Management’s Discussion and Analysis

Fourth Quarter and 12 Months Ended December 31, 2019

(Stated in Canadian Dollars)

Dated May 11, 2020

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Preface

The following Management's Discussion and Analysis ("MD&A") focuses on significant factors that have affected the performance of Ascent Industries Corp. (the "Company" or "Ascent") and that of its subsidiaries and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and related notes for the twelve month period ended December 31, 2019 and for the seven months ended December 31, 2018 (the "2019 Financial Statements") unaudited consolidated financial statements and related notes for the quarterly periods ended March 31, 2019, June 30, 2019 and September 30, 2019 (the "2019 Quarterly Financial Statements") and the audited consolidated financial statements and related notes for the periods ended December 31, 2018 and May 31, 2018 (the "2018 Financial Statements"), which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable for each reporting period specified in this MD&A, and as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, all currency amounts are in Canadian dollars. This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A was prepared as of May 11, 2020 and all information contained in this MD&A is current to that date unless otherwise specified.

Forward looking information

This MD&A contains "forward-looking information and statements" that are subject to risk factors set out under the caption *Caution regarding forward looking statements* later in this document. The reader is cautioned not to place undue reliance on forward-looking statements.

Review and Approved by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A on May 11, 2020.

Profile and strategy

Ascent was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013. Ascent's head office, principal and registered records office address is located at Suite 800 - 543 Granville Street Vancouver, British Columbia V6C 1X8.

For the reporting periods covered in the 2018 Financial Statements and the unaudited financial statements for the quarter ended March 31, 2019, the Company carried on operations in Canada, Denmark and the United States. Effective April 5, 2019, the Company sold its principle operating assets located in Maple Ridge and Pitt Meadows, British Columbia to BZAM Management Ltd. ("BZAM") and, on April 8, 2019, Ascent assigned, to BZAM, its obligations to purchase a greenhouse located in Pitt Meadows. The transactions were completed pursuant to a formal sale process conducted under the *Companies' Creditors Agreement Act* (the "CCAA") for an aggregated value including assumed obligations, of approximately $26.731 million.

Health Canada suspended the Company's Production License and Dealer's License (the "Canadian Licenses") on September 26, 2018 and subsequently revoked the Canadian Licenses on July 12, 2019. As a result, the Company suspended all active business in Canada and Denmark, and continues to take active steps to wind up all business activity in Canada and Denmark other than maintaining a small executive team in Vancouver, British Columbia, to attend to the winding up of its business operations in Canada, matters relating to the continued stay and resolution of all creditor claims under CCAA, and other regulatory, administrative and tax matters. Information relating to the Company's business operations in Canada can be found in previously filed continuous disclosure documents, including the Company's Annual Information Form, dated October 1, 2018.

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 as well as licenses to process and distribute industrial hemp. As a result of the CCAA process in Canada, the operation of the US subsidiaries has been significantly curtailed. The Company intends to reassess these operations upon the conclusion of the CCAA process.

Overall performance and outlook

Consolidated Financial Performance

The following highlight's the Company's overall performance for the period ended Dec 31, 2018 and May 31, 2018 and includes financial information relating to the Company's establishment in Denmark and Canadian Operations, which includes cannabis cultivation, processing, production, product research and forward development and distribution:

	Q4 2019	Q4 2018	Change	12 months ended **December 31, 2019 ($)**	7 months ended December 31, 2018 ($)	Change
Sales	64,188	254,756	(75%)	744,040	1,568,014	(53%)
Gross margin	(541,222)	(411,181)	(32%)	(1,004,928)	(1,683,258)	(39%)
Operating expenses	2,421,139	1,544,662	57%	9,969,890	11,941,202	(17%)
Net loss	(21,544,329)	(1,290,595)	1569%	(22,396,385)	(17,367,855)	29%
Net loss per share – basic and diluted	$(0.07)	$(0.1)		$(0.07)	$(0.05)	40%
Weighted average Common Shares outstanding	320,151,457	319,597,513		320,151,457	317,805,414	

Consolidated Results Commentary

	Q4	12 Months
Earnings Summary	▼ **EPS: $0.064 per share** • Quarterly revenue and operating results mirrored the effect of the license suspension described for the 12 months.	▼ **EPS: $.02 per share, or 40%** • Revenue declined as a result of the Canadian license suspension. • Loss from operations were curtailed as the Company was in the start up phase and had yet to reach profitability.

Segmented Financial Results

	12 months ended **December 31, 2019 ($)**	7 months ended December 31, 2018 ($)	Change
Canada			
Sales	-	26,465	(100%)
Gross margin	-	(413,888)	(100%)
Operating expenses	(6,894,790)	(8,899,685)	(23%)
Other Expense (income	8,260,738	5,367,274	54%
United States			
Sales	744,040	1,541,549	(52%)
Gross margin	(1,004,928)	143,659	(800%)
Operating expenses	(3,075,100)	(3,041,517)	1.0%
Other Expense (income)	687,476	67,201	477%

Segmented Financial Results Commentary

	Q4	12 Months
Earnings Summary	• There were no Canadian operations in the quarter other than administrative functions to support governance of the Company and the winding down of US operations.	• Segmented information is of limited to the analysis of general and admin expense. Operations in the U.S. became increasingly questionable in light of the recurring losses in both Nevada and Oregon. • As the Canadian operations were suspended as a result of Health Canada actions, the Company was unable to make the necessary capital investments to execute the vision for the U.S. business plan

Balance Sheet Analysis, Liquidity, and Capital Resources

	Change **Q4 2019**	Change Q4 2018	12 months ended **December 31, 2019 ($)**	7 months ended December 31, 2018 ($)	Change
Cash and cash equivalents at end of period	(10,908,907)	(10,951,770)	3,993,021	1,339,027	198%
Total assets at end of period	(17,764,662	(4,972,917)	13,665,397	47,243,605	(71%)
Current liabilities	4,438,856	(569,733)	(413,888)	(7,633,638)	(94%)
Long term Liabilities	-	(19,127)	-	(3,897,403)	(100%)
Working Capital	(7,214,900)	(8,840,753)	4,725,063	5,732,417	(18%)

Balance Sheet, Liquidity, and Capital Resources Commentary

	Q4	12 Months
Financial position Summary		**Working Capital: ($1,009,354), or (17.61%)**
	• Use of cash in Q4 2019 reflects the settlement of amounts in CCAA of $5,280,251 as well as G&A primarily legal expenses incurred in the CCAA process. • Liabilities including post filing obligations were authorized for payment by the Court resulting in the $4.438M reduction in liabilities in the quarter • By contract the cash used in the 2018 was used for the construction of facilities in Canada as well as deposits on properties for future development.	• The key driver of the working capital position at December 31, 2019 was the sale in Q1 of the Canadian operations to BZAM for net cash proceeds of $18,173,126. • In addition to the cash received, the buyer assumed $10,494,322 of debt. • The proceeds were applied to $25,751, 728 of net assets. • At the time of the sale the additional write downs in items related to the sold operation in the amount of $5,952,843 was recognized resulting in significant further erosion of the assets of the Company.

Summary Cash Flows

	12months ended **December 31, 2019 ($)**	12 months ended December 31, 2018 ($)	Change
Cash and cash equivalents at end of period	3,993,021	1,339,027	198%
Cash used in operating activities	(15,328,985)	(11,090,278)	38%
Cash from (used) in investing activities	24,789,377	(14,106,234)	276%
Cash from (used) in financing activities	(5,821,858)	23,935,192	(124%)

Cash Flows Commentary

	Q4	12 Months
Cash Flow Summary	• Uses of cash was limited to General & Administrative expenses to support the efforts of resolving creditor claims under the CCAA process. There were no investing or financing activities in the quarter. The use of cash in the quarter in detailed above.	• The increase in cash used in operating activities was mainly a result of ramping up production capabilities during fiscal 2018 • 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. • $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. • During the 7 months ended December 31, 2018 the Company raised net proceeds of $23,975,897 through share issuances. • By contrast in 2019 there were no shares issuances and the Company in addition to settling debt in asset sale to BZAM settled $5,821,858 in outstanding obligations

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.

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 "RTO 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 consisted 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.

Description of business and developments

History of regulated operations

The following is a chronological listing of significant events during the periods ended December 31, 2018, March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019 and to May 11, 2020:

Private Company Events

The Company through its wholly-owned subsidiary Agrima Botanicals Corp. ("Agrima"), 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.

Agrima expected to attain a licensed producer sales license under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). The license would have provided Ascent the ability to sell medical cannabis and cannabis oils online to any approved medical cannabis patients in Canada. Consequently, on August 13, 2018, a medical clinic and pharmacy in Winnipeg, Manitoba was acquired by the Company with the intent of further acquisitions 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.

RTO Transaction

In pursuit of its public listing on a recognized stock exchange in Canada, 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 acquired Paget by way of the RTO Transaction. The RTO Transaction was completed on August 9, 2018 and for the purposes of this MD&A, the amalgamated company is referred to as the Company or Ascent. The common shares of the Company are listed for trading on the Canadian Securities Exchange and is traded under the stock symbol "ASNT".

On the effective date of the RTO Transaction:

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

Following the Amalgamation:

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

Suspension of the Health Canada License

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 based on a Health Canada inspection conducted between August 28, 2018 and August 30, 2018. As a result, Agrima's licenses were partially suspended by Health Canada. Agrima commenced the process of addressing the identified issues and initiated discussions with Health Canada for the reinstatement of the licenses.

Efforts to address the Health Canada Concerns

On October 18, 2018, the Company announced the submission of a formal response to Health Canada for the reinstatement of the agreement licenses and was advised that the submissions were under review. At that time, the Company appointed a VP of Operations and Operations Manager and a Quality Assurance Manager, all with extensive experience, in an effort to address the concerns raised by Health Canada.

On November 21, 2018, the Company announced that it had received notification from Health Canada that it intended to revoke the licenses. The Company responded by providing Health Canada with notice of intent to exercise its rights to be heard under the Cannabis Act and Cannabis Regulations and struck a committee of independent directors led by Mark Brown, to review the concerns of Health Canada.

Resignation of the Founders

Acting under the advice of the Company's external counsel, Fasken Martineau DuMoulin LLP, who had been engaged to address the Health Canada concerns, the Board of Directors accepted the resignations of Philip Campbell, Reid Parr and James Poelzer as officers and directors of Ascent effective November 21, 2018. Concurrently, the Board of Directors appointed Blair Jordan, the then CFO, to the position of interim CEO and, subsequently, a director of the Company. By January 2019, all of the directors, other than Mr. Jordan, Mark Brown and Karim Lalani, Chief Legal Office to the Company, who was appointed to fill a vacancy, had resigned. Mr. Brown resigned as a director on February 21, 2019.

On February 7, 2019 the Company announced that Health Canada had repeated its previous position that the Company has failed to demonstrate (i) that the suspension, and proposed revocation, of Agrima's Licenses is unfounded, or (ii) that the failures that gave rise to the suspension had been rectified. Health Canada gave Ascent until February 20, 2019 to make any additional submissions. This deadline was subsequently extended, however, Health Canada ultimately revoked the Company's cannabis licenses on July 12, 2019.

Restructuring of the Long-Term Debt

As a result of the suspension of the cannabis licenses by Health Canada, all of the Company's Canadian operations were halted and cash flow diminished to $nil. On November 26, 2018, the Company, under Mr. Jordan's direction, engaged Clarus Securities Inc. ("Clarus") as exclusive financial advisor to explore and evaluate a broad range of strategic alternatives to strengthen the balance sheet and maximize the value of the Company. At that time, the Company's secured debt included a loan secured by a mortgage on its Maple Ridge property which had a maturity date of January 1, 2019. Notwithstanding that the debtholder had communicated a willingness to amend the terms of the mortgage and extend the maturity date, Mr. Jordan and Mr. Lalani determined that Clarus should commence a sales and investment solicitation process (the "Clarus SISP").

Clarus SISP

In December 2018, Clarus provided a valuation of the Ascent group of companies to the Company's board and recommended, noting the Company's liquidity issues, that a sales process be conducted on an expedited basis. The Clarus SISP ultimately resulted in receipt and acceptance of a "Notice of Intent" from Gulf Bridge Ltd. ("Gulf Bridge"), to purchase substantially all of the Canadian assets and business of the Company and the parties continued negotiations in respect of this proposed transaction until February 8, 2019, when Gulf Bridge advised the Company that they would not be proceeding.

Gulf Bridge Loan and Default

Gulf Bridge lent $7,000,000 to the Company, and certain of its subsidiaries under a loan facility dated January 8, 2019 (the "Gulf Bridge Loan") for the purpose of reorganizing debt, including the payout of existing secured debt, and providing working capital to run operations. The Gulf Bridge Loan was secured by all present and after acquired personal property of the Company and its subsidiaries that were party to the loan facility, bore interest at a rate of 10% per annum and was due on July 15, 2019.

On February 14, 2019, Gulf Bridge notified the Company of an interest payment default under the Gulf Bridge Loan. As a result of this notice, Gulf Bridge demanded repayment of the full principal and interest on February 25, 2019. This precipitated the Company's application for relief under the CCAA which was granted on March 1, 2019.

Order for Protection under CCAA

On March 1, 2019, by Order of the Supreme Court of British Columbia (the "Court"), Ascent Industries Corp. along with the wholly owned subsidiaries, Agrima, Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., Agrima Scientific Corp., and West Fork Holdings NV Inc. (the "Petitioners") were granted protection under CCAA from its creditors under Vancouver Registry No. S-192188. Ernst & Young Inc. was appointed as Monitor of the Petitioners and their reports can be found at:

https://documentcentre.eycan.com/Pages/Main.aspx?SID=1449

To assist the Company with its immediate cash flow needs the Court ordered that interim financing of $2,000,000 be provided by Gulf Bridge to the Company in early March 2019 to allow the Company to continue its sale and investment solicitation process (the "Modified SISP"). A definitive financing agreement for the interim financing was entered into between the Company and BZAM Management Inc. ("BZAM"), an affiliate of Gulf Bridge, on March 6, 2019.

While noting that the circumstances of the SISP were "atypical", the Monitor in its First Report dated March 15, 2019, stated that it "did have the hallmarks of a SISP that would have been approved by the Court in a CCAA proceeding" and "was reasonable in the circumstances." The Monitor accepted, subject to approval by the Court, a Letter of Intent submitted by Gulf Bridge, the key terms of which ultimately incorporated an Asset Purchase Agreement between the Company and BZAM dated March 14, 2019 (the "BZAM APA").

Effective April 8, 2019 and pursuant to an order issued by the Court on March 25, 2019 the Company sold its 25,000 square foot indoor cannabis cultivation and production facility in Maple Ridge and the Pitt Meadows greenhouse and warehouse to BZAM, pursuant to the BZAM APA and subsequently commenced the winding up of its Canadian operations and settling all Affected Creditor claims under the CCAA.

Sale of Canadian Operating Assets to BZAM

On April 8, the Company received net consideration of $18,173,216 for the assets of the Company as follows:

Gross Consideration	19,152,056
Less Commission	(978,840)
Inventory	(541,877)
Prepaids	(103,221)
Deposits & Construction in progress	(14,432,232)
Property Plant & Equipment	(10,674,398)
Assumption of long-term debt	8,518,259
Assumption of derivative debt	1,976,063
Net gain over net book value	2,915,810

Settlement of Affected Creditor Claims

Subsequent to affecting the sale of its Canadian assets and business to BZAM pursuant to the BZAM APA, management of the Company, Company counsel, the Monitor and counsel to the Monitor worked for the next nine months to settle all

Affected Creditor claims under the process established under the CCAA, culminating in the establishment of a consolidated plan of comprise, arrangement and organization under the CCAA (the "Plan").

At a meeting of Affected Creditors held on December 12, 2019, the Plan was supported by 98% of the number of Affected Creditors and 97% of the value of Affected Claims (as defined in the Plan). Pursuant to the CCAA, the Plan required the approval of a majority in number of Affected Creditors, who represent at least two-thirds in value of the Affected Claims, who actually vote, or who, under the terms of the Plan, are deemed to have voted on the resolution approving the Plan at the Meeting. On December 20, 2019, the Court sanctioned and approved the Plan.

On March 6, 2020 and the Company's CCAA proceedings concluded and the Company commenced an application to British Columbia Securities Commission ("BCSC") for a management cease trade order to replace the administrative relief provided by CCAA from continuous disclosure prescribed under National Instrument 51-102 – Continuous Disclosure Obligations NI 51-102. The BCSC granted a Management Cease Trade Order on March 11, permitting a 60 day period for the Company to comply with NI 51-102.

On December 19, 2019, by order of the Supreme Court of British Columbia, the Company settled outstanding claims in the amount of $17,344,083 pursuant to the Plan of Compromise and Arrangement. The allowable claims we segregated into two classes:

(i) the unaffected claims: claims below $11,100 and paid in full; and

(ii) the affected claims: claims affected by the compromise - 51% of the original allowed amount paid.

In addition to the cash settlement of $9,361,913 paid in final settlement, Company issued the affected claimants 35,572,372 common shares with an aggregate value of $889,309 to eligible affected shareholders on March 03, 2020.

The Company recorded an aggregate loss on its settlement with its creditors through the CCAA process in the amount of $5,280,251.

Change of Auditors

Effective February 28, 2020, MNP LLP (the "Former Auditor") resigned (citing no material disagreement with management of the Company or other concerns or issues) as auditor of the Company; on the same day Kingston Ross Pasnak LLP (the "Successor Auditor") was appointed as the successor auditor of the Company, to hold office commencing as of February 20, 2020 until the close of the next annual general meeting of the Company;

Change in Management

Effective February 4, 2019, a group of shareholders of Ascent formed a voting trust with Drew Malcolm, also a shareholder of Ascent. The voting trust owned and controlled approximately 54% of the issued and outstanding common shares of Ascent at the time of formation.

On February 8, 2019, the members of the voting trust acting through their appointed trustee, Drew Malcolm and describing themselves as the "Concerned Shareholders," issued a press release announcing that they would be requisitioning the board of directors of Ascent, then compromised of Blair Jordan, Karim Lalani and Mark Brown, to call a special meeting of Ascent Shareholders for the purposes of reconstituting the board with the removal of the three incumbent directors, none of whom having been elected by Ascent Shareholders and, the election of seven new independent directors. The February 8, 2019, press release noted that the Concerned Shareholders "believe that the incumbent [board] has undertaken, or is imminently contemplating, unauthorized and potentially value destructive

decisions that may put the very existing of the [Corporation] at risk. They are concerned that the [Management] decision-making process has been coloured by external issues that are not relevant to the [Corporation's] best interests".

On February 13, 2019, Drew Malcolm on behalf of the Concerned Shareholders announced that certain of the Concerned Shareholders were prepared to offer a working capital loan and/or financing on a commercially reasonable basis to address apparent liquidity problems at Ascent. This offer was not taken up by Ascent's then Board and management team, and on February 25, 2019 Gulf Bridge made demand under the Gulf Bridge Loan and shortly thereafter the commencement of the CCAA process began.

In addition to requisitioning a shareholders' meeting of the Company, the Concerned Shareholders sought the remove of the incumbent directors by application under the ongoing CCAA proceedings. On April 26, 2019, the then directors of the Company, Blair Jordan, Karim Lalani and Daniel Lanskey, resigned and were replaced by Paul Dillman, Mark Lotz and David Hurford, three of the seven listed nominees of the Concerned Shareholders set out in the materials requisitioning a shareholders meeting of the Company. Mr. Dillman, Mr. Lotz, and Mr. Hurford served as appointed directors until elected at a special meeting of shareholders of Ascent held on June 25, 2019, at which time they were elected to the board of directors along with Jeremy South and Mahony Cai. Mr. Cai and Mr. Dillman subsequently resigned from the board on October 8, 2019 and January 10, 2020, respectively.

Significant Corporate & Operational matters prior to CCAA and the Health Canada license revocation

On April 11, 2019, the Company appointed Daniel Lanskey to the Board of Directors.

On February 14, 2019, announced that Mark Brown had resigned from the Company's Board of Directors.

On December 17, 2018, the Company appointed Karim Lalani, the Company's general counsel, to the Board of Directors upon the resignation of Amy Margolis. On the same day, the Company announced that it had laid off 30 individuals representing 36% of its Canadian staff.

In July of 2018, the Company completed its Series D private placement for approximately $12 million of units, each unit being comprised of one common share and one common share purchase warrant.

On November 30, 2018, the Company announced the appointment of Larry Jordan to the Board of Directors upon the resignation of Dr. Perry Kendall

On November 7, 2018, the Company announced that through its wholly-owned subsidiary it had entered into a brand-partnership agreement with PACS labs Inc.

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 Green Sage, LLC ("Green Sage"). Once construction plans were finalized, its was the Company's intent to build out of the California Facility to Ascent's specifications.

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 with AgTech.

On September 20, 2018, the Company announced that, through Agrima, the Company had 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 standardize their product mixtures, giving end consumers a consistent product. 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. 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, it had 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.

Selected quarterly information

	Q4 2019 ($)	Q3 2019 ($)	Q2 2019 ($)	Q1 2019 ($)	Three months ended Dec 31, 2018 ($)	Four months ended Sep 30, 2018 ($)	Q4 2018 ($)	Q3 2018 ($)
Revenues	64,188	62,296	182,322	435,234	778,761	789,253	912,485	3,744,775
Net loss for the period	(13,871,178)	(2,436,446)	(3,531,886)	(2,554,721)	(3,731,199)	(13,636,656)	(5,513,827)	(2,665,233)
Basic and diluted loss per share for the period	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.05)	(0.02)	(0.01)

[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 the Company was a private non-reporting issuer prior to August 9, 2018.

	Dec 31, 2019 ($)	Sep 30, 2019 ($)	Jun 30, 2019 ($)	Mar 31, 2019 ($)	Dec 31, 2018 ($)	Sep 30, 2018 ($)	May 31, 2018 ($)	Feb 28, 2018 ($)
Cash and cash equivalents	3,993,021	14,901,928	16,902,565	1,245,611	1,339,027	12,278,851	2,587,436	5,015,511
Total assets	13,665,397	31,300,059	34,194,861	38,508,230	47,243,605	51,698,017	31,427,304	28,972,095
Total non-current financial liabilities	(49,479)	(61,148)	(122,295)	(183,442)	(3,897,403)	(3,878,276)	(3,832,474)	(3,790,956)

[1] The Company has quarterly information for its past eight quarters as best aligned with the relevant interim reporting of the pre-RTO operations which had a May 31 year-end as compared the newly adopted December 31 year end.

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 is the result of the Company ceasing operations in Canada as it had its license suspended and ultimately revoked. Thereafter due to significant cash flow and liquidity issues the Company was forced into CCAA. As a result of the process and the sale of its Canadian operations, significant losses were recognized in 2019.

Historically, prior to the licensing issues:

a. The cost of production was expensed through cost of sales and represents overheads and other production costs of growing and selling cannabis. Cost of sales varied 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 was the main driver of the fluctuations in net income.

b. 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.

c. Cash and total assets had 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.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements for any of the reporting periods considered in this MD&A.

Related party transactions

	Year Ended December 31, 2019 ($)	7 months Ended December 31, 2018
Received from companies connected to directors and shareholders	-	17,907
Received from companies that is a shareholder for the purchase of shares	-	94,260
Received from a director for the purchase of shares		11,700
Received from a company controlled by directors for purchase of shares	-	916,667
Shares based payments	-	386,698
Salaries & Benefits to Management employees	200,000	524,652
Management fees to the CFO	200,046	-
	400,046	1,951,884

These fees and transactions were in the ordinary course and on terms representative of arms length fair market values. Shares issued were on terms pursuant to all participants in the private placements of the Company

Commitments

As described the Company settled outstanding claims in the amount of $17,344,083 pursuant to the Plan of Compromise and Arrangement.

In addition to the cash settlement of $9,361,913 paid in final settlement, Company issued the affected claimants the 35,572, 372 common shares with an aggregate value of $889,309 to eligible affected shareholders on March 03, 2020.

The Company recorded a loss on its settlement with CCAA in the amount of $5,280,251.31.

Aside from the obligations settled above, the Company has the following amounts due from Dec 31, 2019:

	Less than 1 year ($)	1-3 years ($)	4-5 years ($)	After 5 years ($)	Total ($)
Portland office and processing premises lease	27,447	28,131	-	-	50,913

Proposed transactions

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

Critical accounting estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

<u>Significant judgments</u>

(i) Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

(ii) Biological assets

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less costs to sell up to the point of harvest. Determination of the fair values of the biological assets and the agricultural product requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying cost for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(iii) Estimated useful lives and depreciation of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Significant estimates

(i) Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

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

(ii) Deferred tax assets

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

Changes in accounting policies and standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended May 31, 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 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.

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 May 31, 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 year ended December 31, 2019 and the year ended December 31, 2018.

Financial Instrument	Basis of Measurement	Financial Instrument	Associated Risks	Fair Value at Dec 31, 2019 ($)	Fair Value at Dec 31,2018 ($)
Cash and cash equivalents	Amortized cost	Loans and receivables	Credit, currency, and interest rate	3,993,021	1,339,027
Accounts receivable	Amortized cost	Loans and receivables	Credit, currency, and concentration	746,877	786,480
Investment	Fair value	FVTPL*	Exchange	376,502	376,502
Accounts payable, payroll and accrued liabilities	Amortized cost	Other financial liabilities	Currency	(413,888)	(3,412,011)
Current portion of finance leases	Amortized cost	Other financial liabilities	Currency	(49,472)	(14,561)
Current portion of long-term liabilities	Amortized cost	Other financial liabilities	Currency	-	(1,731,003)
Derivative liability	Amortized cost	Other financial liabilities	Currency	-	(1,976,063)
Finance leases	Amortized cost	Other financial liabilities	Currency	-	(1,658)
Long-term loans	Amortized cost	Other financial liabilities	Currency	-	(3,895,745)
				4,653,040	**(8,529,032)**

*FVTPL (fair value through profit and loss)

During the current period, the Company recorded interest and other expense of $285,845 compared to $1,343,080 in the previous year; loss on derivative liability of $1,100,368 compared to $518,250; and accretion expense of $74,467 compared to $178,723, associated with indebtedness assumed by the Company to acquire the Las Vegas facility. During the comparative prior year, the Company only recorded interest expense of $196,077 associated with indebtedness assumed by the company in relation to the Maple Ridge location. During the year ended December 31, 2019 the Company recorded interest and other expense of $3,102,129.

The Company's warrants and convertible debentures are measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument.

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 December 31, 2019, 2018 and May 31, 2018 the Company's aging of receivables was 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 periods ended December 31, 2019 or December 31, 2019.

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 Dec 31, 2018:

	As at date of this MD&A	December 31, 2018
Common shares issued and outstanding	355,723,829	218,683,015
Share purchase options outstanding (average exercise price of $0.40)	8,607,282	12,470,000
Warrants outstanding (average exercise price of $0.57)	88,278,742	12,500,000

As described above 35,572,372 common shares were issued to creditors in the CCAA settlement process.

Risks and uncertainties

As at the date of this MD&A and for all of 2019, the Company had ceased all cultivation, distribution, sale and possession of cannabis in Canada. Since March 1, 2019, the Company's business has been conducted with the oversight of the Monitor as mandated by the CCAA. During this period, the Company's ability to operate its remining business operations in the United States has been severely restricted, in large measure reduced to care and maintenance. The risks and uncertainties addressed below reflect this material change in the Company's scope of operation.

COVID-19 Pandemic

The Company's business could be materially and adversely affected by the outbreak of a widespread epidemic or pandemic or other public health crisis, including arising from the novel strain of the coronavirus known as "COVID-19."

A local, regional, national or international outbreak of a contagious virus, including the novel coronavirus, COVID-19 could cause staff shortages, reduced customer traffic, supply shortages, and increased government regulation all of which may negatively impact the business, financial condition and results of operations of the Company.

In late 2019, COVID-19 was first detected in Wuhan, China. Since then, the virus has spread to over 100 countries. During March 2020, many governments ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as was the case in many places during February, March and April 2020 due to concerns about the coronavirus. The Company could be adversely affected if governments under which it or its suppliers operate impose mandatory closures, seek voluntary closures, or impose restrictions on operations., with the length of such closures directly related to the severity and materiality of the impact on the Company's business.

At the time this MD&A is prepared, the Company cautions that its business could be materially and adversely affected by the risks, or the public perception of the risks, related to the COVID-19 pandemic. The risk of a pandemic, or public perception of such a risk, could cause customers to avoid public places, including retail properties, and could cause

temporary or long-term disruptions in the Company's supply chains and/or delays in the delivery of its products. Further, such risks could also adversely affect the Company's customers' financial condition, resulting in reduced spending for the products it sells. Moreover, an epidemic, pandemic, outbreak or other public health crisis, such as COVID-19, could cause employees or contractors to avoid the Company's properties, which could adversely affect its ability to adequately staff and manage its businesses. "Shelter-in-place" or other such orders by governmental entities could also disrupt the Company's operations, if employees or contractors who cannot perform their responsibilities from home are not able to report to work. Risks related to an epidemic, pandemic or other health crisis, such as COVID- 19, could also lead to the complete or partial closure of one or more of the Company's facilities or operations of its partners or suppliers.

The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. These and other potential impacts of an epidemic, pandemic or other health crisis, such as COVID-19, could therefore materially and adversely affect the Company's business, financial condition and results of operations.

Risks Related to the United States

Description of the United States Legal Cannabis Industry

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352"), below is a discussion of the federal and state-level United States regulatory regimes in those jurisdictions where the Company is currently directly involved, through its subsidiaries, in the cannabis industry. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

Regulation of Cannabis in the United States Federally

The United States federal government regulates drugs in large part through the Controlled Substances Act(the "CSA"). Marijuana, which is a form of cannabis, is classified as a Schedule I controlled substance. As a Schedule I controlled substance, the federal Drug Enforcement Agency ("DEA") considers marijuana to have a high potential for abuse; no currently accepted medical use in treatment in the United States; and a lack of accepted safety for use of the drug under medical supervision. According to the U.S. federal government, cannabis having a concentration of tetrahydrocannabinol ("THC") greater than 0.3% is marijuana. Cannabis with a THC content below 0.3% is classified as hemp. The scheduling of marijuana as a Schedule I controlled substance is inconsistent with what the Corporation believes to be widely accepted medical uses for marijuana by physicians, researchers, patients, and others. Moreover, despite the clear conflict with U.S. federal law, 33 states and the District of Columbia have legalized marijuana for medical use, while 11 of those states and the District of Columbia have legalized the adult use of cannabis for recreational purposes. As further evidence of the growing conflict between the U.S. federal treatment of cannabis and the societal acceptance of cannabis, the federal Food and Drug Administration ("FDA") on June 25, 2018 approved Epidiolex. Epidiolex is an oral solution with an active ingredient derived from the cannabis plant for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older. This is the first FDA-approved drug that contains a purified substance derived from the cannabis plant. In this case, the substance is cannabidiol ("CBD"), a chemical component of marijuana that does not contain the psychoactive properties of THC.
Unlike in Canada, which uniformly regulates the cultivation, distribution, sale and possession of marijuana at the federal level under the *Cannabis Act* (Canada), marijuana is largely regulated at the state level in the United States. State laws regulating marijuana are in conflict with the CSA, which makes marijuana use and possession federally illegal. Although

certain states and territories of the United States authorize medical or adult-use marijuana production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of marijuana and any related drug paraphernalia is illegal. Although the Company's activities are compliant with the applicable state and local laws in those states it maintains such licenses (Oregon and Nevada), strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law nor provide a defense to any federal criminal action that may be brought against the Company.

In 2013, as more and more states began to legalize medical and/or adult-use marijuana, the federal government attempted to provide clarity on the incongruity between federal law and these state-legal regulatory frameworks. Until 2018, the federal government provided guidance to federal agencies and banking institutions through a series of United States Department of Justice ("DOJ") memoranda. The most notable of this guidance came in the form of a memorandum issued by former U.S. Deputy Attorney General James Cole on August 29, 2013 (the "Cole Memorandum").

The Cole Memorandum offered guidance to federal agencies on how to prioritize civil enforcement, criminal investigations and prosecutions regarding marijuana in all states and quickly set a standard for marijuana-related businesses to comply with. The Cole Memorandum put forth eight prosecution priorities:

1. Preventing the distribution of marijuana to minors;

2. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs and cartels;

3. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;

4. Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;

5. Preventing the violence and the use of firearms in the cultivation and distribution of marijuana;

6. Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;

7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and

8. Preventing marijuana possession or use on federal property.

On January 4, 2018, former United States Attorney General Jeff Sessions, rescinded the Cole Memorandum by issuing a new memorandum to all United States Attorneys (the "Sessions Memo"). Rather than establishing national enforcement priorities particular to marijuana-related crimes in jurisdictions where certain marijuana activity was legal under state law, the Sessions Memo simply rescinded the Cole Memorandum and instructed that "[i]n deciding which marijuana activities to prosecute... with the [DOJ's] finite resources, prosecutors should follow the well-established principles that govern all federal prosecutions." Namely, these include the seriousness of the offense, history of criminal activity, deterrent effect of prosecution, the interests of victims, and other principles.

In the absence of uniform federal guidance, as had been established by the Cole Memorandum, numerous United States Attorneys with state-legal marijuana programs within their jurisdictions announced enforcement priorities for their respective offices. Other United States Attorneys provided less assurance, promising to enforce federal law, including the CSA in appropriate circumstances.

Attorney General William Barr, who succeeded Attorney General Jeff Sessions has not provided a clear policy directive for the United States as it pertains to state-legal marijuana-related activities. However, in a written response to questions from U.S. Senator Cory Booker made as a nominee, Attorney General Barr stated "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum." Attorney General Barr's statements are not official declarations of DOJ policy and are not binding on the DOJ, on any U.S. Attorney or on the federal courts.

Nonetheless, there is no guarantee that state laws legalizing and regulating the sale and use of marijuana will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to marijuana (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 U.S. federal law.

As an industry best practice, despite the rescission of the Cole Memorandum, the Company abides by the following standard operating policies and procedures to ensure compliance with the guidance provided by the Cole Memorandum:

1. Ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;

2. Ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);

3. Implement policies and procedures to ensure that cannabis products are not distributed to minors;

4. Implement policies and procedures in place to ensure that funds are not distributed to criminal enterprises, gangs or cartels;

5. Implement an inventory tracking system and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;

6. Ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and

7. Ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company frequently conducts background checks to ensure that the principals and management of its operating subsidiaries are of good character and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or the use of firearms in the cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to the possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

Although the Cole Memorandum has been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has passed a so-called "rider" provision in the FY 2015, 2016, 2017, 2018 and 2019 Consolidated Appropriations Acts to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against state regulated medical marijuana actors operating in compliance with state and local law. The

rider is known as the "Rohrabacher- Farr" Amendment after its original lead sponsors (it is also sometimes referred to as the "Rohrabacher- Blumenauer" or "Joyce-Leahy" Amendment, but it is referred to in this MD&A as "Rohrabacher-Farr"). In signing the 2019 Consolidated Appropriations Act, President Trump issued a signing statement noting that the Act "provides that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories," and further stating "[he] will treat this provision consistent with the President's constitutional responsibility to faithfully execute the laws of the United States." While the signing statement can fairly be read to mean that the executive branch intends to enforce the CSA and other federal laws prohibiting the sale and possession of marijuana, the President did issue a similar signing statement in 2017 and no major federal enforcement actions followed. The Consolidated Appropriations Act of 2019 expired on September 30, 2019. On September 27, 2019, the President signed into law the Continuing Appropriations Act, 2020, and Health Extenders Act of 2019, which provided continuing appropriations to federal agencies through November 21, 2019. The Continuing Appropriations Act is known as a continuing resolution and prevented a government shutdown that would have otherwise occurred when FY2020 began on October 1, 2019 because the 12 regular appropriations bills that fund the federal government for FY2020 had not been enacted. The continuing resolution funds most projects and activities at the FY2019 levels with several exceptions that provide funding flexibility and additional appropriations to various programs. Notably, Rohrabacher-Farr has applied only to medical marijuana programs and has not provided the same protections to enforcement against adult-use activities.

United States Border Entry

The United States Customs and Border Protection ("CBP") enforces the laws of the United States as they pertain to lawful travel and trade into and out of the U.S. Crossing the border while in violation of the CSA and other related United States federal laws may result in denied admission, seizures, fines, and apprehension. CBP officers administer determine the admissibility of travelers who are non-U.S. citizens into the United States pursuant to the United States Immigration and Nationality Act. An investment in the Company, if it became known to CBP, could have an impact on a non-U.S. citizen's admissibility into the United States and could lead to a lifetime ban on admission.

Because marijuana remains illegal under United States federal law, those investing in Canadian companies with operations in the United States cannabis industry could face detention, denial of entry, or lifetime bans from the United States for their business associations with United States marijuana businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers that previous use of marijuana, or any substance prohibited by United States federal laws, could mean denial of entry to the United States. Business or financial involvement in the marijuana industry in the United States could also be reason enough for CBP to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because marijuana continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in U.S. states where it is deemed legal may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to marijuana in the United States (such as the Company), who are not United States citizens, face the risk of being barred from entry into the United States.

Anti-Money Laundering Laws and Access to Banking

The Company is subject to a variety of laws and regulations in the United States that involve anti-money laundering, financial recordkeeping and the proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the "Bank Secrecy Act"), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States.

Additionally, under United States federal law, it may potentially be a violation of federal anti-money laundering statutes for financial institutions to take any proceeds from the sale of any Schedule I controlled substance. Banks and other financial institutions could potentially be prosecuted and convicted of money laundering under the Bank Secrecy Act for providing services to cannabis businesses. Therefore, under the Bank Secrecy Act, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other financial service could be charged with money laundering or conspiracy.

While there has been no change in U.S. federal banking laws to accommodate businesses in the large and increasing number of U.S. states that have legalized medical or adult-use marijuana, the Department of the Treasury Financial Crimes Enforcement Network ("FinCEN"), in 2014, issued guidance to prosecutors of money laundering and other financial crimes (the "FinCEN Guidance"). The FinCEN Guidance advised prosecutors not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses so long as that marijuana-related business activities are legal in their state and none of the federal enforcement priorities referenced in the Cole Memorandum are being violated (such as keeping marijuana out of the hands of organized crime). The FinCEN Guidance also clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk. The customer due diligence steps typically include:

1. Verifying with the appropriate state authorities whether the business is duly licensed and registered;

2. Reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;

3. Requesting available information about the business and related parties from state licensing and enforcement authorities;

4. Developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus adult-use customers);

5. Ongoing monitoring of publicly available sources for adverse information about the business and related parties;

6. Ongoing monitoring for suspicious activity, including for any of the red flags described in the FinCEN Guidance; and

7. Refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

While the FinCEN Guidance decreased some risk for banks and financial institutions considering servicing the cannabis industry, in practice it has not increased banks' willingness to provide services to marijuana-related businesses. This is because current U.S. federal law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana-related business they accept as a customer.

Those state-chartered banks and/or credit unions that have agreed to work with marijuana businesses are typically limiting those accounts to small percentages of their total deposits to avoid creating a liquidity risk. Since, theoretically, the federal government could change the banking laws as it relates to marijuana-related businesses at any time and without notice,

these banks and credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana-related businesses in a single day, while also keeping sufficient liquid capital on hand to service their other customers. Those state-chartered banks and credit unions that do have customers in the marijuana industry can charge marijuana businesses high fees to cover the added cost of ensuring compliance with the FinCEN Guidance.

Unlike the Cole Memorandum, however, the FinCEN Guidance has not been rescinded. The Secretary of the U.S. Department of the Treasury, Stephen Mnuchin, has publicly stated that the Department was not informed of any plans to rescind the Cole Memorandum and that he does not have a desire to rescind the FinCEN Guidance.

As an industry best practice and consistent with its standard operating procedures, the Company adheres to all customer due diligence steps in the FinCEN Guidance and any additional requirements imposed by those financial institutions it utilizes. However, in the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of anti-money laundering legislation or otherwise, such transactions could 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 or effect other distributions.

In the United States, a bill (the "SAFE Banking Act") has been put forth which would grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. The SAFE Banking Act has been adopted by the House of Representatives and is awaiting consideration by the U.S. Senate. While there is strong support in the public and within Congress for its passage, there can be no assurance that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

Ability to Access Public and Private Capital

Given the current laws regarding cannabis at the federal level in the United States, traditional bank financing is typically not available to United States marijuana companies. Specifically, since financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under anti-money laundering statutes, the unlicensed money transmitter statute and the Bank Secrecy Act, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Banks who do accept deposits from cannabis-related businesses in the United states must do so in compliance with the FinCEN Guidance.

The Company has banking relationships with Oregon and Nevada state-chartered banks for deposits and payroll, however the Company does not have access to traditional bank financing. The Company has been successful at raising capital privately. The Corporation expects to generate adequate cash to fund its continuing operations. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable and the Company may not be able to generate adequate cash to fund its continuing operations.

Tax Concerns

An additional challenge for marijuana-related businesses is that the provisions of the Internal Revenue Code Section 280E are being applied by the IRS to businesses operating in the medical and adult-use marijuana industry. Section 280E prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be. Furthermore, although the IRS issued a

clarification allowing the deduction of cost of goods sold, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted.

The 2018 Farm Bill

Cannabidiol or CBD is a nonintoxicating chemical found in cannabis and is often derived from hemp, which contains, at most, only trace amounts of THC. On December 20, 2018, President Trump signed the Agriculture Improvement Act of 2018 (popularly known as the "2018 Farm Bill") into law. Until the 2018 Farm Bill became law, hemp fell within the definition of "marijuana" under the CSA and the DEA classified hemp as a Schedule I controlled substance because hemp is part of the cannabis plant.

The 2018 Farm Bill defines hemp as the plant Cannabis sativa L. and any part of the plant with a delta-9 THC concentration of not more than 0.3% by dry weight and removes hemp from the CSA. The 2018 Farm Bill requires the U.S. Department of Agriculture ("USDA") to, among other things: (1) evaluate and approve regulatory plans approved by individual states for the cultivation and production of industrial hemp, and (2) promulgate regulations and guidelines to establish and administer a program for the cultivation and production of hemp in the U.S. The regulations promulgated by the USDA will be in lieu of those states not adopting state-specific hemp regulations. Hemp and products derived from it, such as CBD, may then be sold into commerce and transported across state lines provided that the hemp from which any product is derived was cultivated under a license issued by an authorized state program approved by the USDA and otherwise meets the definition of hemp. The 2018 Farm Bill also explicitly preserved the authority of the FDA to regulate hemp-derived products under the U.S. Food, Drug and Cosmetic Act. The Company expects that the FDA will promulgate its own rules for the regulation of hemp-derived products in the coming year. Notwithstanding the pending FDA rules, on October 29, 2019, the USDA published its proposed rules for the regulation of hemp, as discussed above ("USDA Rule"). The USDA Rule will go into effect immediately upon the conclusion of the public comment period and publication in the federal register by the USDA. The USDA Rule, among other things, sets minimum standards for the cultivation and production of hemp, as well as requirements for laboratory testing of hemp.

Compliance with Applicable State Law in the United States

The Company is classified as having a "direct" involvement in the United States cannabis industry and is in compliance with applicable United States state law, as well as related licensing requirements and the regulatory framework enacted by the States of Oregon and Nevada. The Company is not subject to any citations or notices of violation with applicable licensing requirements and the regulatory frameworks which may have an impact on its licenses, business activities or operations. The Company uses reasonable commercial efforts to ensure that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by Oregon and Nevada through the advice of its outside counsel in those states, and monitors and reviews its business practices and changes to applicable state laws and regulations, as well as United States Federal enforcement priorities.

In the United States, cannabis is largely regulated at the state level. Although each state in which the Company operates authorizes, as applicable, medical and/or adult-use marijuana production and distribution by licensed or registered entities, and numerous other states have legalized marijuana in some form, under U.S. federal law, the possession, use, cultivation, and transfer of marijuana and any related drug paraphernalia remains illegal, and any such acts are criminal acts under U.S. federal law. Although the Company believes that its business activities are compliant with applicable state and local laws of the United States, strict compliance with state and local laws with respect to marijuana may neither absolve the Company of liability under U.S. federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may result in a material adverse effect on the Company.

Oregon Regulatory Framework

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an exclusive list of qualifying conditions that include chronic pain. In 2013, the legislature passed, and the governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana dispensaries. However, House Bill 3460 only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators and processors. In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed marijuana businesses.

The Oregon Health Authority ("OHA") registers "persons responsible for" and regulates medical marijuana businesses and the Oregon Liquor Control Commission ("OLCC") licenses and regulates adult-use marijuana businesses. There are six distinct types of cannabis businesses: cultivation, manufacturing ("processing"), wholesaling (only for adult use), dispensing, testing and research. Vertical integration between cultivation, processing, and sales is permissible, but not required, for both medical and adult-use.

In April of 2019 lawmakers voted in favor to freeze marijuana production at the current levels for the next two years. Senate Bill 218 was fully passed, and as of June 1, 2019 the state will not issue any new production licenses to marijuana growers, but current cultivators will be able to renew regularly. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

On October 4, 2019, Oregon Governor Kate Brown issued an executive order calling for a 180-day ban on sales of all flavored vaping products, which went into effect on October 15, 2019. The order also called for the OLCC and the OHA to develop plans for consumer warnings, including displays of the health-related risks of vaping. In response to the ban, on October 29th, 2019 Herban Industries OR, LLC filed a Motion to Stay Enforcement of the Temporary Rules. On November 14, 2019, the Motion was Granted, resulting in an immediate stay of OAR 845-025-2805. This motion prompted the OLCC to announce on November 15th, 2019 that until the judicial review is complete, licensees are not prohibited from processing, transferring, and selling products previously banned under OAR 845-025-2805.

Oregon Revised Statutes Chapter 475 B (Cannabis Regulation) provides the regulatory framework for both the recreational and medical cannabis industries in Oregon. The OLCC implementation of the recreational cannabis statutes are found in Oregon Administrative Rules Chapter 845, Division 25. The Oregon Medical Marijuana Program (the "OMMP") implementation of the medical cannabis statutes are found in Oregon Administrative Rules Chapter 333, Division 8. Chapter 333, Division 7 provides the packaging, labelling and dosage limits for both programs, and Chapter 333, Division 64 governs the accreditation of laboratories for testing.

Both the OLCC and the OMMP Rules include licensing requirements and materials, as well as criteria for denial or approval of license applications.

Licenses issued by OLCC may be renewed annually so long as the licensee meets the requirements of the law and pays the renewal fee. There is no maximum number of licenses per owner, except for cultivation licenses located at the same address.

Applicants must demonstrate (and license holders must maintain) that

1. They are registered with the Oregon Secretary of State to do business in Oregon;

2. They have the operational expertise required by the individual license type, demonstrated by submission of an operation plan;

3. They have the ability to secure the premises, resources, and personnel necessary to operate the license;

4. They have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to-sale software to prevent diversion or unlawful access to these materials;

5. They have the financial ability to maintain operations for the duration of the license;

6. All owners have passed background screening, inclusive of fingerprinting; and

7. That all local land use, zoning, and planning notices have been followed in the development of the licensed site.

A licensee must maintain a fully operational alarm and video monitoring system at all times. Commercial grade, non-residential door locks are required on every external door. The alarm system must secure all entry points and be equipped with motion detectors and pressure activated panic alarms. The 24-hour video surveillance system must record at a high-resolution format approved by the OLCC and have camera coverage which covers all areas of the facility without any blackout areas. Video footage must be backed-up for a minimum of 30 days in hard-form, with a minimum of 90 days available on request. Additionally, the camera system must have the ability to print still photos. Retail stores are the only facilities allowing public access. All other facilities require signage advising that there is no public entry. Any vendors or contractors that must be on site have to be fully checked in through a visitor log and must be accompanied at all times by an employee.

Recreational and medicinal cannabis and cannabis products must be stored in a secured, locked room or vault. Vaults that are large enough to allow a person to walk in must have cameras inside so that there is no blind spot. Smaller safes must be bolted to the floor. When products are transferred between licensees, they must first be fully manifested through the state mandated 'seed-to-sale' system prior to being transported.

The OLCC conducts announced and unannounced inspections of all licensed facilities to determine compliance with laws and rules. The OLCC will inspect a licensee upon receiving a complaint or notice that the licensee has violated any existing rules. The OLCC will also conduct an annual license renewal inspection at the time of application approval. Inspections can cover all records, personnel, equipment, security, and operational methodologies.
Luff Enterprises LLC, a wholly-owned subsidiary of the Company incorporated under the laws of Oregon, is a state-licensed processor and wholesaler of medical and adult-use cannabis in the State of Oregon.

Nevada Regulatory Framework

Nevada has a medical marijuana program and passed adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for treatment of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health (the "Division") licensed medical marijuana establishments until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation ("DOT"). Under Nevada's adult-use marijuana law, the DOT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation."

In June of 2019 Nevada Governor Steve Sisolak approved Assembly Bill 533 which established a Cannabis Advisory Commission, to which the governor will appoint experts in direct and marijuana-related fields. These individuals will review outstanding issues surrounding inclusion, addiction prevention, training programs, consumption, and other important questions. In that same month, Governor Sisolak approved Assembly Bill 132 making Nevada the first state to ban employers from refusing to hire job applicants who test positive for marijuana during the hiring process. In May of 2019, Governor Sisolak signed into law Senate Bill 32, that increases transparency in the licensing process by releasing certain information about license applicants, as well as methods used to issue licenses.

License applications in Nevada are merit based and competitive. Residency is not required to own or invest in a Nevada medical cannabis business and vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Nevada Revised Statutes Chapter 453D provides a regulatory framework that outlines the function of the DOT Marijuana program. Subsections of this chapter outline licensing and enforcement guidelines which guide the DOT.

Licenses issued by the DOT can be renewed annually so long as the licensee continues to demonstrate compliance with local and state law and pays the renewal fee. The DOT places license caps on all license classifications, which are reassessed annually.

Applicants must demonstrate (and license holders must maintain) that:

1. They are registered with the Nevada Secretary of State to do business in Nevada;
2. That they have contributed to the advancement of the State of Nevada via regular tax Payments;
3. That they do not have interests in the Casino or Alcohol industries;
4. They have the operational expertise required by the individual license type, demonstrated by submission of an operation plan;
5. They have the ability to secure the premises, resources, and personnel necessary to operate the license;
6. They have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to- sale software to prevent diversion or unlawful access to these materials;
7. They have the financial ability to maintain operations for the duration of the license;
8. All owners have passed background screening, inclusive of fingerprinting; and
9. That all local land use, zoning, and planning notices have been followed in the development of the licensed site.

A licensee must maintain a fully operational alarm and video monitoring system at all times. The alarm system must secure all points of ingress and egress and be equipped with motion detectors. The 24- hour video surveillance system must record at a high-resolution format approved by the DOT and have camera coverage which covers all areas of the facility without any blind spots. Video footage must be backed-up for a minimum of 30 days in hard-form.

Cultivation and product manufacturing sites are not open to the public. A facility must have signage advising no public admittance. Any vendor or contractor that needs access to the premises must be fully identified and sign into a vendor log. There is no access to non-employees unless there is an employee present.

Cannabis and cannabis goods must be stored in a lockable safe or vault at any time that employees are not on location. Any storage container that is large enough to allow an employee to walk into it must have cameras placed inside. Goods to be transported to another licensee must be fully manifested via the state mandated seed-to-sale tracking system prior to being transported.

The DOT conducts announced and unannounced inspections of all licensed facilities to determine compliance with laws and rules. The DOT will inspect a licensee in the event of a complaint indicating that the licensee has or is actively violating existing statute. The DOT will also inspect at the time of any modification, as well as at the time of annual renewal.

Luff Enterprises NV Inc., a wholly-owned subsidiary of the Company incorporated under the laws of Nevada, is a licensed cultivation and processing facility for medical and adult-use cannabis in the State of Nevada.

Balance Sheet Exposure

At December 31, 2019, 100% of the Company's balance sheet is exposed to US cannabis-related actives.

<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 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, divestitures or business combinations

Any future acquisitions, divestiture or business combinations 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 such transactions. If the Company does not complete a contemplated transaction, 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 transactions will be completed; (ii) certain costs related to each such transaction, such as legal, accounting and consulting fees, must be paid even if transaction 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 MD&A, 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.

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 years ended May 31, 2018, December 31, 2018 and December 31, 2019, 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 and private 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 financial periods covered in this MD&A 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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