XPHYTO THERAPEUTICS CORP. (FORMERLY CANNABUNKER DEVELOPMENT CORP.)
SELECTED FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL INFORMATION

The following table sets forth summary financial information for the Company for the three and six months ended June 30, 2019, and for the year ended December 31, 2018. This information has been summarized from the Company's consolidated financial statements and should only be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018, including the notes thereto and the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019, including the notes thereto.

	For the six months ended June 30, 2019 (unaudited)	**For the year ended December 31, 2018 (audited)**
Total Revenues	Nil	Nil
Consulting fees	$ 119,383	$360,525
Professional fees	$ 191,742	$249,393
Loss for the Period	($1,746,411)	($860,600)
Loss per share (basic and diluted)	($0.04)	($0.02)
Total Assets	$8,602,236	$9,199,493
Long term financial liabilities	$999,597	$949,556
Cash dividends per share	Nil	Nil

MANAGEMENT DISCUSSION AND ANALYSIS:

The following Management Discussion and Analysis ("**MD&A**") of the operating results and financial position of the Company is prepared as of July 10, 2019 and provides information concerning the Company's financial condition as at June 30, 2019 and December 31, 2018. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2018 and the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019, including the notes thereto. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company's ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

DESCRIPTION OF BUSINESS AND OVERALL PERFORMANCE

XPhyto Therapeutics Corp. (the "Company" or "XPhyto") formally known as Cannabunker Development Corp. was incorporated under the Business Corporations Act (British Columbia) on December 12, 2017. The principal business of the Company is developing a testing, manufacturing and research business in Canada and a research, cultivation, import, manufacturing and distribution business in Germany. The Company filed a preliminary non-offering prospectus on December 28, 2018 as part of its submission with its listing application for publicly trading its shares on the Canadian Securities Exchange ("CSE"). The Company's final long form prospectus was filed May 23, 2019.

The Company's head office and principal address is 1500 – 701 West Georgia Street, Vancouver, British Columbia, Canada, V7Y 1G5. The Company's records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7

To June 30, 2019, the Company has incurred losses totaling $2,611,496 as it pursues and executes on its plan to co-develop a commercial grade analytical lab at the University of Alberta for the purpose of testing cannabis and other plant-based medicines as well as pursuing medicinal cannabis opportunities in Germany.

The following table summarizes selected information from the Company's unaudited condensed consolidated interim financial statements for the six months ended June 30, 2019 and the Company's audited consolidated financial statements for the year ended December 31, 2018.

	For the six months ended June 30, 2019	For the year ended December 31, 2018
Net revenues	Nil	Nil
Loss for the period	($1,741,411)	($860,600)
Deficit	($2,611,496)	($865,085)
Total assets	$8,602,236	$9,199,493
Loss per share	($0.04)	($0.02)

REPORT ON OPERATIONS

During the first six months of 2019, the Company continued to focus on developing its opportunities with Dr. Raimar Loebenberg and the University of Alberta while also focusing on pursuing medicinal cannabis opportunities in Germany. During the six months ended June 30, 2019 and the year ended December 31, 2018, the Company executed the following agreements:

- The Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences (the "Faculty") of the University of Alberta (the "UoA"). Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the UoA, executed a Commercial Analytical Lab Development and Services Agreement with respect to the co-development of a commercial grade analytical lab at the UoA for the purpose of testing cannabis and other plant-based medicines.

  The Company is responsible to fund the development and construction of the analytical testing facility originally budgeted at $695,000.

  The agreement contemplates that the parties will enter into a service agreement under which the UoA will provide analytical testing services to the Company and others. The service agreement will have an initial 5-year term and require the Company to pay the UoA for its costs to operate and maintain the facility. Any profit (net revenue) from service fees will first be applied to pay to the Company an amount equal to 125% of its capital expenditures and operating costs in developing and establishing the analytical testing facility. Once the 125% threshold has been achieved, the Company and the UoA will equally share in profits (net revenues) from service fees.

  The Company has paid all expected development costs including equipment, training, and facility upgrades.

- On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the licence issued pursuant to the Canadian Controlled Drugs and Substance Act held by Loebenberg and Loebenberg's cannabis related research and associated intellectual property. The agreement grants the Company an exclusive right to benefit from the exercise of Loebenberg's rights under the licence.

  In consideration for the rights granted by Loebenberg to the Company, the Company issued 5,000,000 common shares (the "Consideration Shares"), to a company controlled by Loebenberg with a value of $625,000. The Consideration Shares are subject to voluntary pooling (the "Loebenberg Escrow") for a period commencing on the effective date of the agreement and terminating on the date that is thirty-six months after the earlier of: (i) the date the Company's shares are listing for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. On completion of the prospectus and listing, the Consideration Shares will also be subject to mandatory escrow. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last Consideration Shares are released from Escrow. If the licence is terminated during the exclusivity period, any remaining Escrowed Consideration Shares will be returned to the Company.

Loebenberg is entitled to revenue-based bonus payments from the sale of certain products developed by Loebenberg alone or jointly with the Company. If the Company generates at least $10,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level One Bonus of $200,000. If the Company generates at least $5,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level Two Bonus of $200,000. The Level Two Bonus is payable, at the election of the Company, either in cash or common shares at the current market price. The Company can terminate the Level One and/or Two Bonus entitlements by paying Loebenberg $1,000,000 per each bonus entitlement.

Canaccord Genuity Corp. ("Canaccord") provided the Company with certain corporate advisory services with respect to the intangible assets. In consideration, the Company issued 500,000 common shares on September 4, 2018 with a value of $62,500 to Canaccord. Additional transaction costs of $30,259 relating to the intangible assets were also incurred.

- On October 22, 2018, the Company entered into a share exchange agreement to acquire all the issued and outstanding shares of Bunker Pflanzenextrakte GmbH ("Bunker") replacing an earlier letter of intent. As consideration, the Company will issue to Bunker shareholders 7,500,000 common shares of the Company. In addition, the Company shall reserve for issuance an aggregate of 2,500,000 common shares in the Company (the "Milestone Shares"). In the event that Bunker either (i) is granted a cultivation licence(s) within 24 months or (ii) generates EUR 2,500,000 gross revenue in an 18-month period within 36 months after the date of this agreement, then the Company will issue the Milestone Shares to Bunker shareholders.

  The Company closed the share exchange agreement on December 13, 2018 and issued the 7,500,000 shares at a value of $3,000,000 to Bunker shareholders. The 7,500,000 shares are subject to escrow and will be released in tranches over 36 months on the earlier of (i) the date of listing on the CSE and (ii) 6 months after the effective date of the agreement. As of June 30, 2019, 529,500 common shares related to the share exchange agreement have been released from escrow. For 36 months after closing, should any Bunker shareholder wish to sell any shares, the Company has the right of first refusal to purchase the shares. The Company also advanced funds to Bunker prior to closing and incurred costs relating to the transaction totaling $1,286,722.

  Canaccord provided the Company with certain corporate advisory services as part of the transaction. As consideration, the Company issued 750,000 common shares at a value of $300,000 and 250,000 share purchase warrants, exercisable at $0.125 per share for a period of two years from date of listing on the CSE to Canaccord. The fair value of the 250,000 warrants was $73,392.

- In March 2019, the Company entered into a 3-year consultancy agreement to assist the Company with its import, wholesale, and manufacturing licence applications and business. As consideration, the Company will pay EUR 3,000 per month and issue 50,000 shares of the Company (issued). In the event that the consultant is appointed as managing director, board member or similar role of a newly formed Bunker subsidiary, the Company will issue 50,000 common shares to the consultant ("Milestone A Shares"). Should this subsidiary generate EUR 1,000,000 gross revenue in any 12-month period within 12 months after the achievement of Milestone A Shares, the Company will issue 50,000 common shares to the consultant ("Milestone B Shares"). Should this subsidiary generate EUR 5,000,000 gross revenue in any

18-month period within 18 months after the achievement of Milestone B Shares, the Company will issue 100,000 common shares to the consultant ("Milestone C Shares").

RESULTS ON OPERATIONS

THREE MONTHS ENDED JUNE 30, 2019

During the three months ended June 30, 2019, the Company recorded a net loss and comprehensive loss of $869,626 compared to a net loss and comprehensive loss of $192,603 for the three months ended June 30, 2018. The significant fluctuations are largely a result of the Bunker acquisition in December 2018. Additionally, at this time, the corporate structure is comprised of the parent company along with one wholly owned Canadian subsidiary as well as two wholly owned German subsidiaries. At June 30, 2018, there was only the parent company. For the three months ended June 30, 2019, the Company had five full-time employees as well as evolving operations and infrastructure build out in both Canada and Germany. Comparatively speaking, for the three months ended June 30, 2018, the Company was only a few months into its existence. As a result, for the three months ended June 30, 2018, the Company had only incurred consulting fees related to its CEO as well as professional fees (legal) for contract work, travel and related expenses for Germany, and other minor general and administrative costs.

Operating expenses for the three months ended June 30, 2019 increased to $830,304 from $192,603 for the comparable period due to the Company's effort to set up and execute on its business plan covering Canada and Germany. Significant operating expenses for the three months ended June 30, 2019 were largely comprised of salaries and benefits of $233,351 as compared to nil for the comparable period as the Company now has five full-time employees, professional fees increased to $106,694 as compared to $101,246 for the three months ended June 30, 2018 as the Company has been progressing through the non-offering prospectus filing process, its annual Company audit, and the CSE listing process. As a result of the execution of the Exclusivity Dealing Agreement with Dr. Loebenberg, and the execution of the Product Manufacturing Agreement all of which took place in the second half of 2018, the Company incurred $14,000 of research and lab fees for the three months ended June 30, 2019 as compared to $nil for the comparable period. Depreciation and amortization totaled $233,650 compared to nil for the three months ended June 30, 2018 as a result of depreciation and amortization related to the right-of-use asset as a result of the Bunker acquisition, the right-to-use licence acquired in the Exclusivity Dealing Agreement and the depreciation on the newly acquired and installed testing equipment. Additionally, office and miscellaneous increased to $67,586 from $6,828 from increased corporate activity as the Company has grown since the comparable period.

Finance costs for the three months ended June 30, 2019 were $39,322 compared to $nil for the three months ended June 30, 2018 due to the accrued interest related to the lease liability obligation associated with the 10-year lease of the Bunker facility.

SIX MONTHS ENDED JUNE 30, 2019

During the six months ended June 30, 2019, the Company recorded a net loss and comprehensive loss of $1,746,411 compared to a net loss and comprehensive loss of $276,327 for the six months ended June 30, 2018. The significant fluctuations are largely a result of the Bunker acquisition in December 2018. Additionally, at this time, the corporate structure is comprised of the parent company along with one wholly owned Canadian subsidiary as well as two wholly owned German subsidiaries. At June 30, 2018, there was only the parent company. For the six months ended June 30, 2019, the Company had five full-time employees as well as evolving operations and infrastructure build out in both Canada and Germany. Comparatively speaking, for the six months ended June 30, 2018, the Company was only a few months into its existence. As a result, for the six months ended June 30, 2018, the Company had only incurred consulting fees related to its CEO and a few outsourced providers as well as professional fees (legal) for contract work, travel and related expenses for Germany, and other minor general and administrative costs.

Operating expenses for the six months ended June 30, 2019 increased to $1,667,692 from $276,327 for the comparable period due to the Company's effort to set up and execute on its business plan covering Canada and Germany. Significant operating expenses for the six months ended June 30, 2019 were largely comprised of salaries and benefits of $463,733 as compared to nil for the comparable period as the Company now has several full-time employees, professional fees increased to $191,742 as compared to $132,236 for the six months ended June 30, 2018 as the Company has been progressing through the non-offering prospectus filing process, its annual Company audit, and the CSE listing process. As a result of the execution of the Exclusivity Dealing Agreement with Dr. Loebenberg, and the execution of the Product Manufacturing Agreement all of which took place in the second half of 2018, the Company incurred $70,000 of research and lab fees for the six months ended June 30, 2019 as compared to $nil for the comparable period. Depreciation and amortization totaled $441,999 compared to nil for the six months ended June 30, 2018 as a result of depreciation and amortization related to the right-of-use asset as a result of the Bunker acquisition, the right-to-use licence acquired in the Exclusivity Dealing Agreement and the depreciation on the newly acquired and installed testing equipment. Additionally, office and miscellaneous increased to $115,078 from $7,750 from increased corporate activity as the Company has grown since the comparable period.

Finance costs for the three months ended June 30, 2019 were $78,719 compared to $nil for the six months ended June 30, 2018 due to the accrued interest related to the lease liability obligation associated with the 10-year lease of the Bunker facility.

The following selected financial information is a summary of the eight most recently completed quarters up to June 30, 2019

	June 30, 2019	**Mar 31, 2019**	**Dec 31, 2018**	**Sept 30, 2018**	**June 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**	**Sept 30, 2017**
Comprehensive Loss	$869,626	$876,785	$501,005	$83,268	$192,603	$83,724	$4,485	$Nil
Basic and Diluted Loss per Share	0.02	0.02	0.02	0.01	0.01	0.01	0.01	Nil

The Company's operations are in their infancy and no comparative or trend discussion from quarter to quarter is relevant.

Liquidity and Capital Resources

The Company had working capital of $2,014,503 which included cash of $2,137,020 at June 30, 2019 compared to working capital of $1,982,148 which included cash of $2,365,597 at December 31, 2018.

During the six months ended June 30, 2019, the Company completed a Special Warrant offering in February 2019 whereby the Company issued 1,120,000 Special Warrants at $0.40 per Special Warrant for gross proceeds of $448,000 on the same terms and conditions as those issued on December 28, 2018. The Company paid finder fees of $35,840 and issued finders warrants to purchase an aggregate of 89,600 common shares at a price of $0.40 per share for a period of 2 years from date of listing on the CSE. On May 28, 2019, the Company issued 1,120,000 common shares and 1,120,000 share purchase warrants on conversion of the Special Warrants. Additionally, on February 28, 2019, the Company issued 457,500 units at $0.40 per unit for gross proceeds of $183,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.20 per share for a period equal to the shorter of (i) two years from the listing date on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of $14,640 and also issued 36,600 finders warrants to purchase an aggregate of 36,600 common shares at a price of $0.40 per share for a period of two years from date of listing on the CSE. On March 29, 2019, the Company issued 805,000 units at $0.40 per unit for gross proceeds of $322,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.20 per share for a period equal to the shorter of (i) two years from the listing date on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of $25,760 and also issued 64,400 finders warrants to purchase an aggregate of 64,400 common shares at a price of $0.40 per share for a period of two years from date of listing on the CSE. On April 11, 2019 the Company issued 765,705 units at $0.40 per unit for gross proceeds of $306,282. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units.

During 2018, the Company completed a private placement in January 2018 and issued 17,340,000 units at $0.125 per unit for gross proceeds of $2,167,500. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. The Company also closed another private placement in May 2018 whereby the Company issued 5,762,000 units at $0.125 per unit for gross proceeds of $720,250. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. The Company completed a third private placement in July 2018 whereby the Company issued 1,250,000 units at $0.125 per unit for gross proceeds of $156,250. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 per share for a period of two years from date of listing on the CSE. The Company completed a fourth private placement in November 2018 whereby the Company issued 862,000 units at $0.125 per unit for gross proceeds of $107,750. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.70 for a period of two years from date of listing on the CSE. The Company completed a Special Warrant offering in December 2018 whereby the Company issued 4,445,500 Special Warrants at $0.40 per Special Warrant for gross proceeds of $1,778,200. Each Special Warrant will automatically convert, for no additional consideration, into one common share of the Company and one share purchase warrant on the earlier of (i) the third business day after final prospectus receipt, and (ii) 4 months and one day after the issue date of the Special Warrants. Each warrant issued on conversion will entitle the holder to purchase one common share at a price of $1.20 per share for a period equal to the shorter of (i) two years after the listing date on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the Special Warrants. On April 29, 2019, the Company issued 4,445,500 common shares and 4,445,500 share purchase warrants on conversion of the Special Warrants. Proceeds thus far have been used primarily for general and administrative fees and expenses related to personnel and the execution of both the Exclusivity Dealing Agreement and the Commercial Analytical Lab Development and Services Agreement. Additionally, to June 30, 2019, the Company has advanced funds totaling approximately $1,364,260 to Bunker Pflanzenextrakte GmbH, in connection with the German operations.

The Company has forecast its cash requirements for the next fiscal year and believes will have sufficient cash resources and liquidity to sustain its current planned activities. This assessment is based on the Company's budget, its available cash and future planned financing activities. Future planned activities related to the acquisition of Bunker Pflanzenextrakte GmbH and receipt of will require the Company to raise additional capital which the Company plans to do.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

Key management personnel are the persons responsible for planning, directing, and controlling the activities of the Company and include both executive and non-executive directors, and entities controlled by such persons. The Company considers its directors, Chief Executive Officer and Chief Financial Officer of the Company and Managing Director of Bunker to be key management personnel.

The following is a summary of the Company's key management compensation.

	June 30, 2019	June 30, 2018
Compensation – Hugh Rogers, CEO & Director	$ 90,000	$ 55,000
Compensation – Christopher Ross, CFO	75,000	-
Consulting fees – Dr. Raimar Löbenberg, Director	30,000	-
Compensation – Wolfgang Probst, Director	90,366	-
Compensation - Robert Barth, Managing Director, Bunker	90,366	-
Share-based payments (1) – Hugh Rogers, CEO & Director	74,879	-
Share-based payments (1) – Christopher Ross, CFO	40,320	-

(1) Share-based payments are the fair value of options granted to key management personnel and directors of the Company under the Company's Stock Option Plan.

As at June 30, 2019, $5,648 (December 31, 2018 - $20,598) remained unpaid and due to Dr. Raimar Loebenberg and Robert Barth and has been included in accounts payable and accrued liabilities.

All related transactions are in the normal course of business and are measured at the exchange amount.

Outlook

The Company, through its wholly owned subsidiaries, is developing a testing, manufacturing, and research business in Canada and a research, cultivation, import, manufacturing, and distribution business in Germany.

Canada

XPhyto Laboratories Corp., a wholly owned Alberta subsidiary is focused on development of an analytical testing and extract manufacturing business in collaboration with the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta, and intends to subsequently pursue the invention and clinical study of proprietary cannabis-based formulas for medical indications. Analytical testing, manufacturing, formulation and clinical studies will be carried out pursuant to an exclusive agreement with Dr. Raimar Loebenberg in respect of the use of his Health Canada dealer's licence. Analytical testing and manufacturing will be carried out in laboratories at the University of Alberta.

Exclusive Dealing Agreement - Health Canada Licence

On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg with respect to commercial operations under his Health Canada licence and to his cannabis related research and associated intellectual property. The agreement grants the Company an exclusive right to benefit from Loebenberg's rights under Health Canada Licence No. 2017/6875 pursuant to the provisions of the Controlled Drugs and Substances Act and its Regulations authorizing possession, production, packaging, sale, sending, transportation and delivery, and analytical testing of cannabis (the "Exclusive Rights"). The Exclusive Rights expire upon final release of shares pursuant to the Loebenberg Escrow but may be renewed by mutual agreement in subsequent one-year periods. Pursuant to the Exclusive Dealing Agreement, Loebenberg has agreed to act as Qualified Person in Charge for the purpose of any additional Health Canada licences applied for by the Company.

In consideration for the rights granted by Loebenberg to the Company, the Company issued 5,000,000 common shares, to a company controlled by Loebenberg with a value of $625,000. The Consideration Shares are subject to voluntary pooling for a period commencing on the effective date of the agreement and terminating on the date that is thirty-six months after the earlier of: (i) the date the Company's shares are listing for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. On completion of the prospectus and listing, the Consideration Shares will also be subject to the mandatory escrow provision. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last Consideration Shares are released from Loebenberg Escrow. If the licence is terminated during the exclusivity period, any remaining Escrowed Consideration Shares will be returned to the Company.

Loebenberg is entitled to revenue-based bonus payments from the sale of certain products developed by Loebenberg alone or jointly with the Company. If the Company generates at least $10,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level One Bonus of $200,000. If the Company generates at least $5,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level Two Bonus of $200,000. The Level Two Bonus is payable, at the election of the Company, either in cash or common shares at the current market price. The Company can terminate the Level One and/or Two Bonus entitlements by paying Loebenberg $1,000,000 per each bonus entitlement.

Testing and Manufacturing - Canada

The initial phase of XPhyto's business development is founded on two strategic cannabis-related collaborations with the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta: 1) an exclusive five year agreement to co-develop and operate a commercial grade analytical lab for the testing of cannabis and other plant-based medicines (the "Testing Agreement"); and 2) an exclusive five year product manufacturing agreement to extract cannabis-derived compounds and produce pharmaceutical grade isolates (the "Manufacturing Agreement").

Pursuant to both agreements, XPhyto shall provide the necessary start-up funding for any testing and manufacturing equipment and equipment and facility upgrades, as well as all ongoing operational expenses and business marketing. The Faculty of Pharmacy shall provide qualified staff, certified laboratory facilities, and ongoing regulatory support. Any necessary testing or manufacturing services not available within the Faculty's facilities shall be outsourced and coordinated by the Faculty.

With respect to analytical testing, the Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences of the University of Alberta. Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the University of Alberta, executed a Commercial Analytical Lab Development and Services Agreement for the co-develop of a commercial grade analytical lab at UoA for the purpose of testing cannabis and other plant-based medicines.

The agreement contemplates that the parties will enter into a service agreement under which the UoA will provide analytical testing services to the Company and others. The service agreement will have an initial 5-year term and require the Company to pay the UoA for its costs to operate and maintain the facility. Any profit (net revenue) from service fees will first be applied to pay to the Company an amount equal to 125% of its capital expenditures in developing and establishing the analytical testing facility. Once the 125% threshold has been achieved, the Company and the UoA will equally share in profits (net revenues) from service fees.

The Company is responsible to fund the development and construction of the analytical testing facility. As of January 31, 2019, the Company has paid all expected development costs including equipment, training, and facility upgrades.

On December 7, 2018, the Company and the UoA executed an exclusive five-year product manufacturing agreement pursuant to which the Faculty of Pharmacy and Pharmaceutical Sciences agreed to manufacture cannabis-based extracts and isolates. The Company is responsible to provide any necessary equipment for the manufacture of the extracts and isolates and will pay UoA an annual fee estimated at $140,000. To date the Company has $130,095 on deposit related to extraction equipment. The equipment should be delivered in July 2019.

The purpose of XPhyto's analytical testing agreement is two-fold: 1) to provide third-party testing services to Canadian cannabis cultivators, wholesalers and retailers; and 2) to provide in-house testing for XPhyto's manufacturing business. XPhyto does not intend to cultivate cannabis in Canada nor does it intend to sell cannabis in Canada. Accordingly, XPhyto believes it will be well positioned to provide independent analytical services to both growers and purchasers.

Manufacturing capability, focused on production of pharmaceutical grade isolates, is designed to provide XPhyto with access to materials for use in subsequent phases of its business development, namely formulation and pilot studies. Certified in-house testing combined with its manufacturing capability is expected to help facilitate access to quality product on a consistent and timely basis.

XPhyto's testing and manufacturing business is expected to be operational in Q3 2019.

Formulations and Pilot Studies - Canada

Successful development of XPhyto's testing and manufacturing business (Phase I) is intended to lay the foundation for the development of proprietary formulations and related clinical studies. Using the pharmaceutical grade isolates from its manufacturing program, XPhyto intends to develop formulations for certain key medical indications, including but not limited to: pain, inflammation, and sleep disorders.

The Company expects to take a cautionary approach to formulation which entails advancing the formulation process with anecdotal data in mind but testing a number of different combinations of cannabinoid isolates for efficacy, regardless of presumed or historic status. XPhyto will also be investigating several delivery methods, including oral, sublingual, aerosol, and topical systems.

Dr. Löbenberg will be overseeing the formulation and delivery programs and related pilot studies. The Faculty of Pharmacy, in collaboration with the Company, has been actively recruiting a PhD post-doc researcher (the "Post-Doc") to work on formulations and pilot studies for the Company. The Post-Doc will conduct research activities under the supervision of Dr. Löbenberg. The Post-Doc commenced work in early April 2019.

XPhyto's formulation business is expected to begin underway in Q3 2019. Pending success in its formulation business the Company may proceed with human pilot studies to explore the efficacy of specific formulations. Excluding the cost of the Post-Doc, which is incorporated into the manufacturing facility budget, the pilot studies are expected to cost an additional $100,000 each. The Company has not included funding for any pilot studies in the current budget.

Independent Licencing - Canada

The Company is preparing to draft an application for a corporately held dealer's licence or other Health Canada licences at a location outside the University of Alberta. The Company is exploring alternate locations and expects to make a formal application to Health Canada in Q3 2019.

Germany

XPhyto's wholly owned German subsidiary, Bunker, holds a long-term lease on a decommissioned former military command centre in Bavaria. Built in 1984, the Bunker 88 Facility is a former avionics station and nuclear bunker used by the German Bundeswehr Tornado fighter bomber squadron. The Bunker 88 Facility is located in Memmingerberg, Bavaria, on a historic Luftwaffe air force base that dates back to 1935. In 2004, the airport was released by the German government for civilian use and is now an operating commercial airport, Allgäu Airport (Munich West).

Constructed with radiation-proof doors, thick concrete double walls, back-up power, air filtration, and a dedicated internal water well, the Bunker 88 Facility was designed for self-sufficient survival for up to two weeks in the event of a nuclear disaster. Approximately 30 military staff operated the avionics station until it was put on care and maintenance in the eighties.

The five-sided outer shell (walls and roof) of the Bunker 88 Facility is formed with 1.4 m thick statically reinforced concrete walls with dimensions as follows: 18.75 m (H) x 54.9 m (W) x 31.3 m (D), with 6 m of the height below ground. There is also a 4.7m porch/loading area outside the North entrance. The six-sided inner shell (walls, floor and ceiling) is formed by statically reinforced concrete ranging in thickness from 0.95 m to 1.4 m. The internal floor space of the Facility is approximately 10,740 square feet.

The first stage of renovations to the Bunker 88 Facility include upgrades to the electrical systems, fire protection systems, security systems, lighting, plumbing, painting, floor or ceiling coverings, cleaning, and minor landscaping. The estimated total cost of the first stage of renovations is $900,000. The first stage of renovations will be necessary to finalize any and all Cannabis-related licences in Germany; however, it is not necessary to carry out the renovation until preliminary approval has been received for a given licence.

The estimated cost for the first stage of renovations is not included in the current budget.

Scientific Licence Application – Germany

In 2017, Bunker submitted an application to BfArM for a cannabis research and development licence, based on proposed research to be conducted at the Bunker 88 Facility. On July 25, 2018, Bunker submitted a revised joint application for a research and development licence in collaboration with TUM. The majority of proposed work is to be conducted at the Bunker 88 Facility over a period of approximately three years.

The application was made to the Competent Authority BOPST for permission to cultivate and breed cannabis for research purposes pursuant to §3 BtMG (82.02-46383140214/16). TUM expressly supported this application in writing and requested early approval from the BOPST.

On March 29, 2019, Bunker was granted a licence for the cultivation of cannabis for scientific purposes valid until December 31, 2022. A maximum of 960 cannabis plants may be grown per year with a maximum of 480 plants to be grown at one time.

The application generally related to "production of high-quality cannabis raw material for medical and pharmaceutical uses". The more specific objective was: determination of differential composition and biosynthesis of cannabinoids and related metabolites of cannabis trichomes depending on genetic background of different cultivars and cultivation conditions.

The working group collaborators at TUM are expected to contribute their experience in the analysis of metabolites, metabolic pathways and 13C labelling studies on cannabis plant or trichomes, while Bunker will contribute its planned technical infrastructure for the large-scale and controlled cultivation of cannabis plants, as well as know-how in the cultivation of cannabis and the isolation and processing of cannabis trichomes. The preliminary research will systematically observe the influence of external conditions (e.g. substrate, light, nutrient solution) on the metabolite spectrum of 80 strains x 2 grow cycles/year x 4 replicates (960 total samples).

Extracts and isolation of cannabis trichomes will be carried out at the Bunker 88 Facility. The quantitative detection of the cannabinoids and other bioactive ingredients via HPLC, GC-MS and NMR will be carried out at TUM. The dynamics of metabolism in cannabis trichomes and the spectrum of comparative data from trichomes will be investigated. Approximately five chemo-strains will be selected out of 80.

To grow cannabis under the scientific cultivation licence, the Company will be required to invest in additional equipment and facility upgrades. The cost of equipment and facility upgrades is estimated to be up to $2,500,000. Funding for these upgrades is not included in the current budget.

Commercial Cultivation Licence – Germany

The first German cannabis cultivation tender was initiated by German health authority in 2017 but was cancelled after the proceedings had been successfully challenged in German courts. BfArM announced a second tender in mid-2018 with applications due December 11, 2018.

Bunker submitted an application to BfArM in December 2018 for a cannabis cultivation licence pursuant to the tender process. The specific licences sought were authorizations for handling narcotic drugs from the BOPST pursuant to §3 BtMG and a cultivation specific manufacturing licence from the local authority, RO pursuant to §13 AMG. On April 3, 2019, BfArM advised Bunker that it was not successful in the application process.

The Company expects that the German health authority may initiate another commercial cultivation licence tender in the next 12 months and that Bunker will participate in this application process. The criteria related to a potential tender process are unknown at this time.

Import, Wholesale and Manufacturing Licences – Germany

In 2017, Germany amended its narcotics and drugs legislation to permit legal prescriptions of medical cannabis. Except for the domestic production expected from the current tender process, cannabis is only available for medical purposes by means of import.

Bunker intends to apply concurrently for several related cannabis licences: import, wholesale (storage and distribution), and manufacturing. Bunker expects to make the applications in Q3 2019. The review process is expected to take approximately six to nine months from the date of application.

Import, wholesale, and manufacturing licences require an authorization to handle narcotic drugs which is granted by the BOPST pursuant to §3 BtMG. The main requirements are listed in the references published by BOPST which include the appointment of a Narcotic Drug Officer pursuant to §§5, 6, 7 BtMG, and the installation of secure areas and respective QM/SOP systems pursuant to §§5, 15 BtMG.

Bunker intends to apply for a license to import cannabis through the local authority RO pursuant to §72 AMG. The primary requirements are proven compliance with GMP/GDP Guideline requirements (QM/SOP system, appointment of Narcotic Drug Officer and approved premises) and GMP certificate equivalent to EU-GMP from the exporting company.

Bunker also intends to apply for a licence to store, distribute, and manufacture cannabis in Germany which is granted by the local authority RO pursuant to §13 and §52a AMG. The main requirements are proven compliance with the respective ordinance in the AMG, AMWHV, BtMG and GDP Guideline requirements (e.g. QM/SOP system, appointment of a Narcotic Drug Officer and appropriate premises). Manufacturing includes extraction, isolation, and packaging of cannabis derived products.

Bunker has engaged an independent consultant to assist the Company with its import, wholesale, and manufacturing licence applications and business. The consultant is a licensed German pharmacist with a doctorate degree in pharmacy and the following regulated qualifications in Germany: Qualified Person (QP), Production Manager (AMG), Control Manager (AMG), Narcotics Officer (BtMG and EU-QPPV), EU Qualified Person (QP) for Phrmacovigilance, and RP (GDP and Information Officer). He also currently personally holds active narcotics licences in Germany. The costs associated with the import, wholesale, and manufacturing licence applications and associated consulting fees are included in the budget in the general and administrative expenses.

The Company's head office, principal address and registered and records office is Hauptstrasse 29, D-87740 Buxheim, Germany.

Critical Accounting Estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.

Key Sources of estimation and uncertainty

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

i) Share-based compensation

The inputs used in calculating the fair value for share-based compensation included in profit or loss. The share-based compensation expense is estimated using the Black-Scholes option pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company`s common shares, the expected life of the options, and the estimated forfeiture rate.

ii) Deferred tax assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

iii) Economic recoverability and probability of future economic benefits of intangible assets and amortization

Management has determined that acquired intangible assets costs may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life.

The amortization expense related to intangible assets is determined using estimates relating to the useful life of the intangible asset.

Significant judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

i) Business combinations

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Bunker Pflanzenextrakte GmbH was determined to constitute an acquisition of assets.

Financial Instruments and Risk Management

Fair Value

Cash is carried at fair value using level 1 fair value measurement. The carrying value of amounts receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The Company records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk at June 30, 2019 under its financial instruments is approximately $2.1 million.

The majority of the Company's cash is held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is very limited interest rate risk as the Company has no interest-bearing debt.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations.

Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

The following is a summary of the maturities for the Company's lease liabilities as at June 30, 2019.

	Up to 1 year ($)	**1 year to 2 years ($)**	**More than 2 years ($)**
Lease liabilities	98,380	104,826	1,227,386
TOTAL:	98,380	104,826	1,227,386

Foreign exchange rate risk

The Company operates in Canada and Germany and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company, and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to foreign currency risk through the following financial assets and liabilities held in the following Canadian dollar equivalents:

June 30, 2019		Euro		Total
Cash	$	84,398	$	84,398
Amounts receivable		9,322		9,322
Total financial assets		93,720		93,720
Less: accounts payable and accrued liabilities		(88,789)		(88,789)
Less: Lease liability		(1,097,977)		(1,097,977)

At June 30, 2019, a 10% appreciation (depreciation) in the value of the Euro against the Canadian dollar, with all other variables held constant, would result in approximately a $109,000 decrease (increase) in the Company's net loss for the year.

Risks and Uncertainties

Conflicts of Interest

Certain directors of the Company also serve as directors and/or officers of other companies involved in other business ventures. Consequently, there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

Negative Operating Cash Flows

As the Company is an early stage start-up it may continue to have negative operating cash flows. Without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

Risks Related as a Going Concern

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its shareholders. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

Reliance on Key Personnel and Advisors

The Company relies heavily on its officers and directors. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

Management's Responsibility for the Financial Statements

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Risk Factors

Market Risk for Securities

We are an issuer company whose common shares are not listed for trading on a stock exchange. There can be no assurance that an active trading market for our common shares will be established and sustained. Upon a listing, the market price for our common shares could be subject to wide fluctuations. Factors such as government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of our securities. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Uninsured or Uninsurable Risk

We may become subject to liability for risks against which we cannot insure or against which we may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for our usual business activities. Payment of liabilities for which we do not carry insurance may have a material adverse effect on our financial position and operations.

Conflicts of Interest Risk

Certain of our directors and officers are also directors in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers' conflict with or diverge from our interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to our best interests. However, in conflict of interest situations, our directors and officers may owe the same duty to another company and will need to balance their competing interests with duties to us.

Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to us.

Key Personnel Risk

Our success will depend on our directors and officers to develop our business and manage our operations, and on our ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants once operations begin. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on our business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that we will be able to attract or retain key personnel in the future, which may adversely impact our operations.

No Established Market for Shares Risk

There is currently no established trading market through which common shares in our authorized capital may be sold. Even if a trading market develops, there can be no assurance that such market will continue in the future. You may lose your entire investment.

Dividend Risk

We have not paid dividends in the past and do not anticipate paying dividends in the near future. We expect to retain any earnings to finance further growth and, when appropriate, retire debt.

Share Price Volatility Risk

It is anticipated that our common shares will be listed for trading on the Exchange. As such, external factors outside of our control such as announcements of quarterly variations in operating results, revenues and costs, and sentiments toward the cannabis sector stocks may have a significant impact on the market price of our common shares. Global stock markets including the Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. There can be no assurance that an active or liquid market will develop or be sustained for the common shares.

The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

Nature of the Business Model

Probable lack of business diversification.

Because the Company will be focused on developing its business ancillary to the cannabis industry, and potentially directly in the cannabis industry, the prospects for the Company's success will be dependent upon the future performance and market acceptance of the Company's intended facilities, products, processes, and services. Unlike certain entities that have the resources to develop and explore numerous product lines, operating in multiple industries or multiple areas of a single industry, the Company does not anticipate the ability to immediately diversify or benefit from the possible spreading of risks or offsetting of losses. Again, the prospects for the Company's success may become dependent upon the development or market acceptance of a very limited number of facilities, products, processes or services.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the Common Shares may significantly decrease.

The Company may be subject to additional regulatory burden resulting from its public listing on the CSE.

The Company has not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the CSE. The Company is working with its legal, accounting and financial advisors to identify those areas in which changes should be made to the Company's financial management control systems to manage its obligations as a public company listed on the CSE. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. The Company has made, and will continue to make, changes in these and other areas, including the Company's internal controls over financial reporting. However, the Company cannot assure holders of Company's shares that these and other measures that the Company might take will be sufficient to allow us to satisfy the Company's obligations as a public company listed on the CSE on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies listed on the CSE will create additional costs for the Company and will require the time and attention of management. The Company cannot predict the amount of the additional costs that the Company might incur, the timing of such costs or the impact that management's attention to these matters will have on the Company's business.

There is no assurance that the Company will turn a profit or generate immediate revenues.

There is no assurance as to whether the Company will be profitable, earn revenues, or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.

The Company has grown by acquisition. If the Company implements it business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and management information systems, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Common Shares.

The Company may be unable to adequately protect its proprietary and intellectual property rights

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;
- another party may assert a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some U.S. state jurisdictions or under U.S. federal law, the Company may face additional difficulties in defending its intellectual property rights.

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.

An increase in the number of companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's Chief Executive Officer, Chief Operating Officer, and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

There is no assurance that the Company will obtain and retain any relevant licenses.

If obtained, any licenses are expected to be subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licenses or any failure to maintain licenses would have a material adverse impact on the business, financial condition and operating results of the Company.

The size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.

Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability. The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will 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 Common Shares. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Stock Option Plan and upon the exercise of outstanding Warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. 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 may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate government regulations. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company will be reliant on information technology systems and may be subject to damaging cyberattacks.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

In certain circumstances, the Company's reputation could be damaged.

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

No guarantee on the use of available funds by the Company.

The Company cannot specify with certainty the particular uses of available funds. Management has broad discretion in the application of its proceeds. Accordingly, a holder of Common Shares will have to rely upon the judgment of management with respect to the use of available funds, with only limited information concerning management's specific intentions. The Company's management may spend a portion or all of the available funds in ways that the Company's shareholders might not desire, that might not yield a favourable return and that might not increase the value of a purchaser's investment. The failure by management to apply these funds effectively could harm the Company's business. Pending use of such funds, the Company might invest the available funds in a manner that does not produce income or that loses value.

Currency Fluctuations.

A significant portion of the Company's German subsidiary expenses are expected to be denominated in Euros, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the Euro and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Outstanding Share Data

Authorized and issued share capital as at July 10, 2019:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	47,107,705

- As at July 10, 2019, there were 1,100,000 stock options outstanding.
- As at July 10, 2019, there were 22,940,605 warrants outstanding

Other Information

Additional information on the Company is available on SEDAR at www.sedar.com.