Ascent Industries Corp.
260-22529 Lougheed Highway
Maple Ridge, BC, Canada V2X 0T5

Management's Discussion and Analysis

For the four months ended
September 30, 2018

(Stated in Canadian Dollars)

Dated November 29, 2018

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Basis of Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") focuses on significant factors that have affected Ascent Industries Corp.'s (the "Company" or "Ascent") and its subsidiary's performance and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's condensed interim consolidated financial statements and related notes for the four months ended September 30, 2018 and the audited consolidated financial statements and related notes for the year ended May 31, 2018.

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Unless otherwise noted, all currency amounts are in Canadian dollars. "This period" or "current period" means the four-month period ended September 30, 2018 and "last year" or "previous year" means the year ended May 31, 2018. This MD&A is dated November 29, 2018.

Profile and strategy

Ascent was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013. Ascent's head office and principal address is located at 260 – 22529 Lougheed Hwy, Maple Ridge, BC V2X 0T5 and the registered and records office address is located at Suite 1700 – 666 Burrard Street, Vancouver, BC V6C 2X8.

The Company's primary activities relate to cannabis cultivation, processing, production, research, product and brand development, and distribution.

The Company operates in the USA through wholly owned subsidiaries in Nevada and Oregon with licenses to produce, process and distribute cannabis and processed cannabis products including cannabis oils.

On November 23, 2018, Health Canada granted the Company an extension until December 17, 2018 to respond to the suspension of the Canadian producer's licence and dealer's licence issued by the Health Canada to Agrima Botanicals Corp ("Agrima"), a wholly-owned subsidiary of the Company.

On January 5, 2018, the State of Nevada Department of Taxation granted to Sweet Cannabis, a Nevada Marijuana Product Manufacturing License and Nevada Marijuana Cultivation Facility License. Ascent is further expanding into federally legal jurisdictions outside of Canada and the USA, including activities currently focused on Europe through its wholly owned subsidiary in Denmark.

On November 22, 2017, the State of Nevada, Department of Taxation granted to Luff Enterprises NV, Inc., the Company's wholly-owned Nevada subsidiary doing business as Sweet Cannabis, Certification as a Medical Marijuana Production Establishment and Certification as a Medical Marijuana Cultivation Establishment.

On November 10, 2017 Agrima, a wholly owned subsidiary of Ascent, was granted a Producer's License under Health Canada's Access to Cannabis for Medical Purposes Regulations ("ACMPR"). The license allows Agrima to cultivate cannabis and produce cannabis oils. Please refer to Description of business and developments below, specifically notes referencing certain press releases made by the Company on September 27, 2018 and October 18, 2018 regarding the partial suspension of the Producer's Licence under the ACMPR.

On July 26, 2017, the Oregon Liquor Control Commission granted a Marijuana Wholesaler License and a Marijuana Processor License to Luff Enterprises, LLC the Company's wholly owned Oregon subsidiary.

Overall performance and outlook

The following highlights the Company's overall performance for the four months ended September 30, 2018 and the quarter ended August 31, 2017:

	Four months ended September 30, 2018 ($)	Three months ended August 31, 2017 ($)	%'s Change
Sales	789,253	2,595,945	(70%)
Cost of sales – after fair value adjustment	649,166	2,623,760	(75%)
Gross margin	140,087	(27,815)	(72%)
Operating expenses	7,179,646	1,428,375	403%
Net loss	(13,636,656)	(2,691,683)	407%
Net loss per share – basic and diluted	(0.05)	(0.02)	150%
Cash used in operating activities	(6,367,925)	(1,128,475)	464%
Cash used in investing activities	(7,194,560)	(2,032,199)	254%
Cash from financing activities	23,213,707	3,305,945	602%

As at:	September 30, 2018 ($)	May 31, 2018 ($)	%'s Change
Cash and cash equivalents at end of period	12,278,851	2,587,436	375%
Total assets at end of period	51,698,017	31,427,304	65%

The Company's financial condition is affected by general market conditions and conditions specific to the cannabis industry. These conditions include, but are not limited to, the price of raw materials and accessibility of debt or equity.

The Company incurred a net loss of $13,636,656 during the current period, compared to $2,691,683 during the comparable quarter ended August 31, 2017. The increase in net loss is discussed below.

Revenues decreased to $789,253 this period, from $2,595,945 in the quarter ended August 31, 2017, a decrease of 70%. The revenue decrease is a result of the Company ceasing sales in Canada as it transitioned to a new licensing regime. Except for the current quarter, the Company expects the trend of revenues increasing from quarter to quarter to continue, as it expands its global foot print and continues to grow sales.

The cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling cannabis. Cost of sales is expected to vary from period to period based on the quantity of plants grown and where the pre-harvest plants are in the grow cycle at the end of the period. Cost of sales after fair value adjustments this period decreased to $649,166, compared to $2,623,760 in the quarter ended August 31, 2017, which reflects the reduced cost of production that resulted as the Company ceased sales activity while transitioning regulatory regimes in Canada.

General and administration expenses increased to $3,697,033 this period, from $780,433 in the quarter ended August 31, 2017. These increased costs are mainly attributable to expenses incurred to prepare the Company for the Transaction. The Company expects the trend of increasing general and administration expenses to continue until completion of its ramp up and expansion phase, although at a lower rate than during this quarter.

Selling and marketing totalled $935,843 this period, compared to $329,503 during the quarter ended August 31, 2017. The Company significantly increased sales and marketing activity to support its sales growth, especially in the jurisdictions in the United States where the Company sells its products.

Pre-production costs for the current period totalled $935,982, as compared to $31,304 during the quarter ended August 31, 2017. The increase reflects the company's ramp up of production and increased facilities as it achieves commercial production at each facility. The Company expects the trend of increasing pre-production costs from quarter to quarter, to decrease in the near future as it completes its ramp up phase.

Depreciation and amortization for the current period totalled $830,772, as compared to $256,030 during the quarter ended August 31, 2017. The increase reflects the company's ramp up of production and significant plant and equipment acquisitions with corresponding depreciation and amortization increases. The Company expects the trend of increasing depreciation and amortization from quarter to quarter, to plateau in the near future as it completes its ramp up phase.

The Company recorded interest and other expense of $189,872 during the current period, compared to $83,375 during the quarter ended August 31, 2017, the increase is attributable to the indebtedness assumed when the Company purchased the Las Vegas facility.

Description of business and developments

The graphic below summarizes the Company's current operations:

	AGRIMA LABS PITT MEADOWS, BC	AGRIMA BOTANICALS MAPLE RIDGE, BC	AGRIMA MEADOWS PITT MEADOWS, BC	SWEET OREGON PORTLAND, OR	SWEET NEVADA LAS VEGAS, NV
BUILDING SIZE	40,000sq ft Custom retrofit warehouse	25,000sq ft Custom built indoor cultivation campus	600,000sq ft automated cultivation warehouse	7,000sq ft custom retrofit warehouse	37,000sq ft custom retrofit warehouse
LAND SIZE	1 acre	5 acres	25 acres	0.25 acres	1.5 acres

<u>Milestones</u>

From the beginning of the fiscal year 2018 up to the date of this MD&A, 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;
- 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. This 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;
- 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 up to 20,000 kg of cannabis flower and up to 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. This license would provide Ascent the ability to sell medical cannabis and cannabis oils online to any approved medical cannabis patients in Canada;
- acquired a medical clinic and pharmacy in Winnipeg, Manitoba with the intent of acquiring and partnering with additional clinics across Canada 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; and
- 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.
- Philip Campbell, Reid Parr and James Poelzer resigned as directors and officers of the Company in November 2018 in connection with the suspension of the Company's Health Canada licences.

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.

Developments

On November 23, 2018, Health Canada granted the Company an extension until December 17, 2018 to respond to the suspension of the Canadian producer's licence and dealer's licence issued by the Health Canada to Agrima Botanicals Corp ("Agrima"), a wholly-owned subsidiary of the Company. Health Canada has asserted that unauthorized activities with cannabis took place under the Company's ACMPR license during the period the Company was privately held. The Company has denied Health Canada's assertions and intends to exercise its right to be heard under the Cannabis Act and Cannabis Regulations in order to maintain its licences. Should the Company not be successful in this hearing process, the licences could be revoked. The Company has taken additional material actions to resolve this issue, including appointing an independent committee to undertake a review of the concerns expressed by Health Canada and to lead the hearing process with Health Canada, as well as the appointment of Fasken Martineau DuMoulin LLP as its independent external legal counsel to advise on the hearing process and has appointed an interim CEO.

On November 16, 2018, the Company announced that Health Canada had continued the suspension of the licenses issued to Agrima and proposed to revoke the licences subject to a 10 day period to be heard under the Cannabis Act.

On October 19, 2018, the Company signed a 10-year lease for approximately 67,750 square feet of space within a building known as The Oakland Tinnery (the "Tinnery") located in Oakland, California (the "California Facility") owned and managed by Ascent's strategic partner, Green Sage, LLC ("Green Sage"). Once construction plans are finalized, which is expected to happen in Q4 2018, Green Sage will be applying their nearly fifteen years of cannabis facility construction expertise to building-out the California Facility to Ascent's specifications. Green Sage will also assist Ascent in obtaining the permits and licences required for its expansion into California.

On October 18, 2018, the Company provided an update regarding the press release issued by the Company on September 27, 2018 relating to the partial suspension of the Health Canada licenses issued to its wholly owned subsidiary, Agrima Botanicals Corp. ("Agrima"). The Company has made formal submissions to Health Canada for the reinstatement of the Agrima licences and has been informed by Health Canada that the Company's submissions are under review. However, Health Canada has not indicated when the review will be completed. In the meantime, the Company has been working diligently to enhance its record keeping controls and procedures and other compliance activities at the Agrima facility.

On October 15, 2018, the Company announced the formation of a new wholly owned subsidiary, Thirty Eight Hemp Corp. ("Thirty Eight Hemp Co."), to launch the Company's global hemp strategy. Thirty Eight Hemp Co. signed a hemp supply agreement (the "Supply Agreement") with AgTech Scientific Inc. ("AgTech") of Paris, Kentucky, a licensed cultivator, processor and distributor of high CBD-content hemp and hemp-based biomass. Under the terms of the Supply Agreement, AgTech will supply up to 25% of its hemp biomass production containing greater than 10% CBD to Thirty Eight Hemp Co., either in the form of biomass or extracted CBD, with no minimum amounts required to purchase. In addition, the Company will increase its ownership interest in AgTech to approximately 10%, subject to appropriate approvals being received, by investing US$500,000 in AgTech.

On October 10, 2018, the Company announced a strategic alliance (the "Alliance") with Green Sage, a Colorado and California based real estate investment firm focused on acquiring, developing and managing real estate infrastructure in cannabis-legal jurisdictions throughout North America and Europe. The terms of the Alliance are governed by a Strategic Alliance Agreement dated October 9, 2018 between Green Sage and Ascent under which they may jointly pursue opportunities in commercial real estate of benefit to their respective businesses in Canada, the United States and internationally.

On September 27, 2018, the Company announced that Health Canada had informed the Company's wholly-owned subsidiary, Agrima, on September 26, 2018 that it did not meet all of its record keeping and other compliance requirements during a Health Canada inspection conducted between August 28, 2018 and August 30, 2018. As a result, Agrima's licenses have been partially suspended by Health Canada. Agrima has commenced the process of addressing the identified issues and has initiated discussions with Health Canada for the reinstatement of the licenses. Ascent is committed to ensuring that applicable subsidiaries comply fully with Health Canada requirements applicable to operations.

On September 20, 2018, the Company announced that, through Agrima, the Company has developed a proprietary methodology for producing a variety of discrete, water-soluble cannabinoids, both in powder and liquid form. Cannabinoids in their natural state are oil-based and non-water soluble, making it challenging for beverage makers and edibles manufacturers to evenly suspend and standardize their product mixtures. Water-soluble cannabinoids emulsify evenly, allowing both beverage and edibles makers to completely standardize their product mixtures, giving end consumers a consistent, high quality product experience. Additionally, water-soluble cannabinoids have a faster activation time of approximately 10-15 minutes in the human body, compared to 30-45 minutes generally for oil-based delivery methods. These effects generally wear off within two hours compared to 4-6 hours with traditional oil-based products. This development strengthens the Company's intellectual property footprint, providing the potential for Ascent to become a leading provider of cannabinoid formulates. When the Company's large-scale production facility, Agrima Labs, is fully licensed and operational, the Company expects it will be able to provide large quantities of water-soluble formulate to beverage and edibles manufacturers as an input ingredient. The Company expects to provide a variety of discrete cannabinoids, including THC, CBD, CBN and CBG distillates, isolates and water-soluble formulates, to medical and adult-use product manufacturers globally. The Company is in the process of adding this intellectual property to its patent portfolio.

On September 7, 2018, the Company announced that through Agrima, the Company entered into a supply agreement with the Ontario Cannabis Retail Corporation, operating as the Ontario Cannabis Store ("OCS"), to supply branded cannabis products to the adult-use market in the Province of Ontario. Under the terms of the agreement, Ascent will initially supply cannabis products for the OCS's online sales network, and will later supply Ontario's private retailers, once the Province implements an approved framework.

On June 19, 2018, the Company announced that Agrima received the Dealer's 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 the Company, 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 Agrima to conduct research, clinical trials and provide a variety of analytical testing for the Company and other licenced producers and licenced dealers. Under the Dealer's Licence, Agrima intends to produce medically focused products such as gel-caps, tinctures and other similar products and sell them to other licenced entities in Canada, as well as internationally into jurisdictions which have legally approved medical cannabis regimes. In connection with international sales, Ascent intends to focus on near term European opportunities for medically focused products, leveraging Agrima's extensive pharmaceutical relationships developed through Ascent's European office in Copenhagen, Denmark.

Amalgamation

On June 29, 2018, Ascent entered into an amalgamation agreement (the "Amalgamation Agreement") with Paget, a company listed on the NEX board of the TSX Venture Exchange, pursuant to which Ascent would acquire Paget by way of a reverse take over (the "Amalgamation"). The Amalgamation was completed on August 9, 2018 and for the purposes of this MD&A, the amalgamated company is referred to as the Resulting Issuer. The common shares of the Resulting Issuer are listed for trading on the Canadian Securities Exchange and is traded under the stock symbol "ASNT".

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.

On June 21, 2018, the Company announced that it closed a private placement (the "Offering") of subscription receipts (the "Subscription Receipts") for gross proceeds of $19.2 million. A total of 48,085,500 Subscription Receipts were sold at a price of $0.40 per Subscription Receipt. Each Subscription Receipt would convert to one unit of the Company upon the satisfaction of certain conditions, including the completion of the previously announced reverse take-over of Paget Minerals Corp ("Paget") by Ascent (the "Transaction") and approval of the listing of the common shares of the resulting issuer (the "Resulting Issuer") under the Transaction on the Canadian Securities Exchange ("CSE"). Each unit consists of one common share and one common share purchase warrant of Ascent exercisable at a price of $0.60 per share for a period of 24 months.

Selected quarterly information

Summary of quarterly results

	Four months ended Sep 30, 2018 ($)	Q4 2018 ($)	Q3 2018 ($)	Q2 2018 ($)	Q1 2018 ($)	Q4 2017 ($)	Q3 2017 ($)
Revenues	789,253	912,485	3,744,775	note 1	2,595,945	1,967,143	1,372,802
Net loss for the period	(13,636,656)	(5,513,827)	(2,665,233)	note 1	(2,691,683)	(1,264,289)	(483,705)
Basic and diluted loss per share for the period	(0.05)	(0.02)	(0.01)	note 1	(0.02)	(0.01)	(0.00)

[1] The Company has not presented quarterly information for its past eight quarters as it has not prepared quarterly financial statements for such quarters as a private company prior to August 9, 2018.

	Sep 30, 2018 ($)	May 31, 2018 ($)	Feb 28, 2018 ($)	Nov 30, 2017 ($)	Aug 31, 2017 ($)	May 31, 2017 ($)	Feb 28, 2017 ($)
Cash and cash equivalents	12,278,851	2,587,436	5,015,511	note 1	2,587,436	865,094	4,548,976
Total assets	51,698,017	31,427,304	28,972,095	note 1	31,427,304	17,907,395	13,903,276
Total non-current financial liabilities	(3,878,276)	(3,832,474)	(3,790,956)	note 1	(3,832,474)	(3,669,993)	1,752,819

[1] The Company has not presented quarterly information for its past eight quarters as it has not prepared quarterly financial statements for such quarters as a private company prior to August 9, 2018.

Revenues have fluctuated over the quarters which are a result of fluctuations in sales price and sales volumes throughout the quarters. The recent decrease in sales in the last two quarters is the result of the Company ceasing sales in Canada as it transitioned to a new licensing regime.

The cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling cannabis. Cost of sales is expected to vary from period to period based on the quantity of plants grown and where the pre-harvest plants are in the grow cycle at the end of the period. In the last two quarters fair value adjustments were made to reflect the impact of the write-down of certain biological assets which occurred when the Company transitioned to a new regulatory regime. Cost of sales is a main driver of the fluctuations in net income.

The Company incurred a net loss and basic and diluted loss per share are the results of the revenue discussion above and increase expenses due to expanded production.

Cash and total assets have has increased over the quarters as the company has raised money for operations and expansion and purchased assets for production.

Non-current financial assets mainly consist of loans payable and has remained consistent.

Liquidity and capital resources

As at September 30, 2018, the Company had cash of $12,278,851 and a working capital of $11,564,954, compared to $2,587,436 and $1,593,971, respectively as at May 31, 2018.

Cash used in operating activities for the four months ended $6,367,925 to $1,128,475 during the three months ended August 31, 2017. The increase in cash used in operating activities was mainly a result of ramping up production during fiscal 2018.

During the current period, the Company used $7,194,560 in investing activities, compared to $2,032,199 the quarter ended August 31, 2017. The higher expenditures during the current period was mainly attributable to investments the Company made in the Agrima Botanicals facility, which was renovated and had new equipment installed while the Company ceased sales as it transitioned to a new regulatory regime. This was partially offset by proceeds received from the RTO transaction. Cash used in investing activities during the period ended September 30, 2018 primarily consists of $5,646,329 invested in property, plant and equipment for the Agrima Botanicals facility, as described above and $3,120,000 for the deposit on the Las Vegas property. These uses of cash were partially offset by the proceeds of $2,189,996 from the RTO transaction described in note 20 of the financial statements. Cash used in investing activities during the quarter ended August 31, 2017 consisted of $2,032,199 for a property, plant and equipment.

The Company received $23,213,707 from financing activities this period, compared to $3,305,945 during the quarter ended August 31, 2017. The increase is primarily attributable to share units issue through public offering for proceeds of $19,234,200. During the current period warrants were exercised for proceeds of $2,282,914. In the quarter ended August 31, 2017 proceeds of $3,261,265 mainly related to private placement C.

As at September 30, 2018, the Company had working capital of $11,564,954 and non-current liabilities of $3,878,276. In July 2018, the Company closed a brokered private placement of subscription receipts for gross proceeds of $19,234,200. This assured the Company would have sufficient cash and access to capital to meet working capital requirements, and obligations as they become due.

The Company's activities have been funded primarily through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it develops positive cash flow from operations. The Company has been successful in its fund-raising efforts in the past, but there can be no assurance that the Company will continue to be successful in the future. If such funds are not available or other sources of finance cannot be obtained, then the Company will be required to curtail its activities to a level for which funding is available and can be obtained. The Company's ability to access funding is also contingent on the ongoing demand for cannabis and is subject to macroeconomic conditions and market fluctuations.

Commitments

Commitments and contractual obligations as of September 30, 2018:

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Debt	1,737,608	8,674,488	-	-	10,412,096
Finance Lease Obligations	20,928	6,976	-	-	27,904
Operating Leases	93,362	865,553	79,137	-	1,038,052
Purchase Obligations	13,760,000	-	-	-	13,760,000
Other Obligations	1,295,500	-	-	-	1,295,500
Total	**16,907,398**	**9,547,017**	**79,137**	**-**	**26,533,552**

Effective March 1, 2016 the Company entered into a four-year lease agreement for office and processing premises located in Portland, Oregon. The lease terminates February 28, 2020. The obligations under this lease are as follows:

2018	$	36,517
2019		149,111
2020		24,953
		210,582

Effective February 1, 2017 the Company entered into a five-year lease agreement for office and processing premises located in Pitt Meadows, BC. The lease terminates January 31, 2022. The obligations under this lease are as follows:

2018	$	39,535
2019		158,139
2020		162,390
2021		163,240
2022		27,207
		550,510

Effective July 31, 2018 the Company purchased First Circle Medical Clinic Ltd. and First Circle Pharmacy Ltd. and assumed two five year lease agreements for clinic and pharmacy premises located in Winnipeg, MB. The lease terminates October 31, 2022. The obligations under this lease are as follows:

2018	$	17,310
2019		69,240
2020		69,240
2021		69,240
2022		51,930
		276,960

During the year ended May 31, 2018, the Company purchased software for a total of $1,935,300 ($1,500,000US) (Financial Statements note 9). As at September 30, 2018 the Company made payments of $327,500 ($250,000US) in cash and issued $321,675 ($250,000US) in common shares. At September 30, 2018 the Company has a remaining commitment of $1,294,500 ($1,000,000US), which is to be paid in cash and common shares, both in the amount of $647,500 ($500,000US) subject to the achievement of milestones.

During the year ended May 31, 2018, the Company entered into a contract to purchase a property in Pitt Meadows, BC for a total of $19,080,000. As at September 30, 2018 the company has made cash deposits of $4,170,000 and issued $1,150,000 in common shares. At September 30, 2018, the Company has a remaining commitment of $13,760,000.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Related party transactions

Goods and Services

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

The Company incurred the following transactions with related parties during the four months ended September 30, 2018:

During the four months ended September 30, 2018, the Company provided $17,907 in services to company connected to directors and shareholders of Ascent.

During the three months ended August 31, 2017, the Company sold $1,1191,631 of inventory to companies connected to directors and shareholders of Ascent. A majority of these sales were to a company with an electronic commerce platform. This sales channel was not directly immediately available to the Company due to the lead time and the material costs associated with the Company creating its own online platform. The sales were made at generally the same terms and prices from other online providers. The Company 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.

	Four months ended September 30, 2018	**Three months ended August 31, 2017**
Received from a company that is a shareholder for services		
Bull Moose Holdings Ltd.	17,907	-
Received from a company that is a shareholder for the purchase of supplies		
1036781 BC Ltd	-	527,759
1094523 BC Ltd	-	326,510
Phil Campbell, former CEO	-	343
Reid Parr, former COO	-	1,384
James Poelzer, director and former CBDO	-	525
West Coast Curators	-	335,110
Received from a director for the purchase of shares		
James Poelzer, director and former CBDO	11,700	-
Received from a company that is a major shareholder for purchase of shares		
Green Lane Holdings Ltd.	19,260	-
Bull Moose Holdings Ltd.	75,000	-
Received from a company that is a controlled by a director for purchase of shares		
Quintet Ventures Inc.	916,667	-
	1,040,534	1,191,631

Compensation of Key Management Personnel

The Company's directors are also the key management personnel that have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel were paid compensation as follows:

	Four months ended September 30, 2018	Three months ended August 31, 2017
Management compensation	341,281	103,846
Share-based payments	386,698	-
	727,979	103,846

Related Party Balances

The following related party amounts were included in accounts receivable.

	Four months ended September 30, 2018	Three months ended August 31, 2017
Receivable from a company that is a major shareholder for sale of inventory supplies		
Bull Moose Holdings Ltd.	18,802	170,823
1036781 BC Ltd		594,652
	18,802	765,475

Proposed transactions

There are no proposed transactions at the date of this MD&A.

Critical accounting estimates

It is necessary for the Company to use estimates in applying the significant accounting policies as described in note 2 of the May 31, 2018 consolidated financial statements. In determining estimates, management uses the information available to the Company at the time. Management reviews key estimates on a regular basis to determine their appropriateness. There is no material update from the critical accounting estimates disclosure contained in the May 31, 2018 MD&A.

Changes in accounting policies and standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2018, and have not been applied in preparing the consolidated financial statements. Those that may have a significant effect on the consolidated financial statements of the Company are as follows:

(i) IFRS 9, Financial Instruments

The Company has adopted IFRS 9 Financial Instruments ("IFRS 9") as of June 1, 2018. IFRS 9 replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement of financial assets and financial liabilities

IFRS 9 eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale. IFRS 9 requires financial assets to be initially measured at fair value and then subsequently measured at either: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) at fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and whether its contractual cash flow characteristics represent solely payments of principal and interest ("SPPI"). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated and instead, the financial instrument as a whole is assessed for classification.
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

IFRS 9 retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39, all fair value changes on liabilities designated under the fair value option were recognized in earnings or loss. Under IFRS 9, those fair value changes are generally presented as follows: (i) the amount that is attributable to changes in the credit risk of the liabilities is presented in other comprehensive income ("OCI") and (ii) the remaining amount of change in the fair value is presented in earnings or loss. The Company has contingent consideration payable arising from a business combination which is measured at fair value at initial recognition and subsequently at FVTPL. All non-derivative financial liabilities are measured at amortized cost.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model for calculating impairment of financial assets. An entity is required to recognize ECL when financial instruments are initially recognized and to update the amount of ECL recognized at each reporting date to reflect changes in the credit risk of the financial instruments. IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

Transition to IFRS 9

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. On adoption of IFRS 9, there were no differences in the carrying amounts of the Company's financial assets and financial liabilities.

The original measurement categories under IAS 39 and the new measurement categories under IFRS 9 are summarized as follows:

Financial instrument	IAS 39 Classification	IFRS 9 Classification
Financial Assets:		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Investment	Available for sale	FVTOCI
Financial Liabilities:		
Accounts payable, payroll and accrued liabilities	Other financial liabilities	Amortized cost
Current portion of finance leases	Other financial liabilities	Amortized cost
Current portion of long-term liabilities	Other financial liabilities	Amortized cost
Derivative liability	Other financial liabilities	Amortized cost
Finance leases	Other financial liabilities	Amortized cost
Long-term loans	Other financial liabilities	Amortized cost
Contingent consideration payable	N/A	FVTPL

The adoption of IFRS 9 had a negligible impact on the carrying amounts of financial assets and liabilities.

(ii) IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18 Revenue, in its entirety, with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of June 1, 2018 and comparatives will not be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2 Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Contract liabilities arising from revenue contracts are classified as deferred revenue on the statement of financial position and represents the entity's obligation to transfer goods or services to a customer for which the Company has received consideration from the customer.

Incremental costs to obtain a contract with a customer are capitalized if the Company expects to recover those costs and are amortized into operating expenses over the life of a contract on a rational, systematic basis consistent with the pattern of the transfer of goods or services to which the asset relates. The Company had no capitalized incremental costs of obtaining a customer contract on adoption of IFRS 15 or as at September 30, 2018.

Based on the Company's assessment, the adoption of this new standard had no impact on the amounts recognized in its condensed interim consolidated financial statements.

Future accounting policy changes issued but not yet in effect

Pronouncements that are not applicable or that do not have a significant impact to the Company have not been included in these condensed interim consolidated financial statements. The following standards are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16, Leases, which replaces IAS 17, Leases, and other lease related interpretations. The new standard established the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted only in conjunction with IFRS 15. The Company is not early adopting IFRS 16 and the extent of the impact of adoption of this standard has not yet been determined.

FRS 15 was issued by the International Accounting Standards Board (IASB) in May 2014. It specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final requirements with respect to identifying performance obligations, principal versus agent considerations and licensing. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The extent of the impact of adoption of the standard has not yet been determined.

(iv) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

The Company is not early adopting the new or revised IFRS standards above and is continuing to assess their impact on its financial position and financial performance.

Financial instruments

Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, payroll payable, finance lease and loans payable. The carrying values of these financial instruments approximate their fair values as at September 30, 2018. Investments without quoted prices in active markets are designated as available for sale and are carried at cost.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

There were no transfers of amounts between levels during the four months ended September 30, 2018.

	Carrrying Value			Fair Value		
As at September 30, 2018	Amortized cost	Fair Value through Other Comprehensive Income ("FVOCI")	Fair Value through Profit or Loss ("FVTPL")	Level 1	Level 2	Level 3
Financial assets						
Cash and cash eqivalents	$ 12,278,851	$ -	$ -	$ 12,278,851	$ -	$ -
Accounts receivable	728,122	-	-	728,122	-	-
Investments	-	376,502	-	376,502	-	-
	$ 13,006,973	$ 376,502	$ -	$ 13,383,475	$ -	$ -
Financial liabilities						
Accounts payable, payroll and accrued liabilities	$ 2,641,120	$ -	$ -	$ 2,641,120	$ -	$ -
Current poriton of finance leases	12,518	-	-	12,518	-	-
Current portion of long term liabilities	1,737,608	-	-	1,737,608	-	-
Derivative liability	-	-	1,863,806	-	-	1,863,806
Finance leases	6,160	-	-	6,160	-	-
Long-term loans	4,802,372	-	-	4,802,372	-	-
Contingent consideration payable	-	-	500,000	-	-	500,000
	$ 9,199,778	$ -	$ 2,363,806	$ 9,199,778	$ -	$ 2,363,806

	Carrrying Value			Fair Value		
As at May 31, 2018	Loans and receivables	Available for sale	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets						
Cash and cash eqivalents	$ 2,587,436	$ -	$ -	$ 2,587,436	$ -	$ -
Accounts receivable	1,523,111	-	-	1,523,111	-	-
Investments	-	360,000	-	360,000	-	-
	$ 4,110,547	$ 360,000	$ -	$ 4,470,547	$ -	$ -
Financial liabilities						
Accounts payable, payroll and accrued liabilities	$ -	$ -	$ 2,888,291	$ 2,888,291	$ -	$ -
Current poriton of finance leases	-	-	30,532	30,532	-	-
Current portion of long term liabilities	-	-	1,746,199	1,746,199	-	-
Derivative liability	-	-	875,695	-	-	875,695
Finance leases	-	-	11,196	11,196	-	-
Long-term loans	-	-	3,821,278	3,821,278	-	-
	$ -	$ -	$ 9,373,191	$ 8,497,496	$ -	$ 875,695

The Company's derivative labiality and contingent consideration payable, are measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument.

The Company's contingent consideration payable is measured at fair value based on unobservable inputs and is considered a level 3 financial instrument. The fair value of these liabilities determined by this analysis was primarily driven by the Company's expectations of the subsidiary achieving its milestones. At September 30, 2018, the probability of achieving the milestones was estimated to be 50%. If the probability of achieving the milestones decreased to 40%, the estimated fair value of contingent consideration would decrease by approximately $100,000.

The Company's other financial instruments, including accounts receivable, accounts payable and accrued liabilities, payroll payable and other liabilities are carried at cost which approximate fair value due to the relatively short maturity of those instruments.

Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

(i) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash and cash equivalents with highly rated Canadian financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its guaranteed investment certificates. Trade and other receivables primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST").

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk as the majority of sales are transacted with credit cards.

As at September 30, 2018, the Company's aging of receivables were all current.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's short-term loans and convertible loans are either non-interest bearing or have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the period ended September 30, 2018.

Other information

Outstanding share data

The Company has authorized capital of an unlimited number of common shares without par value. The table below represents the Company's capital structure as at the date of this MD&A and September 30, 2018:

	As at date of this MD&A	**September 30, 2018**
Common shares issued and outstanding	320,089,207	316,453,566
Share purchase options outstanding (average exercise price of $0.40)	18,517,222	18,517,222
Warrants outstanding (average exercise price of $0.50)	99,190,121	99,914,704

Risks and uncertainties

Risks Related to Ascent's Business

Reliance on the Agrima License

Agrima's licenses in Canada have been suspended by Health Canada and Health Canada has indicated an intention revoke the licenses. There is no guarantee that these licenses will not be revoked, or the suspension will be lifted. A revocation of Agrima's licenses or a prolonged suspension of the licenses would have a material adverse effect on Ascent's business, financial condition and operating results

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. Philip Campbell, Reid Parr and James Poelzer have resigned as directors and officers of Agrima and the failure to replace these persons with qualified people could adversely affect the business, financial position and results of operations of Ascent.

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 additional 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.

<u>Risks Related to the United States</u>

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 are 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.

<u>Risks Related to Expansion into Foreign Jurisdictions</u>

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.

<u>Reliance on International Advisors and Consultants</u>

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.

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.

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 antimony 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.

<u>Risk Generally Related to the Company</u>

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 May 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.

Management's responsibility for financial statements

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

Controls and procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal control over financial reporting during the period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Caution regarding forward looking statements

This document contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to as "forward-looking statements"). Often, but not always, forward-looking statements can be identified by the use of words such as "plans," "expects" or "does not expect," "is expected," "planned," "budget," "scheduled," "estimates," "continues," "forecasts," "projects," "predicts," "intends," "anticipates" or "does not anticipate," or "believes," or variations of such words and phrases, or statements that certain actions, events or results "may," "could," "would," "should," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any of our future results, performance or achievements expressed or implied by the forward-looking statements; consequently, undue reliance should not be placed on forward-looking statements.

These risks, uncertainties and other factors include, but are not limited to: changes in Canadian/US dollar exchange rates; management's strategies, objectives and expectations; the Company's tax position and the tax rates applicable; the Company's ability to acquire necessary permits and other authorizations in connection with its operations; risks associated with compliance, including without limitation changes in legislation and regulation; the Company's cost reduction and other financial and operating objectives; the Company's environmental, health and safety initiatives; the availability of qualified employees and labour for operations; risks that may affect operating or capital plans; risks created through competition; risks associated with dependence on third parties for the provision of critical services; risks associated with non-performance by contractual counterparties; risks associated with title; and general business and economic conditions.

Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including, but not limited to, assumptions about: general business and economic conditions; the timing of the receipt of required permits and approvals for operations; the availability of equity and other financing on reasonable terms; power prices; the Company's ability to procure equipment and operating supplies in sufficient quantities and on a timely basis; the Company's ability to attract and retain skilled labour and staff; the impact of changes in Canadian/US dollar and other foreign exchange rates on costs and results; market competition; and ongoing relations with employees and with business partners and joint venturers.

We caution you that the foregoing list of important factors and assumptions is not exhaustive. Events or circumstances could cause our actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Management undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

Additional information

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

Corporation information

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