

1145411 is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc. ("Bonhomie"), a California corporation. 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 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 for no additional consideration. On July 3, 2019, the Company increased its holdings to 100% of the issued and outstanding capital stock of SAP by issuing 100,000 common shares of the Company with a fair value of $1,780,000. SAP is a California Corporation that controls cultivation and manufacturing licenses for its manufacturing facility, where the Company will manufacture and distribute medical and recreational THC and CBD products for the California market.

On August 21, 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.

On November 30, 2018, the Company acquired 80% of Natural Ventures PR LLC ("Natural Ventures"), a cultivation and distribution business located in Puerto Rico. 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. Natural Ventures has begun growing its own cannabis plants that will be used in manufacturing and distribution of its diverse product line.

On January 11, 2019, the Company acquired 100% of La Finca Interacviva Arachna Inc. SAS, a hemp and CBD cultivation business located in Colombia. La Finca holds a research and development license in Colombia.

On May 24, 2019, the Company acquired a 60% interest in Kieley Growth Management ("Kieley"), a company with dispensary operations in California, United States. Kieley holds a Type-6 Cannabis Processing License as issued by the California Department of Health.

***Key License agreements***

*SAP Brand rights*
On July 20, 2018, the Company issued 66,463 common shares for a fair value of $255,886 pursuant to an acquisition of licensed rights from SAP. Further, the Company paid $110,000 cash. Such rights include, the brand name, trade name, and trademarks together with all of the patents, patent applications, and inventions. These licenses are amortized over the estimated useful life of 5 years. The Company wrote off the balance of the license and was recognized as impairment during the six months ended December 31, 2019 as the license is no longer in use.

*Rapid Dose Therapeutics Inc. ("RDT")*
On October 12, 2018 the Company acquired the license rights from 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 of the agreement, the Company received rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. Total consideration was $318,010, paid by $130,570 in cash and 17,356 common shares for a total share fair value of $187,440. This license is amortized over the estimated useful life of 5 years.

*Kieley Growth Management License*
On May 24, 2019, the Company acquired a 60% interest in Kieley, who held a Type-6 Cannabis Processing License as issued by the California Department of Health. This license had a value of $404,040 and is amortized over one year. Due to a decline in the California market, the Company has written off the balance of the license during the six months ended December 31, 2019.

*Natural Ventures License*
On November 9, 2018, the Company acquired Natural Ventures. At the time, Natural Ventures held: a cultivation license and a cannabis manufacturing license. These licenses had a fair value of $1,662,625 and have a useful life of one year.

*Desert Zen License*
On August 10, 2018, the Company acquired Desert Zen, who held a light manufacturing (Type-P) license and distributor (Type-11) license issued by the California Department of Health. The license had a fair value of $230,000 on acquisition and is amortized over one year. Due to a declining market in the US during the six months ended December 31, 2019, the Company wrote off the balance of the license.

*La Finca License*
The Company holds a research and development license in Colombia with a fair value of $100,000. This license has a useful life of one year.

*Patents*
GSRX has applied for patents which it believes are a new, original and ornamental design for Oral Consumable Flakes. The patents use the methods of preparing solulizable encapsulated plant-based compositions. As the patents have not been issued as of December 31, 2019, no amortization has been applied against the patent costs. If the patents are approved, the Company will amortize the patent application costs over their useful lives. If the patents are not approved, the patent application costs will be expensed and charged to operations.

***Business acquisitions***

*Bonhomie / SAP Global*

During the year ended June 30, 2018, the Company acquired 100% of the issued and outstanding shares of Bonhomie for $100. At the time, Bonhomie held a 51% controlling interest in SAP. At the date of the Company's acquisition of Bonhomie, the net assets were acquired in exchange for the Company settling the liabilities related to the assets acquired. Accordingly, at the date of the Company's acquisition of Bonhomie, SAP was considered to have net identifiable assets of $574,028. On July 19, 2018, the Company increased its ownership in SAP from 51% to 80% for no additional consideration. On July 3, 2019, the Company increased its holdings to 100% of the issued and outstanding capital stock of SAP by issuing 100,000 common shares of the Company with a fair value of $1,780,000.

*Desert Zen*

On August 10, 2018, the Company acquired 100% of the shares of Desert Zen for USD$200,000 cash paid upon closing, as well as 65,250 common shares of the Company with a fair value of $342,563 escrowed over 36 months. This transaction was accounted for as a business combination, as such the Company used the acquisition method of accounting. The consideration paid in excess of the net assets of the acquired business was $374,830 and is recognized in goodwill, which was written down to $nil during the six months ended December 31, 2019 due to a decline in the US market

*Natural Ventures*

On November 9, 2018, the Company acquired 80% of Natural Ventures for cash payment of USD$2,800,000 and 223,524 common shares of the company with a fair value of $1,877,607 escrowed over 36 months. This transaction was accounted for as a business combination, as such the Company used the acquisition method of accounting. The consideration paid in excess of the net assets of the acquired business was $3,557,713 and was recognized in goodwill. During the year ended June 30, 2019, an impairment charge of $1,801,300 was charged against goodwill, resulting in a balance of $1,756,413 as at December 31, 2019 and June 30, 2019.

*La Finca*

On January 11, 2019, the Company acquired 100% of La Finca, a hemp and CBD cultivation company located in Colombia. The Company assumed a promissory note of $5,500,000 and issued of 74,800 common shares with a fair value of $7,225,680 escrowed over 36 months. This transaction was accounted for as an asset acquisition. The consideration paid in excess of the net assets of the acquired assets was $10,305,740 attributable to seed research, development and technology expenditures for the year ended June 30, 2019.

*Kieley Growth Management*

On May 24, 2019, the Company acquired a 60% interest in Kieley, a company with dispensary operations in California, United States. The Company acquired a non-interest-bearing promissory note of USD $1,000,000 due on May 24, 2020 and issued 67,231 common shares with a fair value of $880,058 as consideration for 60% of Kieley's common shares. This transaction was accounted for as a business combination, as such the Company used the acquisition method of accounting. The consideration paid in excess of the net assets of the acquired business was $2,259,080 and is recognized in goodwill, which was written down to $nil during the six months ended December 31, 2019 due to a decline in the US market

*GSRX Industries Inc.*

On April 1, 2019 the Company entered into an agreement to acquire 19.9% equity stake in GSRX Industries Inc. ("GSRX"), a company which owns and operates six cannabis dispensaries and an online ecommerce site. Pursuant to the terms of the acquisition, GSRX issued 11,666,998 common shares to Chemesis. GSRX has also granted a pre-emptive right to maintain such ownership percentage. In exchange, the Company issued 729,187 common shares, which are subject to hold periods of up to 36 months. At the time of acquisition, the Company had no board members or management on the Board of Directors of GSRX. On August 29, 2019, the Company acquired 42,634,124 common shares of GSRX in exchange for 1,488,071 common shares of the Company for a total fair value of $8,437,363. Immediately after the transaction the Company held a 66.29% common share interest and in GSRX. During the six months ended December 31, 2019, the Company acquired a 100% of the preferred shares in exchange for 400,000 common shares of the Company (Notes 5, 10) and has three board seats on the Board of Directors of GSRX.

## TRANSACTIONS IN PROGRESS

On September 11, 2019 the Company announced it had entered into an agreement to purchase three cannabis dispensary operation in Puerto Rico from Caribbean Green LLC in exchange for USD $1.3 million in cash over 24 months.

## OVERALL PERFORMANCE

The net assets of the Company decreased from $25,375,789 at June 30, 2019 to $15,207,929 at December 31, 2019. The most significant assets at December 31, 2019 include: cash of $1,343,696 (June 30, 2019 - $641,583), inventory of $1,547,555 (June 30, 2019 - $830,001), biological assets of $2,413,177 (June 30, 2019 - $1,244,938), amounts receivable of $1,647,071 (June 30, 2019 - $2,392,559), fixed assets of $9,034,365 (June 30, 2019 - $7,057,515), intangible assets of $4,556,271 (June 30, 2019 - $2,541,942), deposits of $803,655 (June 30, 2019 - $26,743), and goodwill of $3,676,276 (June 30, 2019 - $4,390,323).

The Company's primary liabilities at December 31, 2019 consisted of accounts payable and accrued liabilities of $5,504,238 (June 30, 2019 - $2,488,824), acquisition payable of nil (June 30, 2019 - $1,308,700), current portion of lease liability of $1,541,080 (June 30, 2019 - $nil), lease liability of $2,234,885 (June 30, 2019 - $nil), and convertible debt of $4,941,107 (June 30, 2019 - $3,342,741).

Cash increased by $702,113 pursuant to financing activities which raised $2,920,690, investing activities providing $2,220,851, both of which are offset by cash used in operating activities of $4,425,591.

## HIGHLIGHTS

On July 2, 2019 the Company announced it's subsidiary, Natural Ventures, has signed a USD $6,000,000 annual purchase order with PR ONE, a Puerto Rico based medical cannabis company, to supply dry flower and cannabis infused goods. The Company also signed an exclusive manufacturing agreement with PR ONE with a three-year term with the initial order to be delivered in calendar Q4 of 2019. To ensure Natural Ventures can meet purchase orders for PR ONE as they grow, PR One will extend a line of credit of USD $500,000 at 5% interest per annum.

On July 15, 2019 the Company announced it had secured a USD $4,000,000 purchase order to manufacture and distribute Happy Tea, a US based CBD tea company, products and additional SKU's.

On July 16, 2019 the Company announced the addition of Dr. Joshua Hartsel as Chief Science Officer for the Company.

On August 12, 2019 the Company announced that it will begin to manufacture, package, and distribute its own line of tobacco-free smokeless cannabis and hemp derived chew with initial launch and commercialization in the US, Puerto Rico, and Canada.

On August 14, 2019 the Company announced it has a signed a letter of intent with 34 private liquor stores in British Columbia for distribution of its hemp-base chew products. The Company expects to be distributing it's products by calendar Q4 2019.

On August 19, 2019 the Company announced it is in the process of obtaining NSF Certification for its facility to ensure the Company is able to market its products to consumers with NSF accreditation. The certification will allow the Company to manufacture its tobacco-free chew products under global GMP standards.

**HIGHLIGHTS (CONTINUED)**

The Company also announced it has begun the process of obtaining Natural Product Number approvals from Health Canada for the tobacco-free hemp derived chew products to market in Canada.

On August 26, 2019, the Company announced it has received an initial purchase order for USD $1,100,000 with a United Kingdom based distributor to manufacture CBD products. The products will be manufactured in the Company's California based manufacturing facility.

On August 29, 2019 the Company announced that it has completed the previously announced transaction to acquire controlling interest in GSRX Industries Inc of 66.29% of all outstanding common shares. The GSRX Board of Directors consists of 5 persons, of which the Company appoints three. In addition, the company also announced it has completed a non-brokered private placement for total proceeds of $1,400,000.

On September 9, 2019 the Company announced it's subsidiary, Natural Ventures, in conjunction with First Medical Cannabis LLC through its previously announced partnership, has received on of the first hemp cultivation and processing licenses in Puerto Rico.

On September 11, 2019 the Company announced it has entered into an agreement to purchase three cannabis dispensary operation in Puerto Rico from Caribbean Green LLC in exchange for USD $1.3 million in cash over 24 months.

On September 24, 2019 the Company announced the appointment of Josh Rosenberg to its Board of Directors. Mr. Rosenberg will be granted 250,000 stock options under the terms of the Company's share-based compensation plan. The Company also announced the departure of Deepak Anand from the Board of Directors.

On September 26, 2019 the Company announced its subsidiary, Natural Ventures, signed an exclusive offtake agreement with HempRico LLC, a Puerto Rican based cultivator, to supply Natural Ventures with additional biomass to ensure the facilities receive consistent supply of raw materials from various sources.

On October 1, 2019 the Company announced it will manufacture, distribute, and retail hemp cigarettes. The Company will offer white-labeling contracts along with its own branded products distributed throughout Chemesis' dispensaries and distribution network.

On October 23, 2019 the Company announced that alongside other companies operating in Puerto Rico, certain cannabis licenses held by its subsidiary, Natural Ventures, are currently subject to an administrative review being undertaken by the Puerto Rico Department of Health. The Company expects the review to be concluded promptly and notes that it is permitted activities under the licenses are limited until the review has concluded.

The Company also announced that it has secured a supply agreement for high yield CBD biomass cultivated in California for use in its California extraction facility for internal use within its finished products.

On November 1, 2019 the Company provides corporate update on previously announced administrative review being undertaken by the Puerto Rico Department of Health. The Company continue to work with Puerto Rico Department of Health regarding this matter and remains optimistic that the Review will be concluded promptly. The Company notes that at the current time the licenses are effectively in abeyance and that only certain activities are permitted to be carried out for the purpose of preserving and maintaining inventory.

On December 20, 2019, the Company completed a share split on the basis of ten new common shares for one old common share. After the share consolidation, the number of shares outstanding was 11,498,813.

On January 14, 2020, the Company repaid $2,109,461 under convertible debentures by converting into 2,343,846 units of the Company with a conversion price of $0.90 per unit. Each unit consists of one common share and one common share purchase warrant at a price of $1.12 for a period of 24 months. The Company also announced that it was granting 2,295,000 stock options at a strike price of $0.90 for a period of 60 months.

On January 17, 2020, the Company received news that the injunction against the Company's licenses was abeyed, subject to a 30 day appeal deadline. The licenses were reinstated on February 3, 2020.

**HIGHLIGHTS (CONTINUED)**

On January 23, 2020, the Company completed a $5,000,000 private placement of up to 16,393,444 units. Each unit consists of one common share and one common share purchase warrant at $0.405 for a period of 24 months. The Company also discharged aggregate total indebtedness of $1,884,996 on the following basis:

- $1,485,831 in convertible debentures were repaid in cash;
- $284,444 owing under a convertible debenture was repaid through the issuance of 406,348 units of the Company. Each unit comprises of one common share and one common share purchase warrant at a strike price of $0.70 for 24 months; and
- $114.691 owed to a creditor was settled through 163,844 units of the Company. Each unit comprises of one common share and one common share purchase warrant at a strike price of $0.70 for 24 months.

On January 27, 2020, the Puerto Rico Department of Health commenced an appeal on the January 17, 2020 decision.

**DISCUSSION OF OPERATIONS**

The following highlights the key operating expenditures during the current six months ended December 31, 2019 compared to the six months ended December 31, 2018:

**For the six months ended December 31, 2019 compared to the six months ended December 31, 2018**

During the six months ended December 31, 2019, the Company incurred a net loss of $20,502,493 (December 31, 2018 - $13,034,942). The net loss for the period ended December 31, 2019 consists primarily of the following:

- Gross profit of $1,856,778 (December 31, 2018 - $622,132) consists primarily of net revenues generated from packaging and distribution of cannabis and CBD oil as well as increased gross margins due to the manufacturing and distribution through its operations in California and Puerto Rico and the increase in the production of flower;

- Advertising and marketing of $434,139 (December 31, 2018 - $988,810) consists of advertising and marketing campaigns to increase market awareness and brand generation activities;

- Consulting and payroll of $1,439,589 (December 31, 2018 - $516,091) consists primarily of services used in operational activities of its California and Puerto Rico subsidiaries;

- Management fees of $225,643 (December 31 - $172,243) consists primarily of services used in corporate activities and reflects the changing needs of the Company as it transitions from exploration and evaluation to expanding its offerings in Cannabis market throughout the US, Puerto Rico, and Columbia;

- Professional fees of $1,143,873 (December 31 – $648,148) consists primarily of the fees incurred to complete significant acquisition transactions;

- Rent of $548,653 (December 31 - $486,208) consists of leased facilities in Puerto Rico and California;

- Share based payments of $180,003 (December 31 - $2,567,302) consists primarily 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 six months ended December 31, 2019;

- Depreciation of $2,620,743 (December 31, 2018 - $533,917) consists primarily of the non-cash reduction in the value of the Company's fixed assets over their useful lives;

- Loss on investment in GSRX Industries of $10,308,227 (December 31, 2018 - $nil) consists primarily of the non-cash fair value adjustment of GSRX shares measured up to the date of acquisition of control on August 29, 2019. This investment is now being consolidated pursuant to a business combination;

- Writedown of goodwill of $2,633,910 and intangible assets of $807,782 were due to declines in the US - California market.

During the six months ended December 31, 2019, the Company incurred a comprehensive net loss of $20,803,070 (December 31, 2018 - $12,431,259). The difference from net loss arises on a foreign currency translation adjustment of $300,577 (December 31, 2018 - $603,683) arising from non-cash presentation currency adjustment of its US, Puerto Rico and Columbian subsidiaries' financial information to Canadian dollars.

The following highlights the key operating expenditures during the current three months ended December 31, 2019 compared to the three months ended December 31, 2018:

**For the three months ended December 31, 2019 compared to the three months ended December 31, 2018**

During the three months ended December 31, 2019, the Company incurred a net loss of $18,636,519 (December 31, 2018 - $2,335,980). The net loss for the period ended December 31, 2019 consists primarily of the following:

- Gross profit of $221,583 (December 31, 2018 - $501,103) consists primarily of net revenues generated from packaging and distribution of cannabis and CBD oil as well as increased gross margins due to the manufacturing and distribution through its operations in California and Puerto Rico, which have decreased due to the suspension of the Company's licenses in Puerto Rico and the increase in the production of flower;

- Advertising and marketing of $277,750 (December 31, 2018 - $686,504) consists of advertising and marketing campaigns to increase market awareness and brand generation activities;

- Consulting and payroll of $992,039 (December 31, 2018 - $163,297) consists primarily of services used in operational activities of its California and Puerto Rico subsidiaries;

- Management fees of $109,543 (December 31, 2018 - $76,651) consists primarily of services used in corporate activities and reflects the changing needs of the Company as it transitions from exploration and evaluation to expanding its offerings in Cannabis market throughout the US, Puerto Rico, and Columbia;

- Professional fees of $634,997 (December 31, 2018 – $429,148) consists primarily of the fees incurred to complete significant acquisitions transactions;

- Rent of $360,929 (December 31, 2018 - $251,104) consists of Canadian and Californian facilities.

- Share based payments of $131,973 (December 31, 2018 – 323,722) consists primarily 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, 2019;

- Depreciation of $1,765,964 (December 31, 2018 - $528,966) consists primarily of the non-cash reduction in the value of the Company's fixed assets over their useful lives;

- Loss on investment in GSRX Industries of $8,743,848 (December 31, 2018 - $nil) consists primarily of the non-cash fair value adjustment of GSRX shares measured up to the date of acquisition of control on August 29, 2019. This investment is now being consolidated pursuant to a business combination;

During the three months ended December 31, 2019, the Company incurred a comprehensive loss of $18,636,519 (December 31, 2018 - $2,335,980). The difference from net loss arises on a foreign currency translation adjustment of $30,354 (December 31, 2018 - $578,625) arising from non-cash presentation currency adjustment of its US, Puerto Rico and Columbian subsidiaries' financial information.

**SUMMARY OF QUARTERLY RESULTS**

The following is a summary of the Company's financial results for the eight most recently completed interim quarters:

| | **Quarter Ended December 31, 2019 $** | **Quarter Ended September 30, 2019 $** | **Quarter Ended June 30, 2019 $** | **Quarter Ended March 31, 2019 $** |
|---|---|---|---|---|
| Revenue | 944,457 | 4,700,834 | 4,051,471 | 3,406,413 |
| Operating Expense | (6,485,451) | (3,085,273) | (6,598,168) | (3,778,789) |
| Net loss | (18,636,519) | (2,378,878) | (19,028,079) | (3,133,856) |
| Comprehensive loss | (18,606,165) | (2,709,809) | (18,189,590) | (3,844,309) |
| Basic and diluted loss per share, basic and diluted | (1.78) | (0.20) | (2.30) | (0.40) |

| | **Quarter Ended December 31, 2018 $** | **Quarter Ended September 30, 2018 $** | **Quarter Ended June 30, 2018 $** | **Quarter Ended March 31, 2018 $** |
|---|---|---|---|---|
| Revenue | 2,820,105 | 1,238,835 | Nil | Nil |
| Operating Expense | (2,320,033) | (3,626,506) | (246,974) | (122,265) |
| Net loss | (2,335,980) | (11,379,138) | (399,350) | (236,780) |
| Comprehensive loss | (1,757,355) | (11,354,080) | (354,180) | (206,263) |
| Basic and diluted loss per share, basic and diluted | (0.36) | (2.00) | (36,890) | (20,630) |

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.

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. 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. as a result, became the continuing entity. Listing acquisition expense for period was $7,218,093. The Company also issued stock-options with a fair value of $2,243,580 in that period. The Company began earning revenues on sale of Cannabis related products of $1,238,835. In the quarter ending December 31, 2018, the Company continued earning revenues on sale of Cannabis related products of $2,820,105, acquired Natural Ventures PR LLC and a number of licenses. In the quarter ending March 31, 2019, the Company had increased revenues to $3,406,413 with increased activities from Natural Ventures LLC and US operations. In the quarter ended June 30, 2019, the Company earned revenues of $4,051,471 with the quarter seeing increased activity and sales from previous quarters. In the quarter ended September 30, 2019, the Company earned revenues of $4,700,834. In the quarter ended December 31, 2019, the Company earned revenues of $944,457.The Company expects to see to see revenues increase going forward as the Company's facilities continue to ramp up and begin producing at capacity as the Company's licenses have been reinstated.

**SEGMENTED REPORTING**

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

| | Assets<br>$ | Revenue<br>$ | Profit (loss)<br>$ |
|---|---|---|---|
| Canada | 6,510,112 | - | (17,695,731) |
| United States | 17,294,971 | 4,601,657 | (3,111,080) |
| Puerto Rico | 5,463,822 | 1,008,408 | 613,088 |
| Columbia | 537,928 | 35,226 | (308,770) |
| | **29,806,833** | **5,645,291** | **(20,502,493)** |

Currently, the Company's US subsidiaries, Bonhomie Labs, SAP, Dessert Zen, Kieley Growth and Puerto Rican subsidiaries, Natural Ventures and GSRX, generate all of the Company's revenues. The Company anticipates growth in revenues as operations ramp up in California and Puerto Rico and it continues to expand on its hemp seed development in Colombia.

The Company has commitments with facility lease agreements in California, Puerto Rico, and Columbia. The Company also has commitments related to acquisitions of its subsidiaries and newly acquired licenses. Please refer to Note 6 and Note 19 of the June 30, 2019 consolidated financial statements for summary of acquisitions and commitments, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2019, the Company had cash of $1,343,696, inventory of $1,547,555, biological assets of $2,413,177 and $1,647,071 in amounts receivable. The Company has a working capital of $459,836 (June 30, 2019 – $204,230).

During the six months ended December 31, 2019:

a. The Company received cash of $140,000 pursuant to the exercise of options and warrants;
b. The Company received cash of $1,462,190 pursuant to convertible debentures converted;
c. The Company received net cash of $575,000 pursuant to private placements completed; and
d. $743,500 was received from subscriptions for common shares not yet issued.

The Company 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 $750,000 of this lending facility to date.

Additionally, the Company has 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 GEM will then have an obligation to subscribe up to a maximum of $10,000,000. As of December 31, 2019, the Company drawn down $778,000 on this equity financing arrangement.

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.

**Operating Activities**

The Company used net cash of $4,425,591 in operating activities during the six months ended December 31, 2019.

**Investing Activities**

The Company received cash of $2,183,869 in investing activities during the six months ended December 31, 2019. Investing activities primarily consisted of cash received pursuant to acquisition of GSRX of $2,060,336 and cash spent on leasehold improvements and equipment to be used in manufacturing and distribution of cannabis products of $493,843.

**Financing Activities**

The Company received cash of $2,920,690 from financing activities during the six months ended December 31, 2019. Financing activities primarily consisted of cash of $140,000 received pursuant to the exercise of options and warrants; cash of $743,500 received pursuant to subscriptions; net cash of $575,000 received from private placements; and cash from conversion of convertible debentures of $1,462,190.

**CHANGES IN ACCOUNTING POLICIES**

With the exception of the recently adopted accounting policies, these condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's amended audited annual financial statement for the fiscal year ended June 30, 2019, filed November 4, 2019.

**Accounting standards adopted during the period**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2019, or later periods. New standards and updates, which are not applicable or are not consequential to the Company, have been excluded from the list below.

IFRIC 23 Uncertainty over income tax treatments - clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for the Company's current annual period retrospectively and the adoption did not have a significant impact on the Company's condensed consolidated interim financial statements for the six months ended December 31, 2019.

The Company adopted the requirements of IFRS 16 effective July 1, 2019. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is substantially changed.

On adoption, the Company transitioned to the new standard using the modified retrospective approach and:

a) Measured the lease liability based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate of at July 1, 2019;
b) Measured the right-of-use asset as if IFRS 16 had been applied since the commencement date, but discounted using the Company's incremental borrowing rate at July 1, 2019; and
c) Recording the cumulative difference to deficit;

The net impact on retained earnings on July 1, 2019 was a $nil.

The following is a reconciliation of total operating lease commitments at June 30, 2019, to the lease liabilities recognized at July 1, 2019:

| | | |
|---|---|---|
| Lease liabilities before discounting | $ | 1,702,341 |
| Discounted using incremental borrowing rate of 15% | | (266,799) |
| Operating lease liability | $ | 1,435,542 |

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
b) The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
c) The Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

*Measurement and recognition of leases as a lessee*

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**RELATED PARTY TRANSACTIONS**

Key management personnel are the directors and officers of the Company. Management compensation transactions for the six months ended December 31, 2019 and 2018 is summarized as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Management fees | $ | 225,643 | $ | 100,179 |
| Share-based payments | | - | | 1,452,784 |
| Total | $ | 225,643 | $ | 1,552,963 |

As at December 31, 2019, $87,675 (June 30, 2019 - $52,949) is owed to directors and officers of the Company for unpaid fees and $543,898 for expenses paid on behalf of the Company.

During the six months ended December 31, 2019, the Company paid $72,643 (2019 - $84,191) included in management fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the six months ended December 31, 2019, the Company paid $60,000 (2019 - $40,000) included in management fees to the CFO of the Company pursuant to CFO services provided.

During the six months ended December 31, 2019, the Company paid $75,000 (2019 - $62,500) included in management fees to a Director of the Company pursuant to Director services provided.

During the six months ended December 31, 2019, the Company paid $18,000 (2019 - $19,500) included in consulting fees to the Corporate Secretary and Director and of the Company pursuant to Corporate Secretary and Director services provided.

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

**Financial Instruments**

The classification of the financial instruments as well as their carrying values are shown in the table below:

| | Category | | December 31, 2019 | | June 30, 2019 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash | Fair Value through Profit and Loss | $ | 1,343,696 | $ | 641,583 |
| Amounts receivable | Amortized cost | | 1,647,071 | | 2,392,559 |
| Investment in GSRX | Fair Value through Profit and Loss | | - | | 14,497,777 |
| **Total Financial Assets** | | **$** | **2,990,767** | **$** | **17,531,919** |
| | | | | | |
| **Financial Liabilities** | | | | | |
| Accounts payable and accrued liabilities | Amortized cost | $ | 5,504,238 | $ | 2,477,662 |
| Acquisitions payable | Amortized cost | | - | | 1,308,700 |
| Note payable | Amortized cost | | - | | - |
| Derivative liability | Fair Value through Profit and Loss | | 179,664 | | - |
| Convertible debt | Amortized cost | | 4,947,107 | | 3,342,741 |
| Total Financial Liabilities | | $ | 10,625,009 | $ | 7,129,103 |

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

At December 31, 2019 and June 30, 2019, cash is measured using Level 1 inputs. Derivative liability is measured using Level 2 inputs. During the six months ended December 31, 2019 and June 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers in and out of Level 3 fair value measurements.

The fair values of the Company's financial assets and liabilities approximate their carrying amounts. The carrying value of receivables and accounts payable, acquisitions payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The carrying value of loans payable approximate their carrying value based on currently available borrowing rates for debt on similar terms, credit risk and maturities. The Fair value of convertible debt is measured using a discount factor of 15% which approximates the borrowing rate that the Company would get for debt without a conversion feature and warrants.

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

**Financial risk factors**

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

*Liquidity risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at December 31, 2019, the Company's working capital of $459,836 (June 30, 2019 - $204,230) and long-term lease liabilities of $2,234,885 (June 30, 2019 - $3,342,741). The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company had cash of $1,343,696 (June 30, 2019 - $641,583), accounts payable and accrued liabilities of $5,504,238 (June 30, 2019 - $2,488,824) (due in 90 days), notes payable of $nil (June 30, 2019 - $838,366), derivative liability of $179,664 (June 30, 2019 - $nil), acquisition payable of $nil (June 30, 2019 - $1,308,700), and convertible debt (due on demand) of $4,941,107 (June 30, 2019 - $3,342,741).

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to finance on-going expansion of its subsidiaries, such capital to be derived from the completion of other equity and debt financings. The Company has limited financial resources, is currently generating net losses from operations, and has no assurance that additional funding will be available to it for future development of its business. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

*Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and accounts receivable.

The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables primarily consist of trade receivables due from merchant accounts.

The Company's maximum exposure to credit risk related to certain financial instruments as identified below, approximate the carrying value of these assets on the Company's consolidated statements of financial position.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash. The Company's policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company is satisfied with the credit ratings of its banks. As at December 31, 2019, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies.

**Use of Estimates and Judgements**

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate

*Going concern*

The assessment of the Company's ongoing viability as an operating entity and determination of the related disclosures require significant judgment.

*Business combinations*

Judgment is used when determining whether an acquisition is a business combination or an asset acquisition. Judgment is also used in measuring the fair value of equity instruments issued as consideration for a business combination, and in allocating the fair value of consideration paid to the assets acquired and liabilities assumed.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquire over the net assets of the acquisition-date amount of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as pf the acquisition date.

*Functional currency*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to the entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which the entity operations and is re-evaluated when facts and circumstances indicate that conditions have changed.

*Revenues - gross vs net*

Determination of whether the Company is the agent or principal in a transaction involves judgment taking into account whether the Company accepts inventory risk, responsibility for fulfilling the purchaser and exercises price discretion.

*Collectability of amounts receivable*

The Company monitors its exposure for credit losses on its customer and related party receivable balances and the creditworthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related party balances, where a risk of default is identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts. As of December 31, 2019, the Company recorded an allowance for doubtful accounts of $nil (2019 - $304,163). If circumstances related to specific customers and related parties change, estimates of the recoverability of amounts receivable could also change

*Financial instruments*

The determination of categories of financial assets and liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

The identification of convertible note component is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. the separation of components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest o the liability component. The determination of fair value of the liability is also based on several assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

*Biological assets*

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

*Inventory*

The Company estimates the net realizable value of inventory taking into account the most reliable evidence available at each reporting date.

*Share-based payments*

Share-based payments, as measured with respect to stock options granted are estimated by reference to the Black-Scholes pricing model.

*Income Taxes*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the provision for income taxes.

*Valuation of investment in GSRX*

Management exercises judgment on the valuation of the investment in GSRX with reference to the valuation of the consideration received, and if appropriate, the valuation of the share consideration granted. On August 29, 2019, the Company completed an acquisition of control now includes this investment as a component of the purchase price of GSRX.

*Valuation of equity consideration granted*

The valuation of share consideration granted involves management judgment in determining valuation of the share consideration granted. Judgment is exercised in the reliability of the fair value of consideration received.

The fair value of equity instruments are subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate

*Estimated useful lives, impairment considerations and amortization of tangible assets, intangible assets, and goodwill*

Amortization of tangible assets and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Goodwill impairment testing requires management to make critical estimates within the impairment testing model. On an annual basis, the Company tests whether goodwill is impaired.

Impairment of tangible and intangible assets with limited lives are affected by judgments about impairment indicators and estimates used to measure impairment losses where necessary.

The recoverable value of goodwill and tangible and intangible assets is determined using discounted cash flow models, which incorporate assumptions about future events including future cash flows, growth rates and discount rates.

**SUBSEQUENT EVENTS**

On January 14, 2020, The Company granted 2,295,000 stock options to directors, officers and consultants of the Company under its share-based compensation plan. The options are exercisable at a price of $0.90 per common share, for a five-year term.

On January 23, 2020, the Company closed a private placement of 16,393,444 units of the Company (the "Units") at price of $0.305 per Unit. Each Unit is comprised of one common share and one common share purchase warrant (each, a "Warrant"). Each Warrant is exercisable for one common share at a price of $0.405 for a period of 24 months. The Company also settled and discharged an aggregate total indebtedness of $1,884,996, on the following basis:

- $1,141,556 owed under a convertible debenture held by a director of the Company and 344,275 owed under a convertible debenture agreement repaid in cash;
- $284,444 owed under a convertible debenture repaid through the issuance of 406,348 units of the Company (the "Debt Settlement Units"), with each Debt Settlement Unit being comprised of one common share and one common share purchase warrant (the "Debt Settlement Warrants") and issued at a deemed price of $0.70. Each Debt Settlement Warrant is exercisable for one common share at a price of $0.70 for a period of 24 months; and
- $114,691 owed to a creditor was settled through the issuance of 163,844 Debt Settlement Units.

In addition, the Company completed its previously announced convertible debt settlement whereby it discharged a total indebtedness of $1,109,440 under certain convertible debentures through the issuance of 1,232,711 units of the Company (the "Debt Conversion Units"), with each Debt Conversion Unit being comprised of one common share and one common share purchase warrant (the "Debt Conversion Warrants") and issued at a deemed price of $0.90. Each Debt Conversion Warrant is exercisable for one common share at a price of $1.12 for a period of 24 months.

On February 3, 2020, the injunction filed against the Puerto Rico Department of Health. The Puerto Rico Superior Court found the abeyance of our cultivation and manufacturing licenses (the "Licenses") were invalid and unconstitutional and nullified such action. As a result, our Licenses have been reinstated and all licenced activities have been resumed.

**PROPOSED TRANSACTIONS**

There are no proposed transactions.

**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 February 28, 2020 the Company had 28,295,783 (December 31, 2019 – 9,216,353) common shares issued and outstanding of which 1,895,887 common shares are classified as held internally and deducted from the statement of changes in shareholders equity. As at December 31, 2019, the Company held 1,040,917 common shares in escrow.

**Share Purchase Warrants**

As at March 2, 2020, the Company had 18,188,035 (December 31, 2019 – 561,880) share purchase warrants outstanding with expiry dates as follows:

| Expiry date | Warrants | | Exercise Price |
|---|---|---|---|
| December 4, 2020 | 160,000 | $ | 15.00 |
| December 21, 2020 | 31,250 | | 15.00 |
| December 20, 2023 | 120,010 | | 15.00 |
| January 21, 2024 | 38,462 | | 24.50 |
| March 1, 2024 | 150,000 | | 25.00 |
| May 30, 2024 | 18,919 | | 25.00 |
| May 30, 2024 | 37,838 | | 25.00 |
| June 13, 2024 | 5,401 | | 25.00 |
| January 2, 2022 | 17,626,155 | | 0.405 |
| **Balance, December 31, 2019** | **18,188,035** | **$** | **0.91** |

**Stock Options**

As at March 2, 2020, the Company had 2,948,500 (December 31, 2019 – 653,500) share purchase warrants outstanding with expiry dates as follows:

| | Outstanding and exercisable | | |
|---|---|---|---|
| **Expiry date** | **Number of Options** | **Exercise price ($)** | **Remaining contractual life (years)** |
| June 9, 2022 | 35,000 | 5.00 | 2.95 |
| August 18, 2022 | 5,000 | 11.00 | 3.14 |
| July 22, 2023 | 403,500 | 10.00 | 4.06 |
| September 27, 2023 | 20,000 | 17.40 | 4.25 |
| November 6, 2023 | 20,000 | 14.00 | 4.36 |
| March 12, 2024 | 50,000 | 21.30 | 4.70 |
| March 25, 2024 | 10,000 | 20.90 | 4.74 |
| March 29, 2024 | 50,000 | 21.60 | 4.75 |
| April 26, 2021 | 10,000 | 20.40 | 1.82 |
| May 23, 2024 | 20,000 | 21.10 | 4.90 |
| August 14, 2024 | 15,000 | 12.20 | 4.92 |
| August 30, 2024 | 15,000 | 12.20 | 4.67 |
| January 19, 2024 | 2,295,000 | 0.90 | 4.91 |
| Outstanding | **2,948,500** | 1.56 | 4.64 |

**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:

*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.

*Key Personnel*

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.

*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.*

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.

*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.

*Reliance on Key Inputs*

The Company's business is dependent on a number of key inputs including raw materials and supplies relating to its growing operations including electricity, water, and other utilities. Any significant interruption or negative change in the availability or pricing of the supply chain for these key inputs could materially impact the Company's operations, financial condition, and operating results.

*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.

*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.

*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.

*Nature of Licenses*

Certain licenses, the rights to which are owned by or assigned to SAP, Keiley Growth, and Desert Zen, 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, 2020 and the licenses granted by Cathedral City are set to expire on May 18, 2020. 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. Similar licenses of a temporary nature are owned or assigned by Natural Ventures, GSRX and La Finca in Puerto Rico and Columbia, respectively.

*Co-ownership Arrangement*

The Company currently owns 60% of Keiley Growth Management LLC, and 66.29% of GSRX Industries Inc. with other parties holding the remaining 40%, and 33.71%, respectively. 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 these entities, the company that owns or is the assignee of various cannabis licenses in California and Puerto Rico: (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.

*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.

*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.

*The 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 the 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.

*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.

*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.

*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.

*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.

*Proceeds of Crime Statues*

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.

*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.

*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.

*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.

*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.

*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.

*The Company has Limited Operating History*

The Company has limited 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.

*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.

*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.

*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.

*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.

*Risks Inherent in an Agricultural Business*

The Company's business involves 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.

*Shelf Life of Inventory*

The Company holds finished goods in inventory, including dried cannabis and oil products with a shelf life. The Company has a typical inventory turnover that varies and as a result, inventory may reach its expiration date and no longer be available for sale. As a result, inventory may have to be written down and could have a material adverse effect on the Company's business, financial condition, and results of operations.

## 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.