

**ASCENT INDUSTRIES CORP.**

**ANNUAL INFORMATION FORM**

**For the Year Ended**

**May 31, 2018**

**Dated September 27, 2018**

## TABLE OF CONTENTS

ARTICLE 1 INTRODUCTORY NOTES .....	1
Section 1.1 Date of Information.....	1
Section 1.2 Currency and Exchange Rates.....	1
Section 1.3 Financial Information.....	1
Section 1.4 Forward-Looking Information .....	1
ARTICLE 2 GLOSSARY OF TERMS .....	3
ARTICLE 3 CORPORATE STRUCTURE .....	4
Section 3.1 Name, Address, and Incorporation.....	4
Section 3.2 Intercorporate Relationships .....	5
ARTICLE 4 GENERAL DEVELOPMENT OF THE BUSINESS.....	5
Section 4.1 Three Year History.....	5
Section 4.2 The Amalgamation.....	7
ARTICLE 5 DESCRIPTION OF BUSINESS.....	8
Section 5.1 General .....	8
Section 5.2 Cultivation and Production Facilities.....	10
Section 5.3 Business Objectives .....	12
Section 5.4 Canadian Operations .....	12
Section 5.5 U.S. Operations .....	21
Section 5.6 Products.....	26
Section 5.7 Research and Development.....	28
Section 5.8 Intellectual Property .....	29
Section 5.9 Ascent's Methods of Production.....	29
Section 5.10 Specialized Skill and Knowledge.....	29
Section 5.11 Sourcing, Pricing and Availability of Materials .....	30
Section 5.12 Intangible Properties .....	30
Section 5.13 Effect of Environmental Protection Requirements .....	30
Section 5.14 Employees .....	30
Section 5.15 Ascent's Foreign Operations .....	30
Section 5.16 Competitive Conditions .....	31
Section 5.17 Cycles.....	31
ARTICLE 6 DIVIDENDS AND DISTRIBUTIONS.....	31
ARTICLE 7 CAPITAL STRUCTURE .....	31

ARTICLE 8 MARKET FOR SECURITIES .....	33
Section 8.1 Trading Price and Volume .....	33
Section 8.2 Prior Sales .....	33
ARTICLE 9 ESCROWED SECURITIES .....	34
ARTICLE 10 DIRECTORS AND OFFICERS .....	35
Section 10.1 Directors and Officer Information.....	35
Section 10.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions.....	37
Section 10.3 Conflicts of Interest.....	38
ARTICLE 11 PROMOTERS.....	38
ARTICLE 12 LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	39
Section 12.1 Legal Proceedings .....	39
Section 12.2 Regulatory Actions.....	39
ARTICLE 13 INTEREST OF MANAGEMENT OR OTHERS IN MATERIAL TRANSACTIONS .....	39
Section 13.1 Interest of Management or Others in Material Transactions .....	39
ARTICLE 14 TRANSFER AGENTS AND REGISTRARS .....	39
ARTICLE 15 MATERIAL CONTRACTS .....	39
ARTICLE 16 INTERESTS OF EXPERTS .....	40
ARTICLE 17 RISK FACTORS .....	40
Section 17.1 Risks Related to Ascent's Business .....	41
Section 17.2 Risks Related to the United States .....	49
Section 17.3 Risks Related to Expansion into Foreign Jurisdictions.....	51
Section 17.4 Reliance on International Advisors and Consultants .....	51
Section 17.5 Geographic Expansion Risks .....	52
Section 17.6 Risks Specifically Related to the United States Regulatory System.....	52
Section 17.7 Risk Generally Related to the Company .....	55
ARTICLE 18 REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS .....	61
Section 18.1 The Company's Balance Sheet and Operating Statement Exposure to U.S. marijuana Related Activities .....	61
Section 18.2 Enforcement of U.S. Federal Laws .....	63
Section 18.3 U.S. Enforcement Proceedings .....	63
ARTICLE 19 ADDITIONAL INFORMATION.....	65
APPENDIX A .....	1

## **ARTICLE 1 INTRODUCTORY NOTES**

### **Section 1.1 Date of Information**

All information contained in this Annual Information Form (“AIF”) is current as of May 31, 2018 with subsequent events disclosed to September 27, 2018.

### **Section 1.2 Currency and Exchange Rates**

All dollar amounts herein are expressed in Canadian Dollars unless otherwise indicated.

### **Section 1.3 Financial Information**

The Company’s financial statements and information derived therefrom are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Section 1.4 Forward-Looking Information**

This AIF and any documents incorporated by reference herein contain certain statements or disclosures that may constitute forward-looking information or statements (collectively, "forward-looking information") under Applicable Securities Laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that management of the Company anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "forecast", "future", "may", "will", "expect", "anticipate", "believe", "could", "potential", "enable", "plan", "continue", "contemplate", "pro forma" or other comparable terminology. Forward-looking information presented in this AIF includes statements or disclosures which, among other things, relate to the following:

- expenses that will be incurred by the Company;
- the Company’s use of available funds;
- the performance of the Company’s business and operations;
- the intention to grow the business and operations of the Company;
- the completion of the acquisition of Agrima Meadows by the Company;
- the Company plans to increase cultivation and production operations;
- sufficient working capital and the Company's ability to raise additional funding going forward;
- future legislative and regulatory developments involving medical and adult-use cannabis that may affect the Company;
- expected growth in the number of users of medical and adult-use cannabis in Canada;
- number of grams of medical and adult-use cannabis expected to be used by each user;
- expected growth in the Company 's growing capacity;
- the methods used by the Company to deliver cannabis;
- the competitive conditions of the industry;

- the legalization of cannabis for recreational use in Canada and the United States, including federal, provincial and state regulations pertaining thereto and the timing related thereof and the Company's intentions to participate in such markets, if and when such market is legalized;
- the Company's ability to successfully brand products;
- the development of cannabis markets North America, Europe and globally;
- the timing of legalization of adult-use cannabis in Canada;
- access by the Company to debt and/or equity markets on acceptable terms to the Company;
- statements related to the effect and consequences of certain regulatory initiatives and related announcements, and the impact thereof for shareholders, industry participants and other stakeholders;
- expectations with respect to future production costs;
- expectations with respect to the renewal and/or extension of the Company licenses;
- any commentary related to the legalization of cannabis and the timing related thereto;
- changes in laws and regulations affecting the Company;
- the competitive and business strategies of the Company;
- the Company's operations in the United States, the characterization and consequences of those operations under federal law, and the framework for the enforcement of medical cannabis and cannabis-related offenses in the United States;
- the grant and impact of any license or supplemental licence to conduct activities with cannabis or any amendments thereof;
- the anticipated future gross margins of the Company's operations; and
- other currently unforeseen factors.

Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to the Company, including information obtained from third party sources. While the Company believes these assumptions and factors to be reasonable, there can be no assurance that actual results will not vary materially from these assumptions or factors. Accordingly, readers should not place undue reliance on forward-looking information.

Furthermore, certain of the forward-looking statements and forward-looking information and other information contained herein concerning the medical cannabis industry and the general expectations of the Company concerning the medical cannabis industry, the recreational cannabis industry and concerning the Company, are based on estimates prepared by the Company, using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the cannabis industry involves risks and uncertainties that are subject to change based on various factors.

Shareholders are cautioned not to place undue reliance on any forward-looking information, as such information involves significant risks and uncertainties and should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. The Company is not

obligated to update or revise any of the forward-looking information in this AIF, whether as a result of new information, future events or otherwise, except as required by law.

See “Risk Factors” for a description of certain risks related to an investment in the Company.

## **ARTICLE 2 GLOSSARY OF TERMS**

The following is a glossary of certain terms used in this AIF:

“**AIF**” means this annual information form of the Company dated September 27, 2018, for the year ended May 31, 2018;

“**Amalgamation**” means the Amalgamation of Ascent and Paget under the name Ascent Industries Corp. on August 9, 2018.

“**Amalgamation Agreement**” means the Amalgamation Agreement dated June 29, 2018 pursuant to which Ascent and Paget were amalgamated and continued as a resulting entity;

“**Articles**” means the Company’s Articles;

“**BCBCA**” means the *Business Corporations Act* (British Columbia);

“**BCSC**” means the British Columbia Securities Commission;

“**Board**” means the Board of Directors of the Company;

“**CFO**” means the Chief Financial Officer of the Company;

“**Cole Memorandum**” means the memorandum dated August 29, 2013 addressed to “All United States Attorneys” from James M. Cole, Deputy Attorney General of the United States, and having the subject line “Guidance Regarding Marijuana Enforcement”;

“**Common Shares**” means the common shares in the capital of the Company;

“**Company**” or “**Ascent**” means Ascent Industries Corp.;

“**CSA**” means the *U.S. Controlled Substances Act of 1970*, as amended;

“**CSE**” means the Canadian Securities Exchange, operated by CNSX Markets Inc.;

“**Facilities**” has the meaning ascribed thereto on page 9;

“**Forward-Looking Statements**” has the meaning ascribed to such term under the heading “Introductory Notes – Forward-Looking Information”;

“**Joint Circular**” has the meaning ascribed thereto on page 7;

“**Maple Ridge Facility**” has the meaning ascribed thereto on page 5;

“**MNP LLP**” the auditors of the Company;

“**Nevada Facility**” has the meaning ascribed thereto on page 5;

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*;

“**Oregon Facility**” has the meaning ascribed thereto on page 5;

“**Paget**” means Paget Minerals Corp.;

“**Pitt Meadows Facility**” has the meaning ascribed thereto on page 6;

“**Pitt Meadows Lab**” has the meaning ascribed thereto on page 6;

“**Rohrabacher-Farr Amendment**” means the legislation first introduced by U.S. House of Representatives Maurice Hinchey, Dana Rohrabacher, and Sam Farr in 2003 and known as the Rohrabacher-Farr amendment (also known as the Rohrabacher-Blumenauer amendment) prohibiting the U.S. Justice Department from spending funds to interfere with the implementation of state medical cannabis laws. The amendment has been renewed numerous times, most recently on March 23, 2018, and is in effect until September 30, 2018;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval filing system, available on the Internet at <http://www.sedar.com>;

“**Sessions Memorandum**” means the memorandum dated January 4, 2018 addressed to “All United States Attorneys” from Jefferson B. Sessions, Attorney General of the United States, and having the subject line “Marijuana Enforcement”;

“**Shareholders**” means the shareholders of the Company;

“**Stock Option Plan**” means the Employee Stock Option Plan adopted by the Company;

“**Sweet Nevada**” has the meaning ascribed thereto on page 21;

“**Sweet Oregon**” has the meaning ascribed thereto on page 21;

“**U.S.**” or “**USA**” means the United States of America.

## **ARTICLE 3 CORPORATE STRUCTURE**

### **Section 3.1 Name, Address, and Incorporation**

Ascent Industries Corp. was incorporated on May 30, 2013 under the BCBCA. The head office of the Company is located at 260-22529 Lougheed Hwy, Maple Ridge, British Columbia V2X 0T5. The registered office of the Company is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2X8.

The Company’s Common Shares are listed on the CSE under the trading symbol “ASNT”. The Company is a reporting issuer in Canada in the Provinces of British Columbia and Alberta.

### **Section 3.2 Intercorporate Relationships**

The organizational chart attached as Appendix A to this AIF identifies, as of the date of this AIF, Ascent's subsidiaries, their applicable governing jurisdictions and the percentage of their voting securities which are beneficially owned, or controlled or directed, directly or indirectly, by Ascent.

## **ARTICLE 4 GENERAL DEVELOPMENT OF THE BUSINESS**

### **Section 4.1 Three Year History**

Ascent was incorporated on May 30, 2013 under the laws of the Province of British Columbia, Canada.

Ascent has been pursuing the goal of becoming a global producer and distributor of cannabis-based products. In pursuit of this goal, Ascent has financed its operations privately and to the date of this AIF has raised approximately \$53 million in capital, including approximately \$10 million invested by the founders of Ascent. Ascent has used these funds to build its business, including to apply for or acquire regulatory licenses, to acquire assets, to construct or acquire production facilities, to develop products, to conduct research, to distribute products where permitted and to build its internal operations and corporate functions to support the expansion of its business, including into other countries.

Prior to fiscal 2016, Ascent had completed the construction of a 20,000 square foot cultivation and processing facility in Maple Ridge, British Columbia (the "Maple Ridge Facility") and had applied for federal commercial licenses to cultivate and produce cannabis and cannabis-based products from Health Canada under the ACMPR. In fiscal 2016, Ascent raised approximately \$1.7 million under its Series A private placement financing, part of which was used to pursue regulatory licenses towards an operation in Oregon, which were approved in fiscal 2017. In addition, Ascent offered extraction, formulation, and manufacturing services to approved medical patients at the Maple Ridge Facility under the prior regulatory regime of Health Canada.

In fiscal 2017, Ascent raised approximately \$7.5 million under its Series B private placement financing, part of which was used to construct a processing facility in Portland, Oregon (the "Oregon Facility") and commence its US operations. In addition, Ascent began discussions regarding the potential purchase of medical cannabis licenses and a 37,500 square foot cultivation and production facility in Las Vegas, Nevada (the "Nevada Facility").

In fiscal 2018, Ascent achieved a number of significant milestones, including the following (not necessarily in a particular order):

- raised approximately \$10.2 million under its Series C private placement financing;
- acquired its facility in Nevada, as well as two (2) of a limited number of State of Nevada licenses authorizing the cultivation and production of cannabis and cannabis products for medical and recreational purposes at the Nevada Facility;
- received Scientific Research and Experimental Development (SR&ED) Program and Canada Revenue Agency (CRA) grants. To the date of this AIF, Ascent has been awarded over \$152,350 in research grants and credits for cannabis related research;



- acquired substantially all of the assets of a craft chocolate producing company, Cocoanymph Chocolates & Confections Inc., and entered into a consulting agreement with its Head Chocolatier;
- acquired an interest in AgTech Scientific Corp., a burgeoning hemp cultivation, production and R&D company based in Kentucky, USA;
- became a licensed producer (“Licensed Producer”) under the ACMPR in Canada;
- applied for an additional Licensed Producer site license and began construction on the build-out of a 40,000 square foot product manufacturing and distribution facility in Pitt Meadows, British Columbia (the “Pitt Meadows Lab”);
- applied for an additional Licenced Producer site license and entered into an agreement to acquire a 600,000 square foot greenhouse in Pitt Meadows (the ‘Pitt Meadows Facility’) for the cultivation of cannabis. The agreement was subsequently amended to extend the closing date to December 31, 2018 subject to the payment of additional deposits to be applied toward the purchase price on closing;
- acquired an Enterprise Resource Planning (ERP) and seed-to-sale tracking software platform from a US-based ERP and software company, Openforce Inc.;
- opened an office in Copenhagen, Denmark to pursue European operations, made license applications with applicable regulatory authorities in Denmark for a Controlled Drug License and a Wholesaler Dealer License, and submitted applications for the import of eight cannabis-based products from Canada to Denmark via the newly established Danish Medical Cannabis Pilot Program;
- applied for a dealer's license (the “Dealer’s License”) under the *Controlled Drugs and Substances Act* (Canada), which was obtained in June 2018. The Dealer's Licence is aligned with a key area of expertise of Ascent, being the manufacturing of cannabis oil-based products, such as gel-caps and tinctures. The Dealer's Licence permits the possession, production, packaging, sale, sending, transportation and delivery of these products. Furthermore, the Dealer's Licence enables Ascent to conduct research, clinical trials and provide a variety of analytical testing for Ascent and other licenced producers and licenced dealers. Ascent has applied to migrate activities allowed under the Dealer’s Licence to certain other licences required under the Cannabis Act when it comes into effect, including an R&D licence and LP licence.;
- entered into a supply agreement with Aurora Cannabis Inc. ("Aurora"), one of Canada's largest Licensed Producers, to supply Aurora with 20,000 kg of cannabis flower and 6,000 kg of cannabis trim per year for five (5) years;
- entered into a Letter of Intent with Australian Natural Therapeutics, a burgeoning Australian licensed producer and R&D company;
- applied for a Licensed Producer sales license under the ACMPR, which is expected to be received in the fourth quarter of 2018. This license would provide Ascent the ability to sell medical cannabis and cannabis oils online to any approved medical cannabis patients in Canada; and

- acquired a medical clinic and pharmacy in Winnipeg, Manitoba with the intent of acquiring and partnering with more clinics to create a Canada-wide network of medical clinics offering medical services, including education and access to medical cannabis through medical practitioners in Canada and by telemedicine where appropriate.

Subsequent to fiscal 2018 and to the date of this AIF, Ascent has achieved the following milestones:

- raised approximately \$12 million under its Series D private place of units, each unit being comprised of one common share and one common share purchase warrant;
- raised approximately \$19.2 million under an offering of subscription receipts, with each subscription receipt being exchanged for a unit comprised of one common share and one common share purchase warrant. For more information, please see the Joint Management Information Circular filed by Paget under its corporate profile on SEDAR at [www.sedar.com](http://www.sedar.com) on July 4, 2018 (the “Joint Circular”);
- completed an amalgamation with Paget Minerals Corp. and listing of its Common Shares on the CSE as described below;
- entered into a supply agreement with each of the Province of Ontario and the Province of British Columbia.

In addition, Ascent continues to expand its internal operations, including with respect to product development, production, and sales and marketing, and is continuing to develop an intellectual property portfolio, including trademarks for certain of its products, as well as applying for certain patents.

#### **Section 4.2 The Amalgamation**

On August 9, 2018, the Amalgamation of Ascent and Paget was completed pursuant to the Amalgamation Agreement. Upon completion of the amalgamation, the amalgamated company (referred to as the “Resulting Issuer”) continued the business of Ascent under the corporate name "Ascent Industries Corp." The following summary of the Amalgamation does not purport to be complete and is qualified in its entirety by reference to the Amalgamation Agreement and the description of the Amalgamation set forth in the Joint Circular.

On June 29, 2018, Paget and Ascent entered into the Amalgamation Agreement which set out the terms and conditions upon which the parties would complete the Amalgamation and continue Ascent's business. On the effective date of the Amalgamation:

- Paget consolidated all of the then issued and outstanding Paget common shares on the basis of six (6) pre-consolidation Paget common shares for one (1) post-consolidation Paget common share, and all securities convertible to Paget common shares on a similar basis;
- Each Paget share was cancelled, and former Paget shareholders received one (1) Resulting Issuer common share for each post-consolidation Paget common share held by them;

- Each of the post-consolidation Paget warrants was replaced with one (1) Resulting Issuer warrant, and each such Paget warrant was cancelled;
- Each of the post-consolidation Paget stock was replaced with one (1) Resulting Issuer stock option on the same terms, and each such Paget stock option was cancelled;
- Each Ascent common share, including the shares underlying the Ascent subscription receipt units, was cancelled, and former Ascent shareholders received one (1) Resulting Issuer common share for each Ascent common share held by them;
- Each outstanding warrant of Ascent became convertible into one (1) Resulting Issuer common share in accordance with the terms therein;
- the Ascent convertible debenture became convertible into Resulting Issuer common shares in accordance with the terms therein;
- Each outstanding broker warrant issued under the subscription receipt offering became exercisable for Resulting Issuer units in accordance with its terms.
- Each outstanding Ascent stock option was replaced with one (1) Resulting Issuer stock option, and each such Ascent stock option was cancelled; and
- All of the property and assets of each of Ascent and Paget did become the property and assets of the Resulting Issuer and the Resulting Issuer is liable for all of the liabilities and obligations of each of Ascent and Paget.

Following the Amalgamation:

- Former shareholders of Paget held approximately 2.7% of the outstanding Resulting Issuer common shares, on a non-diluted basis; and
- Former shareholders of Ascent held approximately 97.3% of the outstanding Resulting Issuer Shares, on a non-diluted basis.

## **ARTICLE 5 DESCRIPTION OF BUSINESS**

### **Section 5.1 General**

Ascent is in the business of the cultivation, processing, production, development and distribution of cannabis and cannabis-based products in Canada and the United States. Ascent has also initiated operations in Denmark from which it plans to expand into Europe. The head office of Ascent is located at 260-22529 Lougheed Hwy, Maple Ridge, British Columbia. The registered office of Ascent is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. Ascent's telephone number at its head office is (604) 380-3840. Ascent's website is [www.ascentindustries.com](http://www.ascentindustries.com). Information contained on Ascent's website does not constitute a part of this AIF.

In Canada, Ascent, via its wholly-owned subsidiary Agrima Botanicals Corp. ("**Agrima**"), is a Licensed Producer under the ACMPR of Health Canada, with licenses to cultivate cannabis

and produce cannabis products. Ascent has applied for a sales license to distribute cannabis products in Canada under the ACMPR, including through an online e-commerce platform, which management expects to receive in the near future.

In addition, Ascent (through Agrima) has received a license for controlled drugs and substances (the “Dealers’ License”) from Health Canada pursuant to the *Narcotics Control Regulations* of the *Controlled Drugs and Substances Act* (Canada). The Dealer's Licence is aligned with a key area of expertise of Ascent, being the manufacturing of cannabis oil-based products, such as gel-caps and tinctures. The Dealer's Licence permits the possession, production, packaging, sale, sending, transportation and delivery of these products. Furthermore, the Dealer's Licence enables Ascent to conduct research, clinical trials and provide a variety of analytical testing for Ascent and other licenced producers and licenced dealers. Ascent has applied to migrate activities allowed under the Dealer’s Licence to certain other licences required under the Cannabis Act when it comes into effect, including an R&D licence and LP licence.

In the United States, Ascent holds licenses for the processing and wholesale distribution of cannabis in the State of Oregon and for the cultivation and processing of cannabis in State of Nevada. In Europe, Ascent has applied for a Controlled Drugs License and a Wholesaler Dealer License in Denmark and has also submitted applications to import and distribute eight (8) cannabis-based products from Canada to Denmark under the new Danish Medical Cannabis Pilot Program.

Ascent's operations currently include a licensed facility in Maple Ridge, British Columbia, and licensed facilities in the States of Oregon and Nevada. In addition, Ascent has successfully applied for additional site Licensed Producer licenses for its two (2) new facilities in Pitt Meadows, British Columbia. Ascent's activities at each facility are governed by the applicable licenses held by Ascent, and currently include cultivation and extraction in Canada, and production, processing and wholesale distribution of cannabis in State of Oregon and cultivation and production of cannabis products in the State of Nevada.

By the end of calendar year 2018, Ascent expects to have 710,000 square feet in cannabis cultivation and production space at the Maple Ridge Facility, the Oregon Facility, the Nevada Facility, the Pitt Meadows Facility and the Pitt Meadows Lab (collectively, the “Facilities”). The Company anticipates that this space, when in full production, will allow Ascent to cultivate up to 65 million grams of cannabis output and produce 12 million grams of annual oil output annually at the Facilities.

Ascent is strategically positioned to be a leader of branded, commercialized products in medical and adult-use (recreational) markets across Canada, the United States and Europe. As a long-standing participant in the medical cannabis space, Agrima already has a loyal following of consumers across many of its brands and products, which will serve as a catalyst towards being a prominent first mover at the debut of adult-use legalization in Canada, which is anticipated for October 17, 2018. Ascent's extensive product catalogue includes more than 40 unique products under several customer-focused house brands.

Ascent's business is currently focused primarily on the following areas:

1. Operations relating to medical and adult-use cannabis, when legal, in Canada;

2. Operations relating to medical and adult-use cannabis in Oregon, Nevada and other jurisdictions in the United States;
3. Operations relating to medical cannabis in all approved European countries, beginning with Denmark;
4. Research and development targeting the development of specialized cannabinoid therapy products for the emerging cannabis industry; and
5. Cannabis plant testing and genetic screening services.

Ascent expects to generate returns from the production, manufacture, packaging, distribution and sale of cannabis and cannabis-based products, on its behalf and on behalf of its partners, in the medical and adult-use markets in Canada, the United States and Europe, and elsewhere legally permitted.

## **Section 5.2 Cultivation and Production Facilities**

### **A. Canadian Facilities**

#### *The Maple Ridge Facility (Maple Ridge, British Columbia)*

Ascent's wholly-owned subsidiary, Agrima, has the 27,000 square foot licensed Maple Ridge Facility which has a custom 15,000 square foot indoor growing, production and distribution facility built in 2012. The Maple Ridge Facility has an office and plant production building of pharmaceutical production grade quality, with hydroponic greenhouse high pressure sodium lighting and nutrient delivery equipment which is capable of producing over 1,800 kilograms of medical cannabis per year. Upon receipt of its Licensed Producer license, Agrima upgraded the facility's vegetative and flowering rooms, with the addition of full-spectrum LED and HID lighting, and improved cultivation systems. The improvements significantly increased plant capacity at the Maple Ridge Facility.

In addition, the Maple Ridge Facility has a 5,000 square foot addition adjacent to the facility that includes a Security Directive Level 8 vault, manufacturing and packaging space, as well as a fully equipped production lab capable of performing a variety of extraction, formulation and isolation and analytical techniques.

Agrima has received a Dealer's License for the Maple Ridge Facility lab, including for a newly constructed Security Directive Level 10 vault. Agrima is in the process of establishing an on-site laboratory and installing further analytical equipment and capacity. The laboratory allows it to perform Health Canada-mandated testing in-house, thereby saving time and money. Testing methodologies are applied consistently and accurately from batch to batch. Additionally, the on-site laboratory accelerates the approval and release of new batches, shortening time to market and increasing sales capacity as Agrima scales up cultivation and production capacity. Ascent has applied to migrate activities allowed under the Dealer's Licence to certain other licences required under the Cannabis Act when it comes into effect, including an R&D licence and LP licence.

Agrima is in the process of obtaining an EU GMP certification for the Maple Ridge Facility. This certification is required by several foreign governments for export to EU markets,

and upon successful receipt, Agrima anticipates it will be in a position to distribute oil-based products (i.e. gel-caps and tinctures) to several EU countries, including Denmark to start.

*The Pitt Meadows Facility (Pitt Meadows, British Columbia)*

The Pitt Meadows Facility is a 650,000 square foot facility on a 25 acre property with a 600,000 square foot greenhouse located within approximately ten (10) kilometres from the Maple Ridge Facility. The Pitt Meadows Facility is approximately ten (10) years old, and consists of two (2) adjoined greenhouses with a metal frame, multi-gable roof (Dutch "Venlo" style) structure with single, 36 oz. glass panel walls and roof cladding, all on concrete perimeter and internal concrete pier footings. The entire canopy is covered with over 4,000 hydroponic greenhouse high pressure sodium lights, automated nutrient delivery equipment and environmental control systems. At full production capacity, the Company anticipates that the Pitt Meadows Facility will be capable of producing over one million grams of dried cannabis per week, with a substantial portion of the harvested material destined as an input for extraction and product manufacturing. An application for a license for the Pitt Meadows Facility has been filed with Health Canada and is in the late stages of review.

*The Pitt Meadows Lab (Pitt Meadows, British Columbia)*

Ascent has leased two adjoining warehouse spaces located within approximately twelve (12) kilometres from the Pitt Meadows Facility, and the Pitt Meadows Lab, which total approximately 40,000 square feet, comprised of high-ceiling warehouse space along with office and administrative space. The Pitt Meadows Lab is currently in Phase One (consisting of approximately 20,000 square feet) of construction to become a Good Manufacturing Practices (GMP) production-only facility, designed by Agrima engineers and scientists for high-volume extraction, formulation, automated manufacturing and sophisticated packaging capabilities. Phase Two (consisting of an additional approximately 20,000 square feet) is being designed for future use based on the Canadian demand for extracted products. An application for a license for the Pitt Meadows Lab has been filed with Health Canada, has completed review, and is at the confirmation of readiness stage. The Company anticipates that the Pitt Meadows Lab will turn outdoor and low-medium grade cannabis trim into high-margin extracted products ready for sale in the domestic medical and adult-use markets, as well as approved foreign markets.

**B. USA Facilities**

*The Oregon Facility (Portland, Oregon)*

In March 2017, Ascent completed a significant upgrade and build-out of an existing 7,000 square foot laboratory and warehouse located in Portland, Oregon which is the Oregon Facility. The Oregon Facility is licensed for extraction and distribution and includes a secured vault, manufacturing and packaging space, as well as a fully equipped production lab capable of performing a variety of extraction, formulation, isolation and analytical techniques. A commercial kitchen is also part of the Oregon Facility, and allows for the manufacturing of chocolates, taffy and other edibles authorized under Oregon's medical and recreational cannabis programs.

*The Nevada Facility (Las Vegas, Nevada)*

In May 2017, Ascent acquired a 37,500 square foot warehouse in Las Vegas, Nevada which is the Nevada Facility. In conjunction with this acquisition, Ascent also acquired two (2) medical cannabis licenses connected to the Nevada Facility. Immediately upon acquisition of the Nevada

Facility, a Phase One build-out of an initial 2,500 square feet, which includes cultivation and production space, including a commercial kitchen. Phase One was completed at the end of 2017, and shortly thereafter, a license from the State of Nevada was obtained for the Nevada Facility. Currently, building plans are being reviewed for Phase Two of construction for the remaining 35,000 square feet, which will include over 17,000 feet of indoor cultivation, state-of-the-art lab and production and distribution space.

### **Section 5.3 Business Objectives**

Ascent has identified the following business objectives for the next twelve (12) months:

1. Complete its acquisition of the Pitt Meadows Facility and begin cultivation as a License Producer at the site;
2. Complete expansion to over 710,000 square feet of cultivation and production space, including the completion of the Maple Ridge Facility and the Nevada Facility, and begin cultivation and product manufacturing at these sites;
3. Capitalize on the legalization of adult-use cannabis in Canada, including the development of an online distribution platform;
4. Capitalize on the Nevada Facility, which has an early-mover advantage as the State of Nevada commences its adult-use cannabis program;
5. Focused expansion of its operations in Europe and elsewhere globally;
6. Focused expansion of its operations in the United States;
7. Implement its plans relating to the development and operation of medical clinics and related medical services with emphasis on medical cannabis access and education; and
8. Advance its research through clinical trials on the effects and potential benefits of unique, proprietary cannabis formulations and delivery systems for various illnesses, symptoms, and therapeutic outcomes.

### **Section 5.4 Canadian Operations**

#### **A. Current Medical Operations**

Ascent's wholly-owned subsidiary, Agrima, is a Licensed Producer for the cultivation and production (extraction and manufacturing) of medical cannabis under the ACMPR. Agrima is a patient-focused medical cannabis company whose mission is to provide a better quality of life. Its portfolio of medically-focused products offers an innovative and diverse selection of consistent, high-quality cannabis in many consumption formats. Ascent also plans to build a network of unique medical clinics and a digital portal to provide clients across Canada with easy, seamless and direct access across Canada to medical professionals and Agrima's extensive product range.

Agrima's Licensed Producer license (the "Agrima License") has a term that commenced on November 10, 2017 and ends on November 10, 2020. The Agrima License has been issued to Agrima for use at the Maple Ridge Facility and applies only to such facility. However, Agrima has applied to Health Canada for additional site licenses at both the Pitt Meadow Facility and the Pitt

Meadows Lab that would allow these facilities to operate as Licensed Producers. The Agrima License permits Agrima to produce, sell, possess, ship, transport, deliver and destroy dried cannabis, fresh cannabis, cannabis oil, cannabis plants and cannabis seeds. Adverse changes or developments affecting the Agrima Botanicals facility could have a material and adverse effect on Agrima's ability to continue producing medical cannabis, and Ascent's business, financial condition and prospects. While Ascent anticipates that Health Canada will extend or renew the Agrima License at the end of its current term, there can be no guarantee that Health Canada will extend or renew the Agrima License as necessary or, if it extended or renewed, that the Agrima License will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Agrima License, or should it renew the Agrima License on different terms, the business, financial condition and results of the operations of Agrima, and consequently, Ascent, could be materially adversely affected.

On June 18, 2018, Ascent announced that Agrima had received the Dealer's License, which permits the possession, production, packaging, sale, sending, transportation and delivery of cannabis and cannabis oil-based products. Ascent has applied to migrate activities allowed under the Dealer's Licence to certain other licences required under the Cannabis Act when it comes into effect, including an R&D licence and LP licence.

#### B. Canadian Regulatory Landscape

Cannabis production, distribution, sale, and use is illegal in Canada except where specifically permitted by law. Until October 17, 2018, when the federal Cannabis Act and accompanying provincial legislation come into force, cannabis has only been legally available for medical use under federal regulation (first the Cannabis for Medical Purposes Regulations (the "MMPR"), and then the Access to Cannabis for Medical Purposes Regulations (the "ACMPR") by licensed producers and authorized individuals. On October 17, 2018, cannabis will be legal for adult recreational use, in addition to medical use as permitted under federal law.

#### *Medical Cannabis - Summary of the ACMPR*

The ACMPR replaced the MMPR as the governing regulations in respect of the production, sale and distribution of medical cannabis and related oil extracts in 2016. The replacement regulations were implemented as a result of the ruling by the Federal Court of Canada in the case of *Allard v Canada* which found the MMPR unconstitutional as it violated the plaintiffs' rights under Section 7 of the Canadian Charter of Rights and Freedoms due to the restrictions placed on a patient's ability to reasonably access medical cannabis.

The ACMPR effectively combines the regulations and requirements of the MMPR, the Marihuana Medical Access Regulations and the section 56 exemptions relating to cannabis oil under the *Controlled Drugs and Substance Act* (the "CDSA") into one set of regulations. In addition, among other things, the ACMPR sets out the process patients are required to follow to obtain authorization from Health Canada to grow cannabis and to acquire seeds or plants from Licensed Producers to grow their own cannabis. Under the ACMPR, patients have three options for obtaining cannabis for medical purposes:

- a. they can continue to access quality-controlled cannabis by registering with Licensed Producers;



- b. they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or
- c. they can designate someone else to produce it for them.

With respect to (b) and (c), starting materials, such as cannabis plants or seeds, must be obtained from Licensed Producers. It is possible that (b) and (c) could significantly reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations of the Company. That said, management of the Company believes that many patients may be deterred from opting to proceed with options (b) or (c) since such steps require applying for and obtaining registration from Health Canada to grow cannabis, as well as the up-front costs of obtaining equipment and materials to produce such cannabis.

#### *Reporting Requirements under the ACMPR*

The ACMPR imposes certain reporting requirements on Licensed Producers such as the Company, including the requirement to keep records regarding, among other things, activities with cannabis, including all transactions (sale, exportation and importation), all fresh or dried cannabis or cannabis oils returned from patients, and an inventory of cannabis. Records, including communications regarding reports for healthcare licensing authorities (both sent and received) must be kept for at least two years in an easily auditable format and be made available to Health Canada upon request.

If there are any serious adverse reactions to fresh or dried cannabis or cannabis oil, Licensed Producers must also provide a case report to Health Canada within 15 days of a Licensed Producer becoming aware of such reaction. Licensed Producers are also required to prepare, on an annual basis, and maintain a summary report that contains a concise and critical analysis of all adverse reactions to have occurred during the previous 12 months, and such serious adverse reactions reports must be retained by the Licensed Producer for 25 years after the day on which they were made.

#### *Adult Use Cannabis*

The Company intends to participate in the Canadian adult use market for cannabis in compliance with all applicable federal and provincial laws and regulations concerning the Canadian adult use cannabis market.

#### *Adult Recreational Cannabis - Federal Regulatory Framework*

On December 13, 2016, the Task Force on Cannabis Legalization and Regulation (the "Task Force"), which was established by the Canadian Federal Government to seek input on the design of a new system to legalize, strictly regulate and restrict access to cannabis, completed its review and published its report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, An Act respecting cannabis and to amend the *Controlled Drugs and Substances Act*, the *Criminal Code* and Other Acts (the "*Cannabis Act*"), to regulate the production, distribution and sale of cannabis for unqualified adult use. On June 21, 2018, The *Cannabis Act* received Royal Assent on June 21, 2018 and is expected to come into force on October 17, 2018.

The *Cannabis Act* and its Regulations (described below) provide a licensing and permitting scheme for the production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal use (i.e., adult recreational use). The *Cannabis Act* proposes to maintain separate access to cannabis for medical purposes, including providing that import and export licenses and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp. Transitional provisions of the *Cannabis Act* provide that every license issued under section 35 of the ACMPR that is in force immediately before the day on which the *Cannabis Act* comes into force is deemed to be a licence issued under the *Cannabis Act*, and that such licence will continue in force until it is revoked or expires.

On October 5, 2017, the Parliamentary Standing Committee on Health presented proposed amendments to the *Cannabis Act* including, among other things, an amendment that would permit cannabis edibles and concentrates to be sold, to come into force no later than 12 months after the *Cannabis Act* comes into force.

On November 10, 2017, the Government of Canada proposed that combined federal tax on cannabis flowering material contained in a final packaged product for adult use purposes should not exceed \$1 per gram or 10% of the sale price, whichever is higher, with retail sales taxes levied on top of that amount.

While the *Cannabis Act* provides for the regulation of the commercial production of cannabis for adult use purposes and related matters by the Federal Government, the *Cannabis Act* proposes that the provinces and territories of Canada will have authority to regulate other aspects of adult use cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

On July 11, 2018, the Federal Government published regulations in the Canada Gazette, Part II, to support the coming into force of the *Cannabis Act*, including the Cannabis Regulations (“Cannabis Regulations”), the new Industrial Hemp Regulations (“IHR”, and together with the Cannabis Regulations, collectively, the “Regulations”), along with proposed amendments to the Narcotic Control Regulations and certain regulations under the *Food and Drugs Act*. Recognizing the Federal Government’s commitment to bringing the *Cannabis Act* into force, the Regulations, among other things, outline the rules for the legal cultivation, processing, research, testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licenses that can be granted, and set standards for cannabis and hemp products that will be available for legal sale as of October 17, 2018.

On October 17, 2018, cannabis will no longer be regulated under the CDSA and will be regulated under the *Cannabis Act* and the Cannabis Regulations and the current Industrial Hemp Regulations will no longer be in force on October 17, 2018 and will be supplanted by the *Cannabis Act* and the IHR.

#### *Licenses, Permits and Authorizations*

The Cannabis Regulations establish six classes of licenses:

- Cultivation licenses;

- Processing licenses;
- Analytical testing licenses;
- Sales for medical purposes licenses
- Research licenses; and
- Cannabis drug licenses.

The Cannabis Regulations also create subclasses for cultivation licenses (standard cultivation, micro-cultivation and nursery) and processing licenses (standard processing and micro-processing). Different licenses and each sub-class therein, carry differing rules and requirements that are intended to be proportional to the public health and safety risks posed by each license category and each sub-class. Producers holding production and sales licenses under the ACMPR will be transferred to similar licenses under the *Cannabis Act*.

Licenses issued pursuant to the Cannabis Regulations will be valid for a period of no more than five years. The Cannabis Regulations will permit cultivation license holders to conduct both outdoor and indoor cultivation of cannabis, however no licensed activities can take place in a “dwelling-house”. The implications of the proposal to allow outdoor cultivation are not yet known, but such a development could be significant as it may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices as capital expenditure requirements related to growing outside are typically much lower than those associated with indoor growing.

The new IHR will replace the Industrial Hemp Regulations currently in force on October 17, 2018. The regulatory scheme for industrial hemp will largely remain the same, however the IHR will permit the sale of hemp plants to licensed cannabis producers, the use of additional parts of the hemp plant and licensing requirements will be softened in accordance with the low risk posed by industrial hemp.

#### *Security Clearances*

Certain people associated with cannabis licensees, including individuals occupying a “key position” directors, officers, large shareholders and individuals identified by the Minister of Health (the “Minister”), must hold a valid security clearance issued by the Minister. Under the Cannabis Regulations, the Minister may refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences. This is largely the approach in place today under the ACMPR and other related regulations governing the licensed production of cannabis for medical purposes. Individuals who have histories of nonviolent, lower-risk criminal activity (for example, simple possession of cannabis, or small-scale cultivation of cannabis plants) are not precluded from participating in the legal cannabis industry, and the grant of security clearance to such individuals is at the discretion of the Minister and such applications will be reviewed on a case-by-case basis.

### *Cannabis Tracking System*

Under the *Cannabis Act*, the Minister is authorized to establish and maintain a national cannabis tracking system. The Cannabis Regulations set out a national cannabis tracking system to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the illegal market. The *Cannabis Act* also provides the Minister with the authority to make a ministerial order requiring certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister.

### *Products*

The Cannabis Regulations set out the requirements for the sale of cannabis products at the retail level permit the sale of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds, including in such forms as “pre-rolled” and in capsules. The THC content and serving size of cannabis products is limited by the Cannabis Regulations. The sale of edibles containing cannabis and cannabis concentrates will not initially be permitted, however the federal government anticipates that such products will be legalized within one year following the coming into force of the *Cannabis Act*.

The IHR define industrial hemp as cannabis plants whose leaves and flowering heads do not contain more than 0.3% THC.

### *Packaging and Labelling*

The Cannabis Regulations set out strict requirements pertaining to the packaging and labelling of cannabis products. These requirements are intended to promote informed consumer choice and allow for the safe handling and transportation of cannabis, while also reducing the appeal of cannabis to youth and promoting safe consumption.

Cannabis package labels must include specific information, such as:

- product source information, including the class of cannabis and the name, phone number, and email of the cultivator;
- a mandatory health warning, rotating between Health Canada’s list of standard health warnings;
- the Health Canada standardized cannabis symbol; and
- information specifying THC and CBD content.

A cannabis product’s brand name may only be displayed once on the principal display panel, or if there are separate principal display panels for English and French, only once on each principal display panel. It can be in any font style and any size, so long as it is equal to or smaller than the health warning message. The font must not be in metallic or fluorescent colour. In addition to the brand name, only one other brand element can be displayed.

All-over packaging wraps must be clear, and the interior surface and exterior surface of any container in which a cannabis product is packaged cannot have any embossing, texture, foil, or cut outs. Additionally, packages must be child-resistant and tamper-proof.

### *Cannabis for Medical Purposes*

The ACMPR will be repealed when the *Cannabis Act* and the Regulations come into force on the legalization date. Part 14 of the Cannabis Regulations sets out the regime for medical cannabis following legalization, which will remain substantively the same as currently exists under the ACMPR with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system. Patients who have the authorization of their healthcare provider will continue to have access to cannabis, either purchased directly from a federally licensed producer, or by registering to produce a limited amount of cannabis for their own medical purposes, or designating someone to produce cannabis for them.

### *Health Products and Cosmetics Containing Cannabis*

Health Canada has taken a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices. Under the Cannabis Regulations, the use of cannabis-derived ingredients (other than certain hemp seed derivatives containing no more than 10 parts per million THC) in cosmetics, which is currently prohibited, are proposed to be permitted and will be subject to provisions of the *Cannabis Act*.

### *Provincial Regulatory Framework for Recreational Cannabis*

While the *Cannabis Act* provides for the regulation of the commercial production of cannabis for recreational purposes and related matters by the federal government, the *Cannabis Act* proposes that the provinces and territories of Canada will have authority to regulate other aspects of recreational cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters

All Canadian Provinces and Territories have announced proposed regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions once the *Cannabis Act* comes into force.. Each of these Canadian jurisdictions has established a minimum age of 19 years old, except for Quebec and Alberta, where the minimum age will be 18.

British Columbia: The Government of British Columbia's *Cannabis Control and Licensing Act* and the *Cannabis Distribution Act* and accompanying regulation create a hybrid distribution and sales model. Recreational cannabis will be sold in that province through both public and privately-operated stores, with the provincial Liquor Distribution Branch handling wholesale distribution.

Alberta: The Government of Alberta has announced a cannabis framework providing for the purchase of cannabis products from private retailers that will receive their products from a government-regulated distributor, similar to the distribution system currently in place for alcohol

in the province. Under the *Gaming, Liquor and Cannabis Act*, only licensed retail outlets will be permitted to sell cannabis with online sales run by the Alberta Gaming and Liquor Commission.

Saskatchewan: The Government of Saskatchewan announced that recreational cannabis will be sold by private retailers. Under *The Cannabis Control (Saskatchewan) Act* (Bill 121), the Saskatchewan Liquor and Gaming Authority will issue approximately 51 retail permits to private stores located in roughly 40 municipalities and First Nation communities across the province, with municipalities having the option of opting out of having a cannabis store if they choose.

Manitoba: The Government of Manitoba has announced a “hybrid model” for cannabis distribution when cannabis for recreational purposes is legalized. Under *The Liquor, Gaming and Cannabis Control Act*, the supply of cannabis in Manitoba will be secured and tracked by the Manitoba Liquor and Lotteries Corp. Licensed private retail stores will be permitted to sell recreational cannabis. Manitoba was accepting applications from retailers to open stores for the sale of cannabis for recreational purposes. This process was open until December 22, 2017, with retail stores scheduled to open as early as October 17, 2018.

Ontario: Under the *Cannabis Act, 2017*, the distribution and retail sale of recreational cannabis will be through the Ontario Cannabis Retail Corporation (“Ontario Cannabis Store” or “OCS”), a subsidiary of the Liquor Control Board of Ontario (“LCBO”). It had initially been announced that the OCS would manage the distribution of recreational cannabis through its own stand-alone stores and an LCBO-controlled online order and distribution service. On August 13, 2018, however, the new Ontario Government announced that it would implement a modified recreational Cannabis retail model under which recreational cannabis will be sold initially by the OCS through its online retail platform, starting on October 17, 2018, and then through a tightly regulated Private Retail Model by April 1, 2019. The OCS currently is in the process of entering into supply agreements with multiple licensed producers and is establishing a wholesale distribution network to supply legal private retailers once legislation establishing the Private Retail Model is put in place. Legislation governing the retail sale of recreational cannabis by private retailers has yet to be passed.

Quebec: Under Bill 157, recreational cannabis will be sold on line and in retail stores operated by the Société québécoise du cannabis (the “SQDC”), which will be a subsidiary of, and under control and supervision of the Société des alcools du Québec (the “SAQ”).

New Brunswick: Under the *Cannabis Control Act*, the Cannabis Management Corporation will control and oversee the sale of recreational cannabis in New Brunswick. Retail sales, whether in stores or online, will be exclusively through Cannabis NB, a subsidiary of under the control of the New Brunswick Liquor Corporation.

Nova Scotia: Under the *Cannabis Control Act*, the Nova Scotia Liquor Corporation will be responsible for the regulation of the retail sale of recreational cannabis in the province, and recreational cannabis will only be sold publicly through government-operated storefronts and online sales.

Prince Edward Island: Similar to Nova Scotia and New Brunswick, under the *Cannabis Management Corporation Act*, the sale of recreational cannabis will be controlled and supervised by the Cannabis Management Corporation, which will operate retail stores and online sales.

Newfoundland and Labrador: Under the *Cannabis Control Act*, recreational cannabis will be sold through licensed private stores, with its crown-owned liquor corporation, the Newfoundland and Labrador Liquor Corp. (the “NLC”), regulating the distribution to private sellers who may sell to consumers. The NLC will control the possession, sale and delivery of cannabis, and set prices. It will also be the initial online retailer, although licenses may later be issued to private interests. The Government of Newfoundland and Labrador has issued a request for proposals for private retailers.

Yukon: Under the *Cannabis Control and Regulation Act*, the distribution and sale of recreational cannabis will be limited to government outlets and government-run online stores, and allows for the later licensing of private retailers.

Northwest Territories: The Government of the Northwest Territories has also announced its proposed approach for the distribution and sale of recreational cannabis which relies on the N.W.T. Liquor Commission to control the importation and distribution of cannabis, whether through retail outlets or by mail order service run by the liquor commission. Communities in the Northwest Territories will be able to hold a plebiscite to prohibit cannabis, similar to the options currently available to restrict alcohol.

Nunavut: The Nunavut *Cannabis Act* establishes the licensing system for the retail sale of recreational cannabis. Nunavut intends to allow for the sale of cannabis through both public and private retail stores and online. Under the Nunavut *Cannabis Act*, a person can submit an application for a licence to operate a cannabis store, remote sales store, or cannabis lounge.

There is no guarantee that the provincial and territorial frameworks supporting the legalization of cannabis for recreational use in Canada will be implemented on the terms outlined above or at all.

### C. Ascent's Plans for Canadian Adult-use Operations

Ascent is well positioned to be part of the first cohort of Licensed Producers transitioning towards legal adult-use cannabis in Canada beginning in the summer of 2018. In addition to the Maple Ridge Facility, Ascent expects that the following additional facilities will be operational and licensed by the end of 2018 or in the first quarter of 2019:

- Pitt Meadows Facility– a 600,000 square foot greenhouse (currently operational growing bell peppers) is to be converted and optimized for year-round cannabis cultivation. At full production capacity, Pitt Meadows Facility is capable of producing over one million grams of dried cannabis per week, with a substantial portion of the harvested material destined as an input for extraction and product manufacturing. Ascent expects to complete the acquisition of this facility in the 2018 and expects operations to commence in the first quarter of calendar year 2019;
- Pitt Meadows Lab – a custom built, Good Manufacturing Practices (GMP) compliant 40,000 square foot warehouse designed by Agrima's engineers and scientists for high-volume extraction, formulation, automated manufacturing, filling, and packaging capabilities. Pitt Meadows Lab will turn outdoor and low-medium grade cannabis into high-margin extracted product ready for sale in the domestic medical and adult-use

markets, as well as approved foreign markets. Ascent expects Pitt Meadows Lab to commence operations in the fourth quarter of calendar year 2018; and

Ascent has also begun implementation of the Agrima Craft Cannabis program, through which British Columbia's world-renowned craft cannabis growers will have access to Ascent's knowledge, intellectual property and other resources in exchange for Agrima becoming the exclusive aggregator and distributor of their high-quality and diverse cannabis offerings. Ascent believes the craft program will be well received in the marketplace due to the diverse offering of high quality cannabis flower, edibles, and concentrates becoming available to users.

## **Section 5.5 U.S. Operations**

Ascent operates licensed facilities in two U.S. states with legal cannabis programs, Oregon and Nevada, through its wholly-owned subsidiaries Luff Enterprises LLC dba Sweet Cannabis ("Sweet Oregon") and Luff Enterprises NV Inc. dba Sweet Cannabis NV ("Sweet Nevada").

Sweet Oregon is a state-licensed Processor and Wholesaler of medical and adult-use cannabis under the OLCC in the State of Oregon. These licenses allow Sweet Oregon to buy cannabis from the large number of cultivators in Oregon to process and package Ascent's branded products for sale across the State. Sweet Oregon's operations are based out of the newly renovated, custom-designed 7,000 square foot Oregon Facility in Portland, Oregon. Sweet Oregon currently manufactures merchandisable cannabis products such as vape pens, pre-rolls, tinctures, gel caps, shatter, sugar wax, CBD sap, chocolates and taffies and distributes them along with bulk cannabis flower to retailers across the State of Oregon.

Sweet Nevada is a licensed cultivation and processing facility for medical and adult use cannabis in the State of Nevada. These licenses allow Sweet Nevada to grow, buy, process, manufacture, and package cannabis and cannabis products for sale in cannabis retail stores across Nevada. Sweet Nevada's operations are based out of the custom-designed 37,500 square foot Nevada Facility in Las Vegas, Nevada. Phase one of the Nevada Facility is currently operational, and management expects phase two to become fully operational in the second quarter of calendar year 2019. Sweet Nevada currently manufactures vape pens, pre-rolls, tinctures, chocolates and taffies and distributes these and bulk cannabis flower to retailers in the state of Nevada, and is expected to manufacture and distribute several other products in the near future, including, gel caps, shatter, sugar wax, CBD sap, and gummies. In Nevada, adult-use cannabis licenses are currently limited to the few holders of pre-existing medical cannabis establishment certificates. As Sweet Nevada holds two (2) of the approximately 145 medical cannabis cultivation and production licenses that have been allowed to access the retail cannabis program in Nevada, the Company believes that Sweet Nevada holds a significant first-mover advantage.

### Issuers with U.S. Cannabis-Related Activities

On February 8, 2018, following the Sessions Memorandum (as defined below), the Canadian Securities Administrators published CSA Staff Notice 51-352 (Revised) – *Issuers with U.S. Cannabis-Related Activities* (the "Staff Notice") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.



As the Company will have operations in the U.S., the Resulting Issuer will be properly subject to the Staff Notice and accordingly provides the following disclosure:

#### Enforcement of U.S. Federal Laws

Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the ACMPR, 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, Puerto Rico and Guam that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the Controlled Substances Act and as such, violates federal law in the United States.

As a result of the conflicting views between state legislatures and the United States 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 the Cole Memorandum addressed to all United States federal prosecutors acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several U.S. states have enacted laws relating to cannabis for medical purposes. 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. While not legally binding, the Cole Memorandum served as prosecutorial guidance and laid out a framework for addressing the inconsistency between state and federal laws regarding cannabis.

However, on January 4, 2018, U.S. Attorney General Jeff Sessions issued the Sessions Memorandum rescinding the Cole Memorandum. With the rescission of the Cole Memorandum, U.S. federal prosecutors no longer have guidance relating to the exercise of their discretion in determining whether to prosecute cannabis-related violations of U.S. federal law. As such, such discretion remains solely in the hands of U.S. federal prosecutors. It is possible for these prosecutors to continue exercising their discretion in a manner similar to that displayed when guided by the Cole Memorandum. Many U.S. federal prosecutors have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, while a few have displayed greater ambivalence. The US Attorney for Oregon recently announced that his federal prosecutors' office will focus on black-market and illegal cannabis production within Oregon, signaling a willingness to respect state laws and effectively supporting the legal cannabis market by eliminating illegal competition.

Unless and until cannabis is removed from categorization as a Schedule I controlled substance under the Controlled Substances Act, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law, albeit a federal agency may not have appropriated funds to undertake such prosecution as is delineated below. Such potential proceedings could involve significant restrictions being imposed upon the Resulting Issuer or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Resulting Issuer's business, revenues, operating results and financial condition as well as the Resulting Issuer's reputation, even if such proceedings were concluded successfully in favour of the Resulting Issuer.

For the reasons set forth above, the Company's operations in the United States, and any expansion of operations, may become the subject of heightened scrutiny by regulators, stock

exchanges and other authorities in Canada. As a result, the Resulting Issuer 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 Resulting Issuer's ability to invest in the United States or any other jurisdiction.

Third parties with whom the Company will do business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities. Because cannabis remains illegal under U.S. federal law, a third-party service provider could reach the conclusion that their activities as a service provider are aiding and abetting the violation of the U.S. federal law. Any provision of services or sale of goods to a cannabis business could be construed as aiding and abetting violations of the Controlled Substances Act, in addition to other possible violations. Financial institutions may also be concerned that they would be at risk of prosecution for violation of U.S. money laundering laws and the Bank Secrecy Act, in addition to other potential violations. Any third-party service provider could suspend or withdraw its services to the Company if it perceives that the potential risks exceed the potential benefits to such services.

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. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. 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.

Further, 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.

#### U.S. Enforcement Proceedings

The United States Congress has passed appropriations bills each of the last four years that included the Rohrabacher Blumenauer Appropriations Amendment which by its terms does not appropriate any federal funds to the U.S. Department of Justice for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, the United States government will have the authority to prosecute

individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations.

#### *Ability to Access Public and Private Capital*

Ascent has had robust access to private capital in Canada in order to support its continuing operations. Since Ascent's incorporation in 2013, Ascent has been able to raise over \$40 million through private equity financings. In addition to certain Canadian Schedule 1 banks accepting deposits from entities positioned in the legal medical cannabis sectors, there are also a number of credit unions that have historically provided, and continue to provide, debt financings in this space. Prior to the Amalgamation, Ascent has never needed to access public equity capital in the United States. However, there is no assurance that the Company will be successful in raising future capital, particularly if U.S. federal authorities change their position towards enforcing the Controlled Substances Act.

#### Balance Sheet Exposure

Approximately 30% of Ascent's assets are located Oregon and Nevada in the United States. In addition, until Ascent obtains a sales license from Health Canada, almost all its revenue currently is being generated in the United States in the States of Oregon and Nevada. As a result, the Company will be subject to applicable laws, rules and regulations affecting cannabis businesses in the states in which it operates, as well as federally. While Ascent plans to operate in strict compliance with United States federal and state legal requirements, there can be no assurance the Company will always operate in strict compliance with applicable legal requirements under United States federal or state laws or that it will not be deemed to operate outside of these requirements, which could materially adversely affect the business of the Company.

#### State Regulatory Regime – Oregon

Oregon has legalized both medical and adult-use cannabis. Medical cannabis was first legalized for non-commercial uses in 1998. House Bill 3460 creating a regulatory structure for medical cannabis businesses was passed in 2013, and House Bill 3400 was passed on June 30, 2015, improving the existing regulatory structure and creating a licensing process for cultivators and processors. The regime does not impose a quota on the number of licenses that may be issued, and allows applications to be accepted on a rolling basis. An Oregon residency requirement for medical cannabis business ownership that originally existed within House Bill 3400 was removed in 2016. In November 2014, Oregon voters passed Measure 91, creating a regulatory regime for the purchase of cannabis for personal use for individuals 21 years of age and older.

Regulation of medical cannabis in Oregon was originally administered by the Oregon Health Authority under the Oregon Medical Cannabis Program (the "OMMP"), while regulation of adult-use cannabis fell under the purview of the Oregon Liquor Control Commission (the "OLCC"). However, in mid-2017, the Oregon legislature granted the OLCC the authority to grant exclusively medical licenses, and required medical cannabis growers, processors and dispensaries to make an election by December 2017 as to whether they would choose to stay under the purview of the OMMP or move to an OLCC license. As of the date hereof, approximately eight (8) medical cannabis dispensaries remain registered under the OMMP.

The OLCC grants six different types of cannabis licenses:

- **Producer** (also known as the grower);

- **Processor** – a business that will transform raw cannabis into another product (topicals, edibles, concentrates or extracts);
- **Wholesaler** – a business that buys in bulk and sells to licensees rather than to consumers;
- **Retail** – a business that sells directly to consumers;
- **Laboratory** – a lab accredited by the Oregon Environmental Laboratory Accreditation Program that tests cannabis based on rules established by the Oregon Health Authority;
- **Certificate for Research**; and
- **Hemp Certificate** – allows persons registered with the Oregon Department of Agriculture to transfer hemp flower, extracts or concentrates to OLCC licensed processors who hold an industrial hemp processor endorsement.

As of the date hereof, there are approximately 1975 active OLCC licenses, including 1073 Producer licenses, approximately 574 Retailer licenses and approximately 126 Wholesaler licenses. Recently, the OLCC ceased accepting any new license applications in the State, signaling a shift in the Oregon regulatory system towards a more controlled and limited market.

#### State Regulatory Regime – Nevada

In Nevada, both medical cannabis and retail cannabis programs are administered by the Nevada State Department of Taxation (the "Nevada DoT"). Since 2015, medical cannabis establishments have been able to register for medical cannabis establishment certificates in the state. An early start program was established by the Nevada DoT for retail cannabis licenses in the second half of 2017, and only operational medical cannabis establishment certificate holders in good standing were able to apply for retail cannabis licenses. The regular retail cannabis program is expected to start in early 2018, and for the first 18 months of the program, only existing medical cannabis establishment certificate holders in good standing may apply for retail cannabis licenses. The Nevada DoT has stated that it may open up the application process for retail cannabis licenses to those not holding a medical cannabis establishment certificate in November 2018.

The Nevada DoT grants five different types of retail cannabis establishment licenses:

- **Cultivation Facility** – licensed to cultivate (grow), process, and package cannabis; to have cannabis tested by a testing facility; and to sell cannabis to retail cannabis stores, to cannabis product manufacturing facilities, and to other cultivation facilities, but not to consumers;
- **Distributor** – licensed to transport cannabis from a cannabis establishment to another cannabis establishment (for example, from a cultivation facility to a retail store);
- **Product Manufacturing Facility** – licensed to purchase cannabis; manufacture, process, and package cannabis and cannabis products; and sell cannabis and cannabis products to other product manufacturing facilities and to retail cannabis stores, but not to consumers. Cannabis products include things like edibles, ointments, and tinctures;

- **Testing Facility** – licensed to test cannabis and cannabis products, including for potency and contaminants; and
- **Retail Store** – licensed to purchase cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities, and cannabis from other retail stores; can sell cannabis and cannabis products to consumers.

### Compliance with U.S. State Laws

To its knowledge, Ascent is in compliance with applicable State, County and City laws and the related licensing framework in both Oregon and Nevada, and has not received any notices of non-compliance or any citations from regulators in those states, relating to its business. Ascent has received visits at its facilities from regulators in Oregon and Nevada, pursuant to which it has been informed its facilities meet or exceed applicable standards.

The Company continues to actively monitor its compliance with applicable laws and the related licensing framework in Nevada and Oregon, as well as changes in the U.S. state and federal laws, through its internal legal counsel, local counsel and regulatory specialists.

There are internal policies and standard operating procedures in place at the facilities in Nevada and Oregon which the Company will adopt and update as necessary. All policies and procedures are on-site and written in compliance with applicable State laws, and the State, through their applicable agencies, have reviewed and approved these policies for compliance with State and local laws. These policies include material handling, distribution, required tracking, cleanliness standards, material destruction, manufacturing practices and employee qualifications. These policies and procedures will be updated as required by Ascent's internal legal counsel, in consultation with local counsel and regulatory specialists, as laws develop.

### **Section 5.6 Products**

Ascent is focused on developing, branding, producing and distributing sophisticated cannabis products in legal medical and adult-use jurisdictions, with current operations in British Columbia, Oregon and Nevada. Through its wholly-owned subsidiaries, Ascent owns cannabis licenses in Canada, Oregon and Nevada and has a minority ownership interest in a hemp cultivation and manufacturing operation with R&D licenses in Kentucky.

Ascent offers a product suite of more than 40 unique products under several consumer focused brands, including gel capsules, oils, tinctures, vaporizer pens, pre-rolled joints, various edibles, concentrates and dried cannabis flower. Through careful development of its sophisticated cannabis brands, Ascent is positioned to be a leader in branded, commercialized products in both medical and adult-use markets across North America and internationally.

The following is a description of Ascent's product brands currently available for sale. Prior to receiving the Agrima License, Ascent, through its wholly-owned subsidiaries, provided extraction and other services and sold various hardware to patients in Canada that have been discontinued, as well as selling products in the States of Oregon and Nevada. Subsequent to receiving the Agrima License, Ascent's products have primarily been sold in State of Oregon, and sales of some products have begun in the State of Nevada, with additional products to be added for sale in the near future. Agrima Botanicals is in the process of obtaining a sales license under

the ACMPR. In addition, the Dealer's License allows the sale of products, which Ascent expects to begin in the near future.

The products that accounted for 15% or more of Ascent's sales in the last fiscal year were Toko Gold Vape Pen (23%) and NU Tincture (17%).

#### *Nu*

Nu (Nature's Nu Standard) is Ascent's premium line of therapeutic cannabis infusions that have been carefully developed, formulated and crafted by Ascent's team of scientists and researchers. Nu products are pure, natural and without pesticides and other harmful chemicals. By using the highest standards of cannabis processing and production, Ascent believes Nu delivers among the cleanest, most reliable therapeutic cannabis products on the market.

#### *Toko*

Toko offers sleek, convenient options for cannabis vaporization, designed for today's discerning cannabis consumer. Through careful strain selection, meticulous extraction processes and extensive dosing knowledge, Ascent has developed the great tasting products that arrive in the most stylish, convenient and easy-to-use forms. This includes a supercritical CO<sub>2</sub> extract formulated with live cannabis terpenes ensuring that Toko delivers superior flavour and effect.

#### *The Quarry*

The Quarry is Ascent's line for the cannabis purist, with curated, top-shelf cannabis products including among the finest flower, pre-rolled joints, and 100% pure extracts and concentrates, CO<sub>2</sub> honey oil, shatter and live resin crumble. Each Quarry product is rigorously tested for quality, safety and purity.

#### *Grace Notes*

Grace Notes pay tribute to the early pioneers of jazz from the 1930s, "hepcats", many of whom were known to be avowed users of cannabis. They were known to use cannabis to play through the long nights, and also for lengthened time, allowing them to play the improvisations between written notes – the grace notes. Grace Notes honour their story – the idea of lengthening time, fostering community and creating something beautiful. Ascent believes Grace Notes are among the finest gourmet cannabis infused edibles available on the market. Eloquently handcrafted from premium natural ingredients by Ascent's team of confectionary chefs and chocolatiers, Grace Notes are gently dosed and expertly flavoured as a harmoniously balanced riff on reefer songs of the past.

#### *Taffy Notes*

Taffy Notes are delicious cannabis infused candy and sweets. Dedicated to quality ingredients and consistent dosing, Taffy Notes edibles use 100% pure CO<sub>2</sub> cannabis oil, free of residual solvents, ensuring a clean, reliable treat is produced.

#### *Agrima Botanicals*

Agrima is a premium line of therapeutic cannabis infusions that have been carefully developed, formulated and crafted by Ascent's team of scientists and researchers for the Canadian medical cannabis market and internationally for pharmaceutical distribution. Agrima products are pure, natural and without pesticides and other harmful chemicals. By using the highest standards of cannabis processing and production, Agrima delivers clean and reliable therapeutic cannabis products for the medical market.

#### *GreenScreen Plant Sex ID Kit*

The GreenScreen Plant Sex ID Kit is a DNA-based cannabis genetic screening and testing kit for commercial and home-grower applications, enabling growers to determine the sex of their seedlings in a fraction of the time compared to traditional sex determination methods, providing significant value to any size cultivation facility. GreenScreen currently services clients in 28 U.S. states and 10 countries.

### **Section 5.7 Research and Development**

Ascent's wholly-owned subsidiary, Agrima Scientific Corp. ("**Agrima Scientific**"), focuses on developing commercially viable products, services and intellectual property through specific research initiatives targeting cultivation, extraction, hardware and other emerging cannabis-specific topics. Agrima Scientific develops and commercializes cannabis-related intellectual property, through in-house research, external collaboration and acquisition. Agrima Scientific's primary areas of research are:

- Plant tissue culture propagation;
- Breeding and genetics;
- Scanning electric microscopy analysis;
- Plant pathology and pest control;
- Analytical testing and plant diagnosis;
- Product development via cannabis extraction, refining, separation, and formulation techniques;
- Pre-clinical research and clinical trials of cannabinoid-based therapies;
- Production and manufacturing automation and optimization.

Ascent has a strong relationship with Simon Fraser University ("**SFU**") pursuant to which it has been able to create and wholly-own certain intellectual property relating to the above areas of research. Agrima Scientific is in the fifth year of a research collaboration with SFU's Department of Biological Sciences, through which Masters of Science students are engaged in cannabis-focused research, all directed and funded by Ascent, with Ascent owing 100% of the IP. Ascent has also recently engaged SFU scientists to commence sets of pre-clinical research designed to explore the therapeutic benefits of various cannabinoid formulations for various debilitating medical conditions.

## **Section 5.8 Intellectual Property**

Ascent is developing an intellectual property portfolio that includes existing trademarks for its sophisticated brands, applications for trademarks internationally for these brands, as well as applications for patents Ascent has and is in the process of filing for certain unique scientific formulations and processes that Ascent has created.

## **Section 5.9 Ascent's Methods of Production**

### *Cultivation:*

With nearly two (2) decades of cannabis cultivation experience, the Ascent team has curated and optimized a variety of commercial-scale cultivation methodologies that ensure clean, consistent product with every crop. Backed by rigorous R&D with biologists and agronomists, Ascent focuses on producing high-end, chemical-free cannabis. This dedication to the craft has earned Ascent's cultivation team the reputation to be recognized in the industry as some of the best commercial cultivators in the world.

### *Extraction and Isolation:*

Ascent uses a number of commercial extraction and isolation technologies and methodologies, many of which have been designed or optimized in-house for differentiation in the marketplace and for superior consistency and effectiveness.

### *Formulation:*

Since 2015, Ascent has focused much of its R&D efforts on the development of a significant portfolio of extraction, separation and formulation methodologies to convert cannabis into market-segment and symptom-targeting focused products.

## **Section 5.10 Specialized Skill and Knowledge**

A number of aspects of Ascent's business functions require specialized skills and knowledge. Ascent has specialized skills and knowledge in the areas of cultivation of medical cannabis, processing (extraction) of cannabis oil, development and production of cannabis-based products, and sales and marketing. In particular, Ascent's management team believes that they have staff and expertise which provide a unique skill set for the indoor cultivation of cannabis and extraction of cannabis oil in accordance with ACMPR requirements, developed over years of practical experience.

Ascent has a highly experienced growing team and quality assurance personnel focused on generating high quality product that meets and exceeds Health Canada requirements. Ascent has also implemented strict regulatory compliance processes, a high level of quality assurance, and testing protocols to maintain quality controls over the products cultivated and extracted.

Management of Ascent has specialized skill and knowledge in the production of cannabis-based products and has produced a variety of products for distribution in compliance with applicable regulatory requirements. In addition, management has the specialized skills and knowledge required to market and sell cannabis-based products and has branded and sold numerous products in compliance within various regulatory regimes, both in Canada and abroad.



### **Section 5.11 Sourcing, Pricing and Availability of Materials**

Ascent sources hardware materials for its products from a variety of places in Canada, the United States and internationally at non-fixed prices that can fluctuate. Ascent is in the process of implementing an ERP platform to assist with tracking sources of supply and costs, and has a supply chain coordinator to oversee this part of its business. While Ascent endeavours to obtain materials at the lowest prices, variations in prices for materials and exchange rates can affect its cost base.

### **Section 5.12 Intangible Properties**

Ascent's consumer-focused brands, Nu, Toko, Quarry, Grace Notes and Greenscreen described above, have been an important part of Ascent's operation, and Ascent has applied for trademark protection for each of them. However, it is possible that Ascent may rebrand some or all of them, depending on market conditions.

Ascent, through its wholly-owned subsidiary Agrima Scientific, has also applied for patent protection for certain novel inventions created by Ascent, and expects to apply for more in the near future.

Ascent expects its intellectual property portfolio to be significant to its business going forward.

### **Section 5.13 Effect of Environmental Protection Requirements**

Ascent's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and nonhazardous materials and wastes, and employee health and safety. Ascent incurs ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on Ascent's manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Ascent's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Ascent.

### **Section 5.14 Employees**

As of the date of this AIF, Ascent has approximately 126 full-time employees, including those of its wholly-owned subsidiaries. Approximately 90 of these employees are in Canada, while approximately 34 are in the U.S. and two are in the EU.

### **Section 5.15 Ascent's Foreign Operations**

Through its wholly-owned subsidiaries Sweet Oregon and Sweet Nevada, Ascent has operations in the states of Oregon and Nevada, where medicinal and adult-use cannabis have been legalized at the state level. All of the Company's sales are currently generated in Nevada and Oregon, where the Company continues to build operations. The Company expects to receive its

sales license in Canada from Health Canada in the near future at which time it plans to begin selling products in Canada that will generate significantly more revenue for the Company.

Though its partially-owned sister company AgTech Scientific Corp., Ascent has operations in Kentucky where hemp cultivation and production is legal at the state level. However, cannabis (including hemp) continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, violates federal law in the United States.

Ascent has also initiated operations in Copenhagen, Denmark from which it plans to expand into Europe.

### **Section 5.16 Competitive Conditions**

Ascent, through its wholly-owned subsidiary Agrima, is one of only 118 Licensed Producers of cannabis in Canada, of which 25 are licensed in British Columbia. Furthermore, Agrima is one of approximately 57 Licensed Producers that holds a license to produce cannabis oils. However, there are several hundred applicants for licenses to produce and sell medical cannabis under the ACMPR, and an increase in Licensed Producers in Canada could have an impact on the operations of Ascent.

In addition, both the Oregon and Nevada markets for cannabis are highly competitive with numerous companies involved or attempting to become involved in the industry in these markets. Furthermore, given the proliferation of the industry world-wide, the Company expects any other markets it enters to be highly competitive.

### **Section 5.17 Cycles**

The Company's business is not cyclical or seasonal.

## **ARTICLE 6 DIVIDENDS AND DISTRIBUTIONS**

No dividends have been declared or paid by the Company since inception. There are no restrictions on the Company ability to pay dividends, other than the financial capacity and solvency tests under the BCBCA. The decision as to whether to declare, adjust or eliminate a dividend is subject to the discretion of the Company's board of directors. In determining whether to declare, and the amount of, any dividend, the board will take into account, among other criteria, the Company's financial condition, results of operations and capital requirements, market conditions and such other factors as the board deems relevant at such time.

## **ARTICLE 7 CAPITAL STRUCTURE**

Ascent's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares in the capital of Ascent. As of the date of this AIF, there are (i) 314,574,566 Ascent common shares issued and outstanding, (ii) no Ascent preferred shares issued and outstanding, (iii) 95,925,240 Ascent warrants convertible into an equivalent number of Ascent common shares, (v) 2,885,130 broker warrants exercisable for 2,885,130 Ascent common shares and 2,885,130 warrants of Ascent convertible into an equivalent number of Ascent common

shares; (vi) 18,287,222 Ascent stock options convertible into an equivalent number of Ascent common shares (including 104,722 Paget options assumed upon the Amalgamation); (viii) 11,428,571 Ascent common shares are issuable upon conversion of the convertible debenture issued by the Company; and (ix) approximately 2,983,333 Ascent common shares are to be issued for purchased assets and for performance based milestones under existing contracts.

### Common Shares

Holders of Ascent common shares are entitled to dividends if, as and when declared by the Ascent Board of Directors. Holders of Ascent common shares are entitled to one vote per Ascent common share at meetings of shareholders except on matters or meetings where only holders of a specified class of shares are entitled to vote. Upon liquidation, dissolution or winding-up of Ascent, holders of Ascent common shares are to share rateably in the remaining assets of Ascent as are distributable to holders of Ascent common shares. Ascent common shares are not subject to call or assessment rights, redemption rights, rights regarding purchase for cancellation or surrender, or any pre-emptive or conversion rights.

### Preferred Shares

Preferred shares may be issued from time to time in one or more series. The Company's Board is authorized to fix the number of preferred shares of each series, and to determine for each series, the designation, rights, privileges, restrictions and conditions, including dividend rates, redemption prices, conversion rights and other matters. Among other things, each series of preferred shares, upon determination by the Board, may or may not carry voting rights and may or may not be convertible into another class or series of shares of the preferred shares.

So long as any preferred shares are outstanding, the holders of the preferred shares of each series shall rank both with regard to dividends and return of capital in priority to the holders of the common shares and in priority to any other shares ranking junior to the preferred shares, and the holders of the preferred shares of each series may also be given such other preference over the holders of the common shares and any other shares ranking junior to the holders of the preferred shares as may be determined as to the respective series authorized to be issued. The preferred shares of each series shall rank on a parity with the preferred shares of every other series with respect to priority in payment of dividends and return of capital in the event of any distribution of assets of Ascent among its shareholders arising on the liquidation, dissolution or winding up of Ascent.

### Warrants

Each warrant entitles the holder to acquire one (1) common share on due exercise of the warrant in accordance with its terms.

### Stock Options

Each stock option entitles the holder to acquire one (1) common share on due exercise of the stock option in accordance with its terms. The stock options are issued pursuant to the Company's Employee Stock Option Plan, a copy of which is included in the Joint Circular.

Convertible Debenture

The Ascent convertible debenture entitles the holder thereof to convert the convertible debenture in whole or in part into common shares of Ascent at a price of \$0.35 per share at its option any time prior to December 1, 2019, except that the Company may force the conversion of the convertible debenture in certain circumstances.

Broker Warrants

Each broker warrant entitles the holder to acquire one unit at an exercise price of \$0.40 per share at any time on or prior to June 21, 2020. Each such unit consists of one (1) common share and one (1) warrant to purchase a common share at a price of \$0.60 at any time on or prior to June 21, 2020.

**ARTICLE 8  
MARKET FOR SECURITIES**

**Section 8.1 Trading Price and Volume**

On August 9, 2018, the Company began trading on the CSE under the trading symbol “ASNT”. The table below summarizes the range and volume of trading prices for each of the months stated:

<u>Month</u>	<u>Price Range (\$)</u>		<u>Total Volume (#)</u>
	<b>High</b>	<b>Low</b>	
August 9 – 31, 2018	\$0.57	\$0.37	17,312,422
September 1 -27, 2018	\$0.98	\$0.49	▼

**Section 8.2 Prior Sales**

During the period ended May 31, 2018 and subsequently, the Company issued the following Common Shares and the following securities convertible into Common Shares:

<u>Date of Issuance</u>	<u>Number and Type of Securities</u>	<u>Price per Security</u>
August 3, 2017	248,000 Ascent Shares	\$0.25
August 16, 2017	22,400 Ascent Shares	\$0.25
December 20, 2017	26,388,609 Ascent Shares	\$0.40
January 4, 2018	1,996,505 Ascent Shares	\$0.25
January 31, 2018	400,000 Ascent Shares issued upon the exercise of warrants	\$0.135
January 31, 2018	183,333 Ascent Shares issued upon the exercise of warrants	\$0.25
January 31, 2018	40,000 Ascent Shares	\$0.25

<b>Date of Issuance</b>	<b>Number and Type of Securities</b>	<b>Price per Security</b>
February 5, 2018 to August 3, 2018	15,252,500 Ascent Stock Options granted	\$0.40
February 7, 2018	433,334 Ascent Shares issued upon the exercise of warrants	\$0.25
April 30, 2018	8,345,769 Ascent Shares issued upon the exercise of warrants	\$0.40
May 7, 2018	804,188 Ascent Shares	\$0.40
May 8, 2018	215,822 Ascent Shares	\$0.40
June 5, 2018	3,666,667 Ascent Shares issued upon the exercise of warrants	\$0.25
June 8, 2018	30,591,135 Ascent Shares 30,591,135 Ascent Series D Warrants	\$0.40 Exercisable for \$0.50 at any time on or prior to June 8, 2020
June 21, 2018	48,085,500 Ascent Shares (issued August 3, 2018 upon satisfaction of the Escrow Release Conditions) 48,085,500 Ascent Subscription Receipt Warrants  2,885,130 Broker Warrants	\$0.40 Exercisable for \$0.60 at any time on or prior to June 21, 2020  Exercisable for \$0.40 at any time on or prior to June 21, 2020
August 20, 2018	2,930,000 Ascent Stock Options granted	\$0.40

## **ARTICLE 9 ESCROWED SECURITIES**

As at the date of this AIF, 63,190,635 common shares of Ascent (the “Escrowed Shares”) are held in escrow pursuant to the escrow agreement dated August 9, 2018 among the Company, National Issuer Services Ltd. as the escrow agent and certain shareholders (the “Escrow Agreement”). These shares are held in escrow as required by a CSE policy on completion of the Amalgamation.

The Escrow Shares are subject to the release schedule set out in the form of escrow required by section 1.8 of CSE Policy 8 – Fundamental Changes. Ten (10.0%) percent of the Escrow Shares were released on the date of listing on the CSE and an additional 15.0% are to be released every six months thereafter until all Escrow Shares have been released (36 months following the date of listing on the CSE).

The Escrow Agreement provides that the Escrow Shares are held in escrow pursuant to its terms and the beneficial ownership thereof may not be sold, assigned, hypothecated, transferred within escrow or otherwise dealt with in any manner without the prior written consent of the CSE. In the event of the bankruptcy of an escrow shareholder, provided the CSE does not object, the Escrow Shares held by such escrow shareholder may be transferred to the trustees in the bankruptcy or such person legally entitled to the Escrow Shares which shares will remain in escrow subject to the escrow agreement. In the event of the death of an escrow shareholder, provided the

CSE does not object, the Escrow Shares held by the escrow shareholder will be released from escrow.

The following table sets out the Escrowed Shares as at the date hereof:

Designation of Class	Number of Escrowed Shares	Percentage of Class
Common Shares	63,190,635	20.1%

In addition, as at the date of this AIF, there are 66,403,135 common shares (and securities convertible into common shares) subject to a lock up agreement entered by the directors and officers of Ascent and Clarus Securities on behalf of the agents under the subscription receipt offering, which cannot be traded until February 9, 2019. Furthermore, a shareholder of the Company agreed with the Company to lock up and not trade 16,500,000 common shares of the Company until November 9, 2018.

## ARTICLE 10 DIRECTORS AND OFFICERS

### Section 10.1 Directors and Officer Information

The following table sets forth the names and jurisdiction of residence of the directors and executive officers of Ascent as of the date of this AIF, their respective positions and offices held with Ascent and their principal occupation for the last five or more years. Directors of Ascent serve from the time of appointment until the next annual meeting of shareholders or until their successors are elected or appointed, unless their office is earlier vacated in accordance with the articles of Ascent.

As at the date of this AIF, the directors and executive officers of Ascent as a group beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 70,986,672 Ascent Shares, representing 22.6% of the issued and outstanding Ascent Shares.

Name and Place of Residence	Position with Ascent	Principal Occupation for Past Five Years	Date of Appointment	Number of Ascent Shares Beneficially Owned, Controlled, or Directed, Directly or Indirectly
JAMES POELZER New Westminster, British Columbia	President, Secretary, Chief Business Development Officer and Director	Officer and Director of Ascent since October 2013; Employed at City of New Westminster prior to October 2013	October 10, 2013 (Director); October 11, 2013 (President and Secretary); February 5, 2017 (Chief Business Development Officer)	2,946,512 Ascent Shares and 1,800,000 Ascent Stock Options owned directly <sup>(2)</sup>

Name and Place of Residence	Position with Ascent	Principal Occupation for Past Five Years	Date of Appointment	Number of Ascent Shares Beneficially Owned, Controlled, or Directed, Directly or Indirectly
PHILIP CAMPBELL Maple Ridge, British Columbia <sup>(4)</sup>	Chief Executive Officer and Director	Co-Founder; Director of Ascent since September 2015; Director and Officer of RMP Web Design & Consulting from October 2008 to October 2013	September 29, 2015 (Director); August 5, 2017 Chief Executive Officer	27,052,235 Ascent Shares, 48,151 Ascent Series D Warrants and 2,200,000 Ascent Stock Options owned directly and indirectly through Green Lane Holdings Ltd. <sup>(2)</sup>
REID ASHLEY PARR New Westminster, British Columbia <sup>(3)</sup>	Chief Operating Officer and Director	Co-Founder; Director of Ascent since September 2015; Director and Officer of RMP Web Design & Consulting from October 2008 to October 2013	September 29, 2015 (Director); September 29, 2015 to February 5, 2018 (Chief Financial Officer); February 5, 2018 (Chief Operating Officer)	26,956,237 Ascent Shares, 187,500 Ascent Series D Warrants and 1,800,000 Ascent Stock Options owned directly and indirectly through Bull Moose Holdings Ltd. <sup>(2)</sup>
BLAIR JORDAN West Vancouver, British Columbia	Chief Financial Officer	CFO of Ascent since August 3, 2018; VP Corporate Development of Ascent from January 10, 2018 to August 3, 2018; Managing Director of Echelon Wealth Partners Inc. from February 2012 to December 2018	August 3, 2018	2,043,750 Ascent Stock Options owned directly
KARIM LALANI North Vancouver, British Columbia	Chief Legal Officer	CLO of Ascent since August 20, 2018, General Counsel of Ascent from July 17, 2017 to August 20, 2018; Principal of Lalani Law Corporation since February 4, 2010	August 20, 2018	332,500 Ascent Shares; 62,500 Ascent Series D Warrants and 1,200,000 Ascent Stock Options owned directly
CHRIS LEE Vancouver, British Columbia	Chief Marketing Officer	Officer of Ascent since January 2017; President and Partner of Beyond Marketing Group from November 2010 to November 2016	January 1, 2017	168,750 Ascent Shares and 1,200,000 Ascent Stock Options owned directly
DAN WILLIAMS Portland, Oregon	Vice President, US Operations	VP Business Development and US General Counsel of Ascent since January 2016; Attorney at Brindle McCormack, P.C. from 2010 to 2016	January 1, 2016	1,989,779 Ascent Shares and 400,000 Ascent Stock Options owned directly
DR. PERRY KENDALL <sup>(4)</sup> Vancouver, British Columbia	Director	Provincial Health Officer of BC from 1999 to 2018	August 9, 2018-	200,000 Ascent Stock Options owned directly <sup>(2)</sup>

Name and Place of Residence	Position with Ascent	Principal Occupation for Past Five Years	Date of Appointment	Number of Ascent Shares Beneficially Owned, Controlled, or Directed, Directly or Indirectly
AMY MARGOLIS <sup>(3)</sup> Portland, Oregon	Director	Attorney since 2001; Principal at Margolis Legal	August 9, 2018	200,000 Ascent Stock Options owned directly <sup>(2)</sup>
MARK T. BROWN <sup>(3), (4)</sup> Vancouver, British Columbia	Director	President, Pacific Opportunity since 2001	August 9, 2018	650,333 Shares owned directly and indirectly through Pacific Opportunity <sup>(2)</sup> ; 458,333 warrants owned through Pacific Opportunity; 216,667 Ascent Stock Options owned directly

**Notes:**

- (1) All options vest equally over a four year period, with the first 25% of options vesting on February 5, 2019.
- (2) Each director is entitled to an annual fee of \$18,000, a fee per board meeting attended of \$1,500, a fee per committee meeting attended of \$1,000 and 200,000 stock options.
- (3) Member of Audit Committee.
- (4) Member of Compensation & Governance Committee.

**Section 10.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Company is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or
- (b) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Company, nor a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act



in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- (b) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director or executive officer of the Company has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

### **Section 10.3 Conflicts of Interest**

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the BCBCA dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the BCBCA. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and the best interest of the Company.

## **ARTICLE 11 PROMOTERS**

Philip Campbell and Reid Parr have taken the initiative in founding and organizing Ascent and may therefore be considered a promoter of the Company for the purposes of Applicable Securities Laws. Mr. Campbell owns or controls, directly or indirectly, 27,052,235 common shares of Ascent, representing approximately 8.6% of the issued and outstanding common shares of Ascent on a non-diluted basis, while Mr. Parr owns or controls, directly or indirectly, 26,956,506 common shares of Ascent, representing approximately 8.6% of the issued and outstanding common shares of Ascent on a non-diluted basis. Neither of them has received anything of value, directly or indirectly, from the Company or a subsidiary in return.

## **ARTICLE 12 LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

### **Section 12.1 Legal Proceedings**

There are no legal proceedings to which the Company is a party to or to which any of its property is subject outside of the ordinary course of the Company's business, and no such proceedings are known to the Company to be contemplated.

### **Section 12.2 Regulatory Actions**

None.

## **ARTICLE 13 INTEREST OF MANAGEMENT OR OTHERS IN MATERIAL TRANSACTIONS**

### **Section 13.1 Interest of Management or Others in Material Transactions**

Other than as described elsewhere in this AIF or the Company's consolidated financial statements for the year ended May 31, 2018, there are no material interests, direct or indirect, of any of Ascent's directors or executive officers, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of Ascent's outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect Ascent or any of its subsidiaries.

Philip Campbell and Reid Parr are directors and officers of Ascent, as well as shareholders of a corporation to which Ascent sold inventory over the past three (3) years. The majority of these sales were to a company with an electronic commerce platform. This sales channel was not directly immediately available to Ascent due to the lead time and the material costs associated with Ascent creating its own online platform. The sales were made at generally the same terms and prices from other online providers. Ascent expects to use the services of online sales providers going forward after obtaining a sales license from Health Canada to increase access to qualified clients.

Ascent had a contract processing agreement with a company owned by a major shareholder. This contract processing agreement was terminated on January 31, 2017.

## **ARTICLE 14 TRANSFER AGENTS AND REGISTRARS**

The Company's Registrar and Transfer Agent is National Issuer Services Ltd., located at 760 – 777 Hornby Street, Vancouver, BC, V6Z 1S4.

## **ARTICLE 15 MATERIAL CONTRACTS**

The following are the only material agreements of Ascent or its subsidiaries that are in effect as of the date of this AIF:

- (a) The Agency Agreement dated June 21, 2018, between Ascent, Paget and Clarus Securities on behalf of a syndicate of agents. On June 21, 2018, Ascent completed a

subscription receipt offering of 48,050,500 Ascent subscription receipts at a price of \$0.40 per Ascent subscription receipt for gross proceeds of \$19.2 million, pursuant to the Agency Agreement;

- (b) The Warrant Indenture dated June 21, 2018 between Ascent and National Issuer Services Ltd. governing the terms of the Ascent subscription receipt warrants and the warrants to purchase Ascent common shares issuable upon the exercise of the broker warrants issued pursuant to the subscription receipts offered in accordance with the Agency Agreement;
- (c) The Subscription Receipt Agreement dated June 21, 2018 between National Issuer Services Inc., Ascent and Clarus Securities governing the terms of the subscription receipts offered pursuant to the Agency Agreement; and
- (d) The Subscription Receipt Escrow Agreement among Ascent, certain of its “principals” as National Issuer Services Ltd. pursuant to which each of the principals agreed that, until 36 months from the date on which the Company’s common shares were listed for trading on the CSE, they will not transfer or otherwise dispose of their shares unless in accordance with the terms of the Escrow Agreement, except that the following automatic timed releases will apply to such shares.

A description of these agreements is provided in the Joint Circular.

## **ARTICLE 16 INTERESTS OF EXPERTS**

The following are persons or companies whose profession or business gives authority to a statement made in this AIF as having prepared or certified a part of that document or report described in this AIF:

- McMillan LLP is Ascent's counsel with respect to Canadian and US legal matters herein;
- MNP LLP is the external auditor of the Company and reported on the Company’s audited financial statements for the years ended December 31, 2018, 2017 and 2016, and filed on SEDAR

To the knowledge of management, as of the date hereof, no expert, nor any associate or affiliate of such person has any beneficial interest, direct or indirect, in the securities or property of the Company or of an associate or affiliate of any of them, and no such person is or is expected to be elected, appointed or employed as a director, officer or employee of the Company or of an associate or affiliate thereof.

The auditors of Ascent are MNP LLP. MNP LLP has advised Ascent that it is independent with respect to Ascent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of British Columbia.

## **ARTICLE 17 RISK FACTORS**

There are certain risk factors relating to Ascent which should be carefully considered by Shareholders, which are qualified in their entirety by reference to, and must be read in conjunction with, the other information contained in this AIF.

## **Section 17.1 Risks Related to Ascent's Business**

### Reliance on the Agrima License

Ascent's ability to grow, produce, store and sell medical cannabis in Canada is dependent on the Agrima Licence. Failure to comply with the requirements of the Agrima License, or any failure to maintain the Agrima License in good standing, will have a material adverse impact on Ascent's business, financial condition and operating results. Although Ascent believes that it will meet the requirements of the ACMPR for extension of the Agrima Licence, there can be no guarantee that Health Canada will extend or renew the Agrima Licence or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Agrima Licence, or should it renew the Agrima License on different terms, Ascent's business, financial condition and operating results could be materially adversely affected.

### Expansion of Facilities

There is no guarantee that Health Canada will approve the contemplated expansions in a timely fashion, nor is there any guarantee that the expansion will be completed in its currently proposed form, if at all. The failure of Ascent to successfully execute its expansion strategy (including receiving the expected Health Canada approvals in a timely fashion) could adversely affect the business, financial condition and results of operations of Ascent and may result in Ascent not meeting anticipated or future demand when it arises.

### Changes in Canadian Laws, Regulations and Guidelines

On June 30, 2016, the Canadian Federal Government established the Task Force to seek input on the design of a new system to legalize, strictly regulate and restrict access to cannabis. On December 13, 2016, the Task Force completed its review and published a report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposed the enactment of the *Cannabis Act* (Canada), to regulate the production, distribution and sale of cannabis for unqualified adult-use, with a target implementation date of no later than July 1, 2018. While Bill C-45 received royal assent in June 2018, implementation of various aspects of the regime, including preparing markets for retail sales, will not occur until October 17, 2018.

The governments of most of the provinces and territories of Canada have also made various announcements regarding the proposed regulatory regimes for the distribution and sale of cannabis for adult-use purposes in their jurisdictions. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the growth opportunities that Ascent currently anticipates.

Furthermore, local and municipal governments have and may in the future implement legal rules or take other actions relating to the licensing, production, distribution, transportation, packaging and sale of cannabis and cannabis-based products within their jurisdictions, some of which are or may conflict with the legal rules implemented by the Federal and Provincial governments of Canada. There can be no assurance that any such legal rules or actions implemented or taken by applicable municipal or local governments will not materially adversely affect the business, financial condition, results of operations and cash flows of the Company even if they conflict with the legal rules implemented by the Federal or Provincial governments of Canada.

The medical cannabis industry and market are relatively new in Canada, and this industry and market may not continue to exist or grow as anticipated or the Company may ultimately be unable to succeed in this new industry and market

As a Licensed Producer, Ascent (through its wholly-owned subsidiary Agrima) is operating its business in a relatively new medical cannabis industry and market. In addition to being subject to general business risks, a business involving an agricultural product and a regulated consumer product, Ascent needs to continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote Ascent's brand and products as effectively as intended, or at all. Competitive conditions, consumer tastes, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the ACMPR also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf and the proposed Cannabis Act provides for individuals to produce limited amounts of cannabis for their own recreational use. This could potentially significantly reduce the market for Ascent's products, which could have a material adverse effect on Ascent's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on Ascent's business, financial condition and results of operations.

### Competition

There is potential that Ascent will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than Ascent. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of Ascent.

There is also potential that Ascent will face intense competition from companies which have longer operating histories and more financial resources and experience than Ascent. Currently, the cannabis industry has a number of small to medium-sized entities, however, the risk remains that there will increasingly be large conglomerates and companies who also recognize the potential for financial success through investment in this industry and they could strategically purchase or assume control of larger dispensaries, production, extraction, cultivation and/or distribution facilities, ancillary businesses and technologies. In addition, there has been and will likely continue to be industry consolidation, resulting in the creation of larger companies with financial resources, manufacturing and marketing capabilities, who may have or develop product offerings that are greater than those of Ascent. As a result of this competition, Ascent may be unable to maintain its operations or develop them as currently proposed on terms it considers acceptable or at all. Increased competition by larger, better-financed competitors with geographic advantages could materially and adversely affect Ascent's business, financial condition and results of operations.

The government has only issued to date a limited number of licenses, under the ACMPR, to produce and sell medical cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of Ascent. According to Health Canada, there were 118 Licensed Producers as of June 30, 2018. The number of licences granted and the number of Licensed Producers ultimately authorized by Health Canada could also have an impact on the operations of Ascent. Ascent expects to face additional competition from new market entrants that are granted licences under the ACMPR or existing licence holders which are not yet active in the industry. If a significant number of new licences are granted by Health Canada in the near term, Ascent may experience increased competition for market share and may experience downward price pressure on its products as new entrants increase production.

Ascent also faces competition from illegal dispensaries and the black market that are unlicensed and unregulated, and that are selling cannabis and cannabis products, including products with higher concentrations of active ingredients, and using delivery methods, including edibles, that Ascent is prohibited from offering to individuals as they are not currently permitted by the ACMPR. Any inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could result in the perpetuation of the black market for cannabis and/or have a material adverse effect on the perception of cannabis use. Any or all of these events could have a material adverse effect on Ascent's business, financial condition and results of operations.

If the number of users of cannabis for medical purposes in Canada increases, or if the legalization of cannabis for recreational purposes is implemented, the demand for cannabis products generally will likely increase and Ascent expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To become and remain competitive, Ascent will require the ability to identify opportunities access additional capital through generating its own revenues or accessing the capital or debt markets. Ascent will also require a continued level of investment in research and development, marketing, sales and client support. Ascent may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of Ascent.

Ascent may compete for market share with other companies, including other Licensed Producers, which may have longer operating histories and more financial resources, manufacturing and marketing experience than Ascent

Ascent does and expects to continue to face intense competition from other Licensed Producers and companies, some of which can be expected to have longer operating histories and more financial resources, manufacturing and marketing experience than Ascent. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of Ascent.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of cannabis for medical purposes in some form or another. Ascent has some international strategic alliances in place, which may be affected if more countries legalize medical cannabis. Increased

international competition and limitations placed on Ascent by Canadian regulations might lower the demand for Ascent's products on a global scale.

Ascent has expanded and intends to further expand its business and operations into jurisdictions outside of Canada, and there are risks associated with doing so

Ascent has expanded and may in the future further expand its operations and business into jurisdictions outside of Canada. There can be no assurance that any market for Ascent's products will develop in any such foreign jurisdiction. Ascent may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit Ascent's capability to successfully expand its operations and may have a material adverse effect on Ascent's business, financial condition and results of operations.

Environmental Regulations and Risks

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

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

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

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

Risks Inherent in an Agricultural Business

Ascent's business involves the growing of cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although Ascent expects that any such growing will 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

Ascent's cannabis growing operations consume considerable energy, and so Ascent may be vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of Ascent and its ability to operate profitably.

### Reliance on Management

Another risk associated with the growing and sale of cannabis is the loss of important staff members. Ascent is currently in good standings with all high-level employees and believes that with well managed practices will remain in good standings. The success of Ascent is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. 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 Ascent's business, operating results or financial condition.

### Third Party Transportation

In order for Ascent's customers to receive their product, Ascent must rely on third-party transportation services. This can cause logistical problems with and delays in patients obtaining their orders and cannot be directly controlled by Ascent. Any delay by third party transportation services may adversely affect Ascent's financial performance.

Moreover, security of the product during transportation to and from Ascent's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on Ascent's business, financials and prospects. Any such breach could impact Ascent's ability to continue operating under its licenses or the prospect of renewing its licenses.

### Dependence on Suppliers

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

### Product Liability

As a distributor of products designed to be ingested by humans, Ascent 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 Ascent's products involves 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 Ascent's products alone or in combination with other medications or substances could occur. Ascent may be subject to various product liability claims, including, among others, that Ascent'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 Ascent could result in increased costs, could adversely affect Ascent's reputation with its clients and consumers generally, and could have a material adverse



effect on Ascent's results of operations and financial condition. There can be no assurances that Ascent 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 Ascent's potential products.

### Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of Ascent's products are recalled due to an alleged product defect or for any other reason, Ascent may be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Ascent 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 Ascent 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 Ascent's significant brands were subject to recall, the image of that brand and Ascent could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Ascent's products and could have a material adverse effect on the results of operations and financial condition of Ascent. Additionally, product recalls may lead to increased scrutiny of Ascent's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### Results of Future Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although Ascent believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, Shareholders should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this AIF or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for Ascent's products with the potential to lead to a material adverse effect on Ascent's business, financial condition and results of operations.

### Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of Ascent's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use Ascent's products and technology. Policing the unauthorized

use of Ascent's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. Identifying unauthorized use of intellectual property rights is difficult as Ascent may be unable to effectively monitor and evaluate the products being distributed by its competitors, including parties such as unlicensed dispensaries, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of Ascent's trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same for the benefit of Ascent, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of Ascent's trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect the business, financial condition and results of operations of Ascent.

In addition, other parties may claim that Ascent's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. As well, Ascent may need to obtain licenses from third parties who allege that Ascent has infringed on their lawful rights. However, such licenses may not be available on terms acceptable to Ascent or at all. In addition, Ascent may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

#### Constraints on Marketing Products

The development of Ascent's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits Ascent's ability to compete for market share in a manner similar to other industries. If Ascent is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, Ascent's sales and operating results could be adversely affected.

#### Privacy Laws and Security Breaches

Given the nature of Ascent's product and its lack of legal availability outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of Ascent's facilities could expose Ascent to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing Ascent's products.

In addition, Ascent collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or

through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on Ascent's business, financial condition and results of operations.

Furthermore, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the *Personal Information Protection and Electronics Documents Act* (Canada) ("PIPEDA"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If Ascent was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of Ascent.

### Customer Perception

Ascent believes the medical cannabis industry is highly dependent upon consumer perception regarding the medical benefits, safety, efficacy and quality of the cannabis distributed for medical purposes to such consumers. Consumer perception of Ascent's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, political statements both in Canada and in other countries, media attention and other publicity (whether or not accurate or with merit) regarding the consumption of cannabis products for medical purposes, including unexpected safety or efficacy concerns arising with respect to the products of Ascent or its competitors. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for Ascent's products and the business, results of operations and financial condition of Ascent. Ascent's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity (whether or not accurate or with merit), could have an adverse effect on any demand for Ascent's products which could have a material adverse effect on Ascent's business, financial condition and results of operations. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis for medical purposes in general, or Ascent's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

### Tax and Accounting Requirements

Ascent is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on Ascent's financial results, the manner in which it conducts its business or the marketability of any of its products. In the future, the geographic scope of Ascent's business may expand, and such expansion will require Ascent to comply with the tax laws and regulations of multiple jurisdictions. Requirements as to taxation vary

substantially among jurisdictions. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could potentially subject Ascent to penalties and fees in the future if Ascent were to inadvertently fail to comply. In the event Ascent were to inadvertently fail to comply with applicable tax laws, this could have a material adverse effect on the business, results of operations and financial condition of Ascent.

On March 27, 2018, the Federal government of Canada introduced the *Budget Implementation Bill, 2018, No. 1*, (amendments to the *Excise Act, 2001* (Canada) cannabis taxation), which proposed to implement a new framework for the taxation of cannabis, the majority of which had been previously published for consultation on November 10, 2017, with some modifications. The proposed rules would effectively place cannabis producers within the existing rules that currently apply excise duties on tobacco, wine and spirits producers under the *Excise Act, 2001* (Canada), with modifications as applicable. These rules include a new tax licensing regime for cannabis producers, stamping and marking rules, ongoing reporting requirements, and applicable excise duties payable by licensed cannabis producers on both recreational cannabis products, in addition to goods and services tax/harmonized sales tax. The cannabis excise duty framework is proposed to generally come into force on the date that legal cannabis for non-medical purposes becomes accessible for retail sale under the proposed *Cannabis Act*. The rates of the excise duty for cannabis products delivered in each province and territory and relevant exemptions from the excise tax are still subject to some uncertainty, and will only become known with precision when the law and regulations come into force.

## **Section 17.2 Risks Related to the United States**

### Illegality Under U.S. Federal Law

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the ACMPR, investors are cautioned that in the United States, cannabis is largely regulated at the state level. To Ascent's knowledge, there are to date a total of 29 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form, including Oregon and Nevada, as noted above. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act and as such, violates federal law in the United States.

Because of the conflicting views between state legislatures and the federal government of the U.S. regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States legislature amends the Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of Ascent in the U.S. As a result of the tension between state and federal law, there are a number of risks associated with Ascent's existing and future operations in the U.S. On January 4, 2018, U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of cannabis laws, as set forth in a series of memos and guidance from 2009-2014, principally the Cole Memorandum. The Cole Memorandum generally directed U.S. federal prosecutors not to enforce the federal cannabis laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. While the rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law

as the Cole Memorandum was never legally binding, the revocation did remove the DOJ's guidance to U.S. federal prosecutors that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational cannabis, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that cannabis industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then Ascent's operations in such states would be materially and adversely affected. U.S. federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of cannabis related legislation could adversely affect Ascent, its business and its investments. Ascent's operation of businesses involved in the medical and recreational cannabis industry may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against Ascent. The consequences of such enforcement would be materially adverse to Ascent and Ascent's business and could result in the forfeiture or seizure of all or substantially all of Ascent's assets.

#### Potential Removal of Rohrabacher Blumenauer Appropriations Amendment

The United States Congress has passed appropriations bills since 2014 containing a rider provision that limits the prosecution of cannabis offenses of individuals who are in compliance with state medical cannabis laws (the "Rohrabacher Blumenauer Appropriations Amendment"; formerly the "Rohrabacher-Farr Amendment"). American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. Furthermore, if Congress restores funding, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations. Both the continued reauthorization of the Rohrabacher Blumenauer Appropriations Amendment and its extension to recreational cannabis is highly uncertain, predicated on future political developments, and cannot be guaranteed.

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 Ascent, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the future 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, if any. In addition, it is difficult for Ascent 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.

#### Enforcement of Cannabis Laws and Regulations

As a result of the conflicting views between U.S. state legislatures and the U.S. federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. Unless and until cannabis is removed from categorization as a Schedule I controlled substance under the Controlled Substances Act, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon Ascent or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on Ascent's business, revenues, operating results and financial condition as well as Ascent's reputation, even if such proceedings were concluded successfully in favour of Ascent. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of Ascent or the seizure of corporate assets.

#### Banking Matters

Since the production and possession of cannabis is illegal under U.S. federal law, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. The inability to open bank accounts with certain institutions may make it difficult to operate Ascent's business.

### **Section 17.3 Risks Related to Expansion into Foreign Jurisdictions**

Ascent's expansion into jurisdictions outside of Canada is subject to risks. In addition, in jurisdictions outside of Canada, there can be no assurance that any market for Ascent's products will develop. Ascent may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit Ascent's ability to successfully expand its operations into such jurisdictions and may have a material adverse effect on Ascent's business, financial condition and results of operations.

### **Section 17.4 Reliance on International Advisors and Consultants**

The legal and regulatory requirements in the foreign countries in which Ascent operates or will operate with respect to the cultivation and sale of cannabis, banking system and controls, as well as local business culture and practices are different from those in Canada. Ascent must rely, to a large extent, on local legal counsel, consultants and other advisors retained by it to keep apprised of legal, regulatory and governmental developments as they affect Ascent's business, and to assist Ascent with its governmental relations. Ascent must rely, to some extent, on those

members of management who have previous experience working and conducting business in these countries, if any, in order to enhance its understanding of and appreciation for the local business culture and practices. Ascent also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of the cultivation and sale of cannabis as well as in respect of banking, financing, labour, litigation and tax matters in these jurisdictions. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond the control of Ascent. The impact of any such changes may adversely affect the business of Ascent.

### **Section 17.5 Geographic Expansion Risks**

Ascent may in the future expand into other geographic areas, which could increase its operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of Ascent's operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future international expansion could require Ascent to incur a number of up-front expenses, including those associated with obtaining regulatory approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. Ascent may not be able to successfully integrate such operations successfully with its existing operations.

### **Section 17.6 Risks Specifically Related to the United States Regulatory System**

The Company's business activities while believed to be compliant with applicable state and local law of the United States, are illegal under United States federal law

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law. The CSA classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remains illegal under United States federal law. Although the Company's business activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States 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 medical 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.

There is uncertainty surrounding the Trump Administration and Attorney General Jeff Sessions and their influence and policies in opposition to the cannabis industry as a whole

There is significant uncertainty surrounding the policies of President Donald Trump and the Trump administration (the “**Trump Administration**”) about recreational cannabis and medical cannabis. Attorney General Sessions is a well-known advocate against legalization of cannabis.

On January 4, 2018 (post year-end) the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the United States Department of Justice’s (“DOJ”) guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the “Sessions Memorandum.” The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was “unnecessary” due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney’s Manual (the “USAM”). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government’s limited resources, and include “law enforcement priorities set by the Attorney General,” the “seriousness” of the alleged crimes, the “deterrent effect of criminal prosecution,” and “the cumulative impact of particular crimes on the community.”

The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined

The Cole Memorandum outlined certain priorities for the DOJ 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 DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard.

However, as noted above, on January 4, 2018 (post year-end) the Cole Memorandum was revoked by Attorney General Jeff Sessions.

The Company’s investments in the United States are subject to applicable anti-money laundering laws and regulations

The Company is 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 U.S. 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, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network (“**FCEN**”) of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to cannabis related businesses (the “**FCEN Memo**”). The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.

If any of the Company’s investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of 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 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. Furthermore, while the Company has no current intention to declare or pay dividends on its Common Shares or its Class A Shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

The Company’s investments in the United States may be subject to heightened scrutiny

For the reasons set forth above, the Company’s existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges 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 invest in the United States or any other jurisdiction, in addition to those described herein.

Given the heightened risk profile associated with cannabis in the United States, Canadian Depository for Securities (“**CDS**”) may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the United States. It is not certain whether CDS will decide to enact such measures, nor whether it has the authority to do so unilaterally. However, if CDS were to decide that it will not handle trades in the Company’s securities, it could have a material adverse effect on the ability of investors to make and settle trades and on the liquidity of the Company’s securities generally. In particular, the Common Shares would become highly illiquid as until an alternative is implemented, investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange. While there can be no assurance that this would occur, and while it would be subject to regulatory approval, a third party has publicly expressed interest in providing clearing services should CDS decide not to do so.

The Company has obtained eligibility with The Depository Trust Company (“DTC”) for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

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 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 cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. 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.

## **Section 17.7 Risk Generally Related to the Company**

### Laws and regulations affecting the Cannabis industry are constantly changing

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company’s operations. U.S. local, state and federal cannabis laws and regulations, along with Canadian securities laws, are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt its business and result in a material adverse effect on operations. The Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted that will be directly applicable to its business.

### Reliance on third-party suppliers, manufacturers and contractors

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company’s third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company’s operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company’s business and operational results.

### Completion of future acquisitions

Any future acquisitions are subject to conditions, which may include, without limitation, satisfactory completion of the Company’s due diligence, negotiation and finalization of formal legal documents, debt financing and approval from the Company’s Board of Directors. As a result, there can be no assurance that the Company will complete any acquisitions. If the Company does not complete such acquisitions, it may be subject to a number of risks, including: (i) the price of its securities may decline to the extent that the current market price reflects a market assumption that these acquisitions will be completed; (ii) certain costs related to each such acquisition, such as legal, accounting and consulting fees, must be paid even if an acquisition is not completed; and (iii) there is no assurance that such suitable opportunities will be available to the Company in the future or at all.

### Competition

The Company will face competition from other companies, some of which may have longer operating histories, more financial resources and experience than the Company. Increased competition by larger and well-financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require research and development, marketing, sales and support.

The Company may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

### United States tax residence of the Company

The Company, which is and will continue to be a Canadian corporation as of the date of this AIF, generally would be classified as a non- United States corporation (and, therefore, as a non- United States tax resident) under general rules of United States federal income taxation. Section 7874 of the United States Tax Code, however, contains rules that can cause a non- United States corporation to be taxed as a United States corporation for United States federal income tax purposes. The rules described in this paragraph are relatively new, their application is complex and there is little guidance regarding their application. Under section 7874 of the United States Tax Code, a corporation created or organized outside the United States (i.e., a non- United States corporation) will nevertheless be treated as a United States corporation for United States federal income tax purposes (such treatment is referred to as an “Inversion”) if each of the following three conditions are met (i) the non- United States corporation acquires, directly or indirectly, or is treated as acquiring under applicable United States Treasury Regulations, substantially all of the assets held, directly or indirectly, by a United States corporation, (ii) after the acquisition, the former stockholders of the acquired United States corporation hold at least 80.0% (by vote or value) of the shares of the non- United States corporation by reason of holding shares of the United States acquired corporation, and (iii) after the acquisition, the non- United States corporation’s expanded affiliated group does not have substantial business activities in the non- United States corporation’s country of organization or incorporation when compared to the expanded affiliated group’s total business activities (clauses (i) – (iii), collectively, the “Inversion Conditions”). For this purpose, “expanded affiliated group” means a group of corporations where (i) the non- United States corporation owns stock representing more than 50.0% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50.0% of the vote and value of each member is owned by other members of the group. The definition of an “expanded affiliated group” includes partnerships where one or more members of the expanded affiliated group own more than 50.0% (by vote and value) of the interests of the partnership.

If the Company is treated as a United States corporation for United States federal income tax purposes under section 7874 of the United States Tax Code (which is considered likely, although no definitive determination of this matter has been reached, and no tax ruling has been sought or obtained in this regard), the Company would be considered a United States tax resident and subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the United

States Tax Code, to be treated as a Canadian resident company (as defined in the Tax Act) for Canadian income tax purposes. As a result, if the Company is considered a United States corporation under section 7874, the Company would be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations. In addition, any distributions paid by the Company to a holder of Common Shares may be subject to United States withholding tax as well as any applicable Canadian withholding tax. A Non- United States Holder may also be subject to United States tax, including withholding tax, on disposition of its Common Shares.

The Company may incur significant tax liabilities under section 280E of the Internal Revenue Code of 1986, as amended (the “Tax Code”)

Section 280E of the Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the U.S. Internal Revenue Services (“IRS”) issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permissible deductions. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

Lack of control over operations of investee companies

The Company relies on the investee companies to execute on their business plans, produce medical cannabis products, and holds contractual rights and equity interests relating to the operation of the investee companies. The operators of such investee companies have significant influence over the results of operations of the investee companies. Further, the interests of the Company and the operators of the investee companies may not always be aligned. As a result, the cash flows of the Company are dependent upon the activities of third parties which creates the risk that at any time those third parties may: (i) have business interests or targets that are inconsistent with those of the Company; (ii) take action contrary to the Company’s policies or objectives; (iii) be unable or unwilling to fulfill their obligations under their agreements with the Company; or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party’s ability to perform its obligations. In addition, payments may flow through the investee companies, and there is a risk of delay and additional expense in receiving such revenues. Failure to receive payments in a timely fashion, or at all, under the agreements to which the Company is entitled may have a material adverse effect on the Company. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the investee companies, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by an investee company to the Company contains material inaccuracies or omissions, the Company’s ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

Private companies and illiquid securities

The Company may invest in securities of private companies. In some cases, the Company may be restricted by contract or generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such

securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

The market price of the Common Shares is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares.

Financial markets historically at times 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 Common Shares 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 Common Shares may be materially adversely affected.

A positive return in an investment in the Common Shares is not guaranteed

There is no guarantee that an investment in the Common Shares will earn any positive return in the short term or long term. An investment in Common Shares involves a high degree of risk and should be undertaken only by purchasers whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the Common Shares is appropriate only for purchasers who have the capacity to absorb a loss of some or all of their investment.

Risk factors related to dilution

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, Class A Shares and preferred 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 further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

### Negative cash flow from operations

During the fiscal year ended December 31, 2017 and the three-month period ended March 31, 2018, the Company had negative cash flow from operating activities. Although the Company anticipates it will have positive cash flow from operating activities in future periods, the Company cannot assure that it will achieve sufficient revenues from sales to achieve or maintain profitability or positive cash flow from operating activities.

### The Company is a holding company

The Company is a holding company and the vast majority its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

### Insurance coverage

The Company has insurance to protect its assets, operations, directors and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, there could be a material adverse effect on the Company's business, financial condition and results of operation.

### Risks inherent in an agricultural business

Cannabis is an agricultural product which comes with inherent risks, such as insects, plant diseases and similar agricultural risks. Although the products are usually grown indoors under climate-controlled conditions, with monitoring, there can be no assurance that natural elements will not have a material adverse effect on them.

### Vulnerability to rising energy costs

Cannabis growing operations consume considerable energy, making the Company potentially vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

### Unfavorable publicity or consumer perception

The Company believes the medical and recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical and 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 favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for medical and recreational cannabis and on 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 medical and recreational cannabis in general or associating the consumption of medical 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 hindering market growth and state adoption due to inconsistent public opinion and perception of the medical and recreational cannabis industry. Public opinion and support for medical and recreational cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

### The Company requires additional financing

The Company will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable.

If additional funds are raised through further issuances of equity or 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. 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 currently raises its equity and debt financing from the public markets in Canada. If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would be able to raise equity and/or debt financing privately.

Commercial banks, private equity firms and venture capital firms have approached the 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 additional financing, if raised privately, 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.

## **ARTICLE 18 REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS**

Canadian Securities Administrators Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”) provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

As a result of the Company's investments in certain United States entities (as described herein), the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure:

Compliance with Applicable State Law in the United States Each investee complies with applicable U.S. state licensing requirements as follows: (1) each investee is licensed pursuant to applicable U.S. state law to cultivate, possess and/or distribute marijuana in such state; (2) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (3) random internal audits of the investee's business activities are conducted by the applicable state regulator and by the respective investee to ensure compliance with applicable state law; (4) each employee is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked and using scanners to confirm each customer's legal age and the validity of each customer's drivers' license; (5) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (6) software is used to track marijuana inventory from seed to sale; and (7) each investee is contractually obligated to the Company to comply with applicable state law in the United States in connection with the cultivation, possession and/or distribution of marijuana. The Company's United States legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

### **Section 18.1 The Company's Balance Sheet and Operating Statement Exposure to U.S. marijuana Related Activities**

Approximately 30% of Ascent's assets are located Oregon and Nevada in the United States. In addition, until Ascent obtains a sales license from Health Canada, almost all its revenue



currently is being generated in the United States in the States of Oregon and Nevada. As a result, the Company is subject to applicable laws, rules and regulations affecting cannabis businesses in the states in which it operates, as well as federally. While Ascent plans to operate in strict compliance with United States federal and state legal requirements, there can be no assurance it will always operate in strict compliance with applicable legal requirements under United States federal or state laws or that it will not be deemed to operate outside of these requirements, which could materially adversely affect the business of the Company.

### United States Federal Overview

In the United States, twenty-nine states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the CSA. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis related practices or activities, including without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the DOJ issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana

activity is a serious crime,” it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses.

The Company and its legal counsel continuously monitor statements and guidance issued by U.S. Attorneys regarding the risk of enforcement action in connection with marijuana-related activities in jurisdictions in which the Company conducts marijuana-related activities. U.S. Attorneys in the jurisdictions in which the Company conducts marijuana-related activities have issued the following statements or guidance regarding the risk of enforcement action in connection with marijuana-related activities:

### **Section 18.2 Enforcement of U.S. Federal Laws**

For the reasons set forth above, the Company’s existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges 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 invest in the United States or any other jurisdiction. See “Risk Factors”.

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 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 cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. 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.

Further, 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 medical 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.

### **Section 18.3 U.S. Enforcement Proceedings**

Although the Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the “Leahy Amendment”) to prevent the federal government from using congressionally appropriated

funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that, the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when FY 2019 begins.

## **ARTICLE 19 AUDIT COMMITTEE**

### **Section 19.1 Audit Committee Disclosure**

The Company has appointed an audit committee (the "Audit Committee") pursuant to the requirements of National Instrument 52-110 Audit Committees ("NI 52-110") under Canadian securities legislation and has adopted an Audit Committee Charter, a copy of which is set forth in Appendix B to this AIF. The following discussion is qualified by reference to the Audit Committee Charter.

#### Composition of the Audit Committee

The current members of the audit committee are Mark T. Brown, Reid Parr and Amy Margolis each of whom is financially literate under NI 52-110. Mr. Brown and Ms. Margolis are the independent members of the audit committee. Reid Parr is considered "not independent" as he is the current COO and is an "insider" or management director.

#### Relevant Education and Experience

Reid Parr is the co-founder of Ascent and has been a director of Ascent since September 29, 2015. He was the Chief Financial Officer of Ascent from September 29, 2015 to February 5, 2018, when he was appointed Chief Operating Officer. With more than 10 years of industry experience in legal medical cannabis programs, Reid has been instrumental in identifying and cultivating strategic partnerships and investment opportunities for Ascent. Reid has extensive experience in corporate finance, accounting and bookkeeping. Having cofounded RPM Web Development Ltd. in 2007, Reid's entrepreneurial adeptness allowed RPM to emerge as a leader in online marketing and e-commerce platforms. Acting as an integral consultant to Canada's leading cannabis association, The Cannabis Trade Alliance of Canada (CTAC), Reid has provided valuable advocacy to all levels of government on strategies for a legal cannabis framework in Canada.

Amy Margolis has been an attorney for more than 17 years and is the founder of the Oregon Cannabis Association, one of the largest state cannabis trade groups in the United States. Additionally, she formed one of the very first cannabis PACs. She frequently advises both businesses and investors on deploying capital, multi-jurisdictional growth, public offerings and every other stage of business and corporate development. Ms. Margolis also started The Initiative, a business accelerator established to help female founded businesses succeed, and find funding, in the cannabis space.

Mark T. Brown has a Bachelor of Commerce degree from the University of British Columbia and qualified as a Chartered Accountant in 1993, while working with PricewaterhouseCoopers in Vancouver. He has corporate expertise in merger and acquisition transactions, financing, strategic corporate planning, and corporate development. Mr. Brown has

assisted in the successful establishment of several private and public companies. In the public company sector, Mr. Brown has played key roles in the success of several companies which his team at Pacific Opportunity has listed on the TSXV, the TSX and the NYSE Mkt Exchanges.

#### Pre-Approval Policies

Ascent has adopted a Non-Audit Services Pre-Approval Policy pursuant to which all permissible non-audit services to be provided to the Company by the independent auditors of the Company must be pre-approved by the Audit Committee of the board of directors of the Company. The policy was adopted in August 2018, prior to which the Company was a private company not subject to public company requirements.

#### External Auditor Service Fees

The Company has been billed or anticipates being billed the following fees for services rendered by its independent auditor for each of the years ended March 31, 2018 and March 31, 2017:

	<u>2018</u>	<u>2017</u>
Audit Fees	\$ 50,000	\$ 40,000
Audit Related Fees	\$ -	\$ 3,155
Tax Fees	\$ 17,500	\$ 15,775
All Other Fees	\$ -	\$21,733

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Notes:

1. "Audit Fees" include fees necessary to perform the annual audit of the consolidated financial statements. Audit fees for 2018 are based on anticipated amounts to be billed by MNP.
2. "Audit Related Fees" include fees for assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of our financial statements other than those included in "Audit Fees"
3. "Tax Fees" include fees for all tax services including fees for tax compliance, tax advice and tax planning.
4. "All other Fees" include fees for products and services provided by the auditor other than those included above.

## **ARTICLE 20 ADDITIONAL INFORMATION**

Additional information relating to the Company is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under the Company's stock option plans is contained in the Joint Circular.

Additional financial information is provided in the Company's Audited Consolidated Financial Statements for the year ended May 31, 2018.

**APPENDIX A**  
**Organizational Chart**

## APPENDIX B

### ASCENT INDUSTRIES CORP. (the "Corporation")

#### AUDIT COMMITTEE CHARTER

This charter (the "Charter") sets forth the purpose, composition, responsibilities and authority of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Ascent Industries Corp. ("Ascent").

#### 1.0 Purpose

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

- financial reporting and disclosure requirements;
- ensuring that an effective risk management and financial control framework has been implemented and tested by management of Ascent; and
- external and internal audit processes.

#### 2.0 Composition and Membership

- (a) The Board will appoint the members ("Members") of the Committee. The Members will be appointed to hold office until the next annual general meeting of shareholders of Ascent or until their successors are appointed. The Board may remove a Member at any time and may fill any vacancy occurring on the Committee. A Member may resign at any time and a Member will automatically cease to be a Member upon ceasing to be a director.
- (b) The Committee will consist of at least three directors. Each Member will meet the criteria for financial literacy established by applicable laws and the rules of any stock exchanges upon which Ascent's securities are listed, including National Instrument 52-110 — Audit Committees.
- (c) The Board will appoint one of the Members to act as the chairman of the Committee (the "Chairman"). The secretary of Ascent (the "Secretary") will be the secretary of all meetings and will maintain minutes of all meetings and deliberations of the Committee. If the Secretary is not in attendance at any meeting, the Committee will appoint another person who may, but need not, be a Member to act as the secretary of that meeting.

#### 3.0 Meetings

- (a) Meetings of the Committee will be held at such times and places as the Chairman may determine, but in any event not less than four (4) times per year. Twenty-four (24) hours advance notice of each meeting will be given to each Member orally, by telephone, by facsimile or email, unless all Members are present and waive

notice, or if those absent waive notice before or after a meeting. Members may attend all meetings either in person or by telephone.

- (b) At the request of the external auditors of Ascent, the Chief Executive Officer or the Chief Financial Officer of Ascent or any Member, the Chairman will convene a meeting of the Committee. Any such request will set out in reasonable detail the business proposed to be conducted at the meeting so requested.
- (c) The Chairman, if present, will act as the chairman of meetings of the Committee. If the Chairman is not present at a meeting of the Committee the Members in attendance may select one of their numbers to act as chairman of the meeting.
- (d) A majority of Members will constitute a quorum for a meeting of the Committee. Each Member will have one vote and decisions of the Committee will be made by an affirmative vote of the majority. The Chairman will not have a deciding or casting vote in the case of an equality of votes. Powers of the Committee may also be exercised by written resolutions signed by all Members.
- (e) The Committee may invite from time to time such persons as it sees fit to attend its meetings and to take part in the discussion and consideration of the affairs of the Committee. The Committee will meet in camera without members of management in attendance for a portion of each meeting of the Committee.
- (f) In advance of every regular meeting of the Committee, the Chairman, with the assistance of the Secretary, will prepare and distribute to the Members and others as deemed appropriate by the Chairman, an agenda of matters to be addressed at the meeting together with appropriate briefing materials. The Committee may require officers and employees of Ascent to produce such information and reports as the Committee may deem appropriate in order for it to fulfill its duties.

#### **4.0 Duties and Responsibilities**

The duties and responsibilities of the Committee as they relate to the following matters, are as follows:

##### **4.1 *Financial Reporting and Disclosure***

- (a) review and recommend to the Board for approval, the audited annual financial statements, including the auditors' report thereon, the quarterly financial statements, management discussion and analysis, financial reports, and any guidance with respect to earnings per share to be given, prior to the public disclosure of such information, with such documents to indicate whether such information has been reviewed by the Board or the Committee;
- (b) review and recommend to the Board for approval, where appropriate, financial information contained in any prospectuses, annual information forms, annual report to shareholders, management proxy circular, material change disclosures of a financial nature and similar disclosure documents prior to the public disclosure of such information;



- (c) review with management of Ascent, and with external auditors, significant accounting principles and disclosure issues and alternative treatments under International Financial Reporting Standards ("IFRS"), with a view to gaining reasonable assurance that financial statements are accurate, complete and present fairly Ascent's financial position and the results of its operations in accordance with IFRS, as applicable;
- (d) seek to ensure that adequate procedures are in place for the review of Ascent's public disclosure of financial information extracted or derived from Ascent's financial statements, periodically assess the adequacy of those procedures and recommend any proposed changes to the Board for consideration;
- (e) review the minutes from each meeting of the Responsible Parties, established pursuant to Ascent's Corporate Disclosure Policy, since the last meeting of the Committee;

#### **4.2 *Internal Controls and Audit***

- (a) review the adequacy and effectiveness of Ascent's system of internal control and management information systems through discussions with management and the external auditor to ensure that Ascent maintains: (i) the necessary books, records and accounts in sufficient detail to accurately and fairly reflect Ascent's transactions; (ii) effective internal control systems; and (iii) adequate processes for assessing the risk of material misstatement of the financial statement and for detecting control weaknesses or fraud. From time to time the Committee shall assess whether it is necessary or desirable to establish a formal internal audit department having regard to the size and stage of development of Ascent at any particular time;
- (b) satisfy itself that management has established adequate procedures for the review of Ascent's disclosure of financial information extracted or derived directly from Ascent's financial statements;
- (c) satisfy itself, through discussions with management, that the adequacy of internal controls, systems and procedures has been periodically assessed in order to ensure compliance with regulatory requirements and recommendations;
- (d) review and discuss Ascent's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities;
- (e) review, and in the Committee's discretion make recommendations to the Board regarding, the adequacy of Ascent's risk management policies and procedures with regard to identification of Ascent's principal risks and implementation of appropriate systems to manage such risks including an assessment of the adequacy of insurance coverage maintained by Ascent;
- (f) recommend the appointment, or if necessary, the dismissal of the head of Ascent's internal audit process;

### **4.3 External Audit**

- (a) recommend to the Board a firm of external auditors to be nominated for appointment as the external auditor of Ascent;
- (b) ensure the external auditors report directly to the Committee on a regular basis;
- (c) review the independence of the external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (d) review and recommend to the Board the fee, scope and timing of the audit and other related services rendered by the external auditors;
- (e) review the audit plan of the external auditors prior to the commencement of the audit;
- (f) establish and maintain a direct line of communication with Ascent's external and internal auditors;
- (g) meet in camera with only the auditors, with only management, and with only the members of the Committee at every Committee meeting where, and to the extent that, such parties are present;
- (h) oversee the performance of the external auditors who are accountable to the Committee and the Board as representatives of the shareholders, including the lead partner of the independent auditors team;
- (i) oversee the work of the external auditors appointed by the shareholders of Ascent with respect to preparing and issuing an audit report or performing other audit, review or attest services for Ascent, including the resolution of issues between management of Ascent and the external auditors regarding financial disclosure;
- (j) review the results of the external audit and the report thereon including, without limitation, a discussion with the external auditors as to the quality of accounting principles used, any alternative treatments of financial information that have been discussed with management of Ascent, the ramifications of their use as well as any other material changes. Review a report describing all material written communication between management and the auditors such as management letters and schedule of unadjusted differences;
- (k) discuss with the external auditors their perception of Ascent's financial and accounting personnel, records and systems, the cooperation which the external auditors received during their course of their review and availability of records, data and other requested information and any recommendations with respect thereto;
- (l) discuss with the external auditors their perception of Ascent's identification and management of risks, including the adequacy or effectiveness of policies and

procedures implemented to mitigate such risks;

- (m) review the reasons for any proposed change in the external auditors which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed auditors before making its recommendations to the Board;
- (n) review annually a report from the external auditors in respect of their internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;

#### **4.4 *Associated Responsibilities***

- (a) monitor and periodically review the Whistleblower Policy and associated procedures for:
  - (i) the receipt, retention and treatment of complaints received by Ascent regarding accounting, internal accounting controls or auditing matters;
  - (ii) the confidential, anonymous submission by directors, officers and employees of Ascent of concerns regarding questionable accounting or auditing matters;
  - (iii) any violations of any applicable law, rule or regulation that relates to corporate reporting and disclosure, or violations of Ascent's Code of Business Conduct & Ethics; and
- (b) review and approve Ascent's hiring policies regarding employees and partners, and former employees and partners, of the present and former external auditors of Ascent; and

#### **4.5 *Non-Audit Services***

- (a) pre-approve all non-audit services to be provided to Ascent or any subsidiary entities by its external auditors or by the external auditors of such subsidiary entities. The Committee may delegate to one or more of its members the authority to pre-approve non-audit services but pre-approval by such member or members so delegated shall be presented to the full Committee at its first scheduled meeting following such pre-approval.

### **5.0 Oversight Function**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that Ascent's financial statements are complete and accurate or comply with IFRS and other applicable requirements.

These are the responsibilities of Management and the external auditors. The Committee, the Chairman and any Members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of Ascent, and are specifically not accountable or responsible for the day to day operation or performance of such activities. Although the designation of a Member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Member who is identified as having accounting or related financial expertise, like the role of all Members, is to oversee the process, not to certify or guarantee the internal or external audit of Ascent's financial information or public disclosure.

## **6.0 Reporting**

The Chairman will report to the Board at each Board meeting on the Committee's activities since the last Board meeting. The Committee will annually review and approve the Committee's report for inclusion in the Annual Information Form. The Secretary will circulate the minutes of each meeting of the Committee to the members of the Board.

## **7.0 Access to Information and Authority**

The Committee will be granted unrestricted access to all information regarding Ascent that is necessary or desirable to fulfill its duties and all directors, officers and employees will be directed to cooperate as requested by Members. The Committee has the authority to retain, at Ascent's expense, independent legal, financial and other advisors, consultants and experts, to assist the Committee in fulfilling its duties and responsibilities, including sole authority to retain and to approve any such firm's fees and other retention terms without prior approval of the Board. The Committee also has the authority to communicate directly with internal and external auditors.

## **8.0 Review of Charter**

The Committee may periodically review and assess the adequacy of this Charter and recommend any proposed changes to the Board for consideration.