CANSORTIUM INC.

SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides information concerning the financial condition and results of operations of Cansortium Inc. (the "Company"). This MD&A is provided as of August 29, 2019 unless otherwise stated, and should be read together with the Cansortium Inc. unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2019 and 2018 (the "Condensed Interim Consolidated Financial Statements") and the Cansortium Holdings LLC audited consolidated financial statements and the accompanying notes for the years ended December 31, 2018 and 2017 (the "Consolidated Financials Statements").

The results reported herein have been prepared in accordance with IFRS and, unless otherwise noted, are expressed in United States thousands of dollars.

The Condensed Interim Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries and the Company's interests in affiliated companies (see "Basis of consolidation" section within this MD&A). All intercompany balances and transactions have been eliminated on consolidation.

This MD&A includes non-IFRS financial measures, such as "Adjusted gross profit", "Adjusted gross margin", "Pro-forma revenue", "Pro-forma adjusted gross profit", "Pro-forma adjusted gross margin", "Pro-forma income (loss) from operations", "EBITDA", "Adjusted EBITDA", "EBITDA margin" and "Adjusted EBITDA margin", as defined below. The management of the Company believes that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, provide information that is helpful to understand the results of operations and financial condition of the Company. The objective is to present readers with a view of the Company from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. These measures are not necessarily comparable to similarly titled measures used by other companies.

"Adjusted gross profit" is gross profit plus (minus) the changes in fair value of biological assets. "Adjusted gross margin" is "Adjusted gross profit" divided by revenue. "EBITDA" is net income (loss), plus (minus) interest expense (income) and finance transactions costs, plus taxes, plus depreciation and amortization. "EBITDA margin" is equal to EBITDA divided by revenue. "Adjusted EBITDA" is equal to EBITDA plus (minus) the changes in fair value of biological assets, plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. "Adjusted EBITDA Margin" is equal to Adjusted EBITDA divided by revenue. "Pro-forma revenue" is revenue plus Knox Servicing, LLC revenue from January 1, 2017 to August 15, 2018. "Pro-forma adjusted gross profit" is "Adjusted gross profit" plus Knox Servicing, LLC gross profit plus (minus) the changes in fair value of biological assets for periods ending prior to August 15, 2018. "Pro-forma adjusted gross margin" is "Pro-forma adjusted gross profit" divided by "Pro-forma revenue". "Pro-forma income (loss) from operations" is income (loss) from operations plus (minus) Knox Servicing, LLC income (loss) from operations for periods ending prior to August 15, 2018.

Cansortium Inc. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Business Corporations Act (Ontario) ("OBCA") on August 31, 2018. The Company's registered office is located at 295 The West Mall, Suite 600, Toronto, Ontario, M9C 4Z4 and its head office is located at 82 North East 26th Street, Suite 110, Miami, Florida, United States, 33137. In March 2019, the Company acquired all member units of Cansortium Holdings LLC ("Cansortium Holdings"), in connection with the Company's initial public offering listing on the Canadian Securities Exchange. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "TIUM.U".

Additional information relating to the Company, including the Company's audited year-end financial results and unaudited quarterly financial results, can be accessed on SEDAR (www.sedar.com).

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events. All statements, other than statements of historical facts, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict" or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements may include, among other things, statements relating to future financial conditions, results of operations, plan, objectives, performance or business developments.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Company's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; and (ix) that the Company's current good relationships with the Company's suppliers, service providers and other third parties will be maintained. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including risks described in the public documents of the Company available at www.sedar.com.

The Company's forward-looking statements are based on the reasonable beliefs, expectations and opinions of management on the date of this MD&A (or as of the date they are otherwise stated to be made). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results that were not anticipated, estimated or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update or revise any forward-looking statements except to the extent required by applicable securities laws in Canada.

Basis of consolidation

This MD&A includes the accounts of the Company and its wholly and majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in members' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are consolidated in the Condensed Interim Consolidated Financial Statements and the ownership interest held as of June 30, 2019, and December 31, 2018.

Legal Entity	Defined as	% Ownership June 30, 2019	% Ownership December 31, 2018	Accounting Method
Cansortium Holdings LLC	Cansortium Holdings	100.00%	100.00%	Consolidation
Cansortium Pennsylvania, LLC	Cansortium Pennsylvania	100.00%	70.00%	Consolidation
Cansortium Puerto Rico, LLC	Cansortium Puerto Rico	100.00%	100.00%	Consolidation
Cansortium Texas, LLC	Cansortium Texas	100.00%	100.00%	Consolidation
Cansortium Canada Holdings Inc.	Cansortium Canada Holdings	100.00%	100.00%	Consolidation
1931074 Ontario Inc.	Cansortium Canada	100.00%	100.00%	Consolidation
Cansortium Canada Servicing, Inc.	Cansortium Canada Servicing	100.00%	60.00%	Consolidation
Fluent Servicing, LLC *	"Knox Servicing" or "Fluent Servicing"	100.00%	100.00%	Consolidation *
Cansortium Brazil Ltda.	Cansortium Brazil	100.00%	100.00%	Consolidation
Cansortium Australia Pty. Ltd	Cansortium Australia	84.51%	84.51%	Consolidation
Cansortium Health Partners, LLC	Cansortium Health Partners	100.00%	100.00%	Consolidation
Cansortium Florida, LLC	Cansortium Florida	100.00%	100.00%	Consolidation
Cansortium Colombia S.A.S.	Cansortium Colombia	100.00%	100.00%	Consolidation
Arcadia EcoEnergies Ltd.	Arcadia EcoEnergies	52.00%	52.00%	Consolidation
Spirit Lake Road Nursery, LLC	Spirit Lake Road Nursery	100.00%	100.00%	Consolidation
16171 Slater Road Investors LLC	16171 Slater Road Investors	100.00%	100.00%	Consolidation
Cansortium Oregon LLC	Cansortium Oregon	100.00%	100.00%	Consolidation
Cansortium Washington, LLC	Cansortium Washington	100.00%	100.00%	Consolidation
Cansortium California LLC	Cansortium California	100.00%	100.00%	Consolidation
Cansortium Michigan LLC	Cansortium Michigan	100.00%	100.00%	Consolidation
Cloud Nine Capital, LLC	Cloud Nine Capital	100.00%	100.00%	Consolidation
Cavern Capital Holdings LLC	Cavern Capital Holdings	100.00%	100.00%	Consolidation
Harvest Park Lot 9 Investors LLC	Harvest Park Lot 9	100.00%	100.00%	Consolidation
Harvest Park Lot 9 Investors No. 2 LLC	Harvest Park Lot 9 No. 2	100.00%	100.00%	Consolidation
Cansortium Property Holdings, Inc.	Cansortium Property Holdings	100.00%	100.00%	Consolidation
Fluent Hemp LLC	Fluent Hemp	100.00%	-	Consolidation
Cansortium Ohio, LLC	Cansortium Ohio	85.00%	85.00%	Consolidation
Cansortium Beverage Company Inc.	Cansortium Beverage Company	100.00%	100.00%	Consolidation
Cansortium International Inc.	Cansortium International	100.00%	100.00%	Consolidation

** The Company's investment in Knox Servicing was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member. During 2019, Knox Servicing LLC legal entity name was changed to Fluent Servicing, LLC.*

Business Overview

The Company, through its various U.S. subsidiaries, is licensed to produce and sell medical cannabis in Florida, Texas, Puerto Rico, and is licensed to sell medical cannabis in Pennsylvania. The Company, through its various subsidiaries, is licensed to produce and sell cannabis in Canada and is licensed and operates an industrial hemp production in Canada.

During 2017, the Company initiated operations in Texas, Puerto Rico and Pennsylvania and these operations began to generate revenue in 2018. The Company's minority investment in Fluent Servicing commenced in 2015 and obligated the Company to provide funding to support the operations of Fluent Servicing. The Company did not receive any distributions for Fluent Servicing in 2017, nor through August 15, 2018, at which time the Company acquired the remaining interests in Fluent Servicing and became the sole member.

In the United States, licensing for medical or recreational cannabis cultivation, production, sale and use is determined at a state level basis and not federally. Cultivation, sale and use of cannabis is illegal under federal law in the United States pursuant to the U.S. Controlled Substances Act of 1970. Each state which allows the production, sale and/or use of cannabis has its own legislation, rules, regulations and policies with respect to the licensing of medical or recreational cannabis related activities. The Company's operations are in full compliance with all applicable state and local laws, regulations and licensing requirements.

The Company, through its wholly owned subsidiary Fluent Hemp LLC, is currently developing a new line of hemp products and expects to start generating revenues from this product segment during the fourth quarter of 2019. Fluent CBD is designed for nationwide distribution through our own e-commerce channel, as well as through local, regional and national, convenience, health & wellness, and other specialty wholesale channels.

Florida

The vast majority of the Company's existing business takes place in the State of Florida.

Fluent Servicing was formed on July 1, 2015 for the purpose of cultivating, manufacturing and retailing in the cannabis industry. On August 15, 2018, the Company acquired the three remaining minority interests in Fluent Servicing becoming the sole member. Fluent Servicing operates a cultivation and production facility in Florida, producing various products ranging from tinctures, capsules, suppositories, topicals and inhalation vaporizers.

In the State of Florida, the Department of Health, Office of Medical Marijuana Use (the "Department") issues licenses to Medical Marijuana Treatment Centers to cultivate, process and sell medical cannabis (referred to as an "MMTC License"). The Company operates under an MMTC License originally issued in 2015 by the Department to Knox Nursery Inc. In connection with the acquisition of the remaining interest in Fluent Servicing, the MMTC License was transferred to Spirit Lake Road Nursery, LLC, a wholly-owned subsidiary of the Company.

Since inception, the Company has operated approximately 30,000 sq. ft of cultivation greenhouse supporting approximately 14,000 cannabis plants along with 9,000 sq. ft of production and administrative space (collectively, "Winter Garden"). On April 15, 2019, the Company commenced cultivation at its facility in Tampa, Florida, which will contain 60,000 square feet of cultivation area supporting approximately 43,000 cannabis plants when fully propagated. The Company successfully processed the first harvest from the first 8,000 plants propagated at Tampa facility in mid-May 2019 and have increased the number of plants to 17,000 to date, with expectation to bring Tampa up to full production capacity within the next 8 weeks.

As of the date of this MD&A, the Company operates 14 dispensaries throughout the State of Florida.

Puerto Rico

The Company began operations in Puerto Rico in the fourth quarter of 2016 and currently has 2,000 sq. ft. of cultivation space in climate and humidity-controlled containers. This includes 1,440 sq. ft. of flowering space. Revenues began in January of 2018 with one dispensary operating in San Juan with a second dispensary opened in San Patricio in July of 2019. The Company also sells finished products wholesale to other dispensing organizations. Home delivery to patients began in the summer of 2018. The

Company is in the process of repurposing its Puerto Rico cultivation facility. This will include a relocation of the cultivation and processing centers in Puerto Rico, resulting in a more efficient cost structure. Wholesale of Fluent products, as well as strategic partnerships with other branded materials will result in a more robust marketing approach.

Texas

The Company, through Cansortium Texas, was granted the first license in Texas in September of 2017. Development of a small-scale cultivation and processing facility was completed by the end of the third quarter of 2017. Currently the Company has 1,300 sq. ft. of cultivation space in climate and humidity-controlled C-containers and recently completed the double stacking of its cultivation space increasing its capacity from 960 sq. ft. to 1,920 sq. ft. of flowering space. The Company only performs home deliveries in Texas at this time due to regulatory limitations. The Company has rights to expand the cultivation facility up to 400,000 additional sq. ft. as demand requires.

In May, the Texas legislature passed a bill that significantly expanded The Texas Compassionate Care Act. It was subsequently signed into law by the Governor. The new law increases legal access to medical cannabis products containing up to 0.5 percent THC for patients coping with a broader list of chronic medical conditions and diseases including epilepsy, a seizure disorder, multiple sclerosis, spasticity, amyotrophic lateral sclerosis, autism and terminal cancer.

The Company is currently formulating plans to best be prepared for the increased addressable market in Texas, including establishing our own network of Fluent-branded dispensaries, more aggressively marketing and expanding our state-wide home-delivery service, developing an expanded assortment of low-THC products utilizing our current inventory in Texas and exploring a marketing partnership to accelerate our branding and distribution efforts.

Pennsylvania

The Company, through Cansortium Pennsylvania, was issued a dispensing permit by the Pennsylvania Department of Health on June 29, 2017. The license allows the Company to open up to three (3) dispensaries in the south-central region of Pennsylvania. This permit allows for the sale of medical cannabis only. Development of the first dispensary location in Hanover, PA was completed by Q2 of 2018 with sales beginning in June of 2018. This dispensing permit allows for the purchase of finished products from permitted processors in the Commonwealth of Pennsylvania.

The Company had applied for a Clinical Registrant License under the Academic Clinical Research Center (ACRC) program in Pennsylvania ("CR Registrant"), which, if awarded, would have allowed for a vertically integrated operation and permit the Company to cultivate, grow, harvest, process, produce and dispense medical cannabis for sale at up to six (6) dispensary locations owned by the CR Registrant to be located throughout the Commonwealth of Pennsylvania. In July, the Pennsylvania Department of Health finalized its review of applications and informed us that the Company was not granted one of the eight CR licenses.

Michigan

The Company, through Cansortium Michigan, LLC ("Cansortium Michigan"), partnered in 2018 with Green Standard, Inc. whereby the Company obtained the right to acquire Green Standard, Inc. and its subsidiaries ("Green Standard") in exchange for shares of the Company's stock as well as a line of credit to fund the expenses needed to obtain the requisite licensure. To date, Green Standard has been issued 24 Class C Cultivation Licenses and has pre-qualification status to receive an operating license to process and a retail license to open up to 8 retail locations in the state. Each Class C Cultivation license allows for the cultivation of up to 1,500 plants. In May 2019, Cansortium Michigan acquired vacant land leased to Green Standard in order to develop an outdoor cultivation facility. Cultivation began in July 2019 and the first harvest of approximately 18,000 plants is expected to be obtained from this Michigan facility in October of 2019. The acquisition of Green Standard will consummate on the receipt of regulatory approval by the state.

Canada

In November 2017, the Company acquired all of the issued and outstanding shares of Cansortium Canada. Cansortium Canada received a license under the *Cannabis Act* (Canada) on May 3, 2019 that allows for the cultivation, production and sale for medical purposes of cannabis. First harvest from the Canadian facility is expected to be completed in the first week of October.

In connection with this acquisition, Cansortium Canada also entered into an agreement of purchase and sale for the acquisition of a 54-acre parcel of land, which acquisition closed on March 15, 2019. Cansortium Canada also entered into a lease agreement for 130,000 sq. ft. of existing greenhouses that were successfully used in the past for Medical Marihuana Access Regulations ("MMAR") production and is conducive to large scale cannabis cultivation and has an option to purchase such property.

On September 1, 2018, Cansortium Canada Holdings acquired 52% of the issued and outstanding shares of Arcadia EcoEnergies. Arcadia EcoEnergies is an existing licensed operation for industrial hemp production. It operated a 300-acre test site in 2017 resulting in the harvest of seed for the processing of hemp oil and protein powder. The Company is developing a plan to utilize the production of hemp by-products in various consumer goods in multiple markets across its operations. Arcadia EcoEnergies increased its capacity in 2018 by arranging for 1,000 acres of industrial hemp planting.

Due to the current over-crowded and disruptive market dynamics in Canada, which present a very challenging backdrop for a new entrant like Fluent, the Board and management have decided to explore strategic options in regard to the license and operating assets in Canada.

Products and Brands

The Company's medical cannabis products are offered in oral drops, capsules, suppositories, topicals, syringes, dried flower, pre-rolls and cartridges. In May 2019, the Company announced an all-encompassing rebranding, shifting its premium Knox patient and physician-facing brand to Fluent ("Fluent"), reflecting the Company's commitment to gaining a deeper understanding of cannabis' potential positive impacts on human health and wellness.

In additional to the Company's medical cannabis products, the Company is in late stages of the development of its over the counter hemp product line and expects to start generating revenues from this product segment during the fourth quarter of 2019.

FINANCIAL HIGHLIGHTS

The Company's investment in Knox Servicing was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member.

	GAAP (IFRS)			PRO-FORMA [1]	
	Three months ended			Three months ended	
Financial results	**June 30, 2019**	**June 30, 2018**	**Variance**	**June 30, 2018**	**Variance vs. 6/30/19**
Revenue	$ 6,091	$ 155	$ 5,936	$ 5,133	$ 958
Gross profit	$ 3,290	$ 130	$ 3,160	$ 7,066	$ (3,776)
Gross margin	*54.0%*	*83.9%*	*-29.9%*	*137.7%*	*-83.6%*
Adjusted gross profit [2]	$ 4,551	$ 130	$ 4,421	$ 4,398	$ 153
Adjusted gross margin [2]	*74.7%*	*83.9%*	*-9.2%*	*85.7%*	*-11.0%*
Selling, general and administative expenses	$ 11,360	$ 2,164	$ 9,196	$ 4,650	$ 6,710
EBITDA [2]	$ 1,772	$ (441)	$ 2,213	$ 5,773	$ (4,001)
Adjusted EBITDA [2]	$ (2,592)	$ (3,435)	$ 843	$ 111	$ (2,703)
Net loss	$ (5,277)	$ (1,193)	$ (4,084)	$ 4,853	$ (10,130)
Net loss per share (basic)	$ (0.03)	$ (0.01)	$ (0.02)	$ 0.04	$ (0.07)
Net loss per share (diluted)	$ (0.03)	$ (0.01)	$ (0.02)	$ 0.04	$ (0.06)

Balance Sheet	**June 30, 2019**	**December 31, 2018**	**Variance**
Total assets	$ 197,281	$ 143,996	$ 53,285
Total long-term liabilities	$ 25,683	$ 2,361	$ 23,322
Total liabilities	$ 76,701	$ 63,599	$ 13,102

Notes:

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

(2) Adjusted gross profit, Adjusted gross margin, EBITDA and Adjusted EBITDA are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS and quarterly results of operations sections below for reconciliation to IFRS.

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QUARTERLY RESULTS OF OPERATIONS (three months ended June 30, 2019 and 2018)

(all figures in 000's)

Revenue

Consolidated revenue for the three months ended June 30, 2019 was $6,091, compared to $155 for the same period last year. Revenue for the three months ended June 30, 2019 was primarily driven by revenue from eleven of the fourteen existing dispensaries in Florida as of June 30, 2019 and home deliveries performed throughout the year, along with revenue from operations in Puerto Rico, Texas and Pennsylvania. Consolidated revenue for the three months ended June 30, 2019 increased $958, or 18.7%, compared with pro-forma revenues of $5,133 for the same period last year.

While we continued to execute our strategy to expand cultivation, processing, and dispensaries during the second quarter, a combination of unexpected delays in construction needed in order to secure final regulatory approvals at our Tampa cultivation Phase 2 expansion as well as delays in opening certain previously planned Florida dispensaries resulted in lower second quarter revenues than were anticipated.

Financial results from the Company's investment in Knox Servicing for the period from January 1, 2018 to August 15, 2018 were accounted for as an equity method investment in the Financial Statements, as the Company has determined that it did not have control of Knox Servicing. On August 15, 2018, the Company entered into an agreement to acquire the remaining ownership of Knox Servicing which has changed the classification of its investment in Knox Servicing from that date forward from equity method to full consolidation.

Gross profit

Gross profit for the three months ended June 30, 2019 was $3,290, versus gross profit of $130 for the same period last year. Adjusted gross profit for the three months ended June 30, 2019 was $4,551 versus adjusted pro-forma gross profit of $4,398 for the same period last year.

Gross margin for three months ended June 30, 2019 was 54.0%, versus gross margin of 83.9% for the same period last year. Adjusted gross margin for the three months ended June 30, 2019 was 74.7% versus pro-forma adjusted gross margin of 85.7% for the same period last year, mainly driven by higher cultivation and manufacturing costs incurred in the second quarter of 2019 versus last year.

Consolidated selling, general and administrative expenses

Consolidated selling, general and administrative (SG&A) expenses for the three months ended June 30, 2019 and 2018 were as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Three months ended			Three months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
General and administrative expenses	$ 5,369	$ 1,763	$ 3,606	$ 2,557	$ 2,812
Share-based compensation	883	-	883	-	883
Selling and marketing expenses	2,705	236	2,469	1,861	844
Depreciation and amortization	2,403	165	2,238	232	2,171
Total expenses	$ 11,360	$ 2,164	$ 9,196	$ 4,650	$ 6,710

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

Consolidated SG&A expenses of $11,360 for the three months ended June 30, 2019 increased by $9,196 compared to the same period last year due to higher corporate and general and administrative expenses of $3,606, higher share-based compensation expenses of $833, higher selling and marketing expenses of $2,469 and higher depreciation and amortization expenses of $2,238.

Consolidated SG&A expenses of $11,360 for the three months ended June 30, 2019 increased by $6,710 compared to the pro-forma SG&A expenses for the same period last year due to higher corporate and general and administrative expenses of $2,812, higher share-based compensation of $883, higher selling and marketing expenses of $844 and higher depreciation and amortization expenses of $2,171.

General and administrative expenses

As noted above, total general and administrative expenses rose $3,606 year over year, driven primarily by increased professional fees of $2,383 versus $720, reflecting expenses and fees associated with the Company's initial public offering process, statutory audit and compliance procedures and incremental expenses related to our financing activities and increased salaries and benefits of $1,826 versus $680, resulting from Company expansion efforts and onboarding of specialized personnel to support the business operations as well as the consolidation of salaries and benefits expenses from Knox Servicing.

Total pro-forma general and administrative expenses during the three months ended June 30, 2018 included professional fees of $769, salaries and benefits of $1,123, rent expenses of $328 and travel and entertainment expenses of $92.

Selling and marketing expenses

Selling and marketing expenses of $2,705 increased by $2,469 for the three months ended June 30, 2019 compared to $236 for the same period last year. The increased costs resulted mainly from the recognition of the selling and marketing expenses for the Florida dispensaries, previously accounted for as an equity method investment in the Financial Statements until August 15, 2018, increased dispensary footprint and brand and marketing expansion via promotional, informative and patient safety and care materials.

Pro-forma selling and marketing expenses for the three months ended March 31, 2018 were $1,861.

Depreciation and amortization expenses

Depreciation and amortization expense of $2,403 increased by $2,238 for the three months ended June 30, 2019 compared to the same period last year, primarily due to the amortization of the intangible assets obtained through the acquisition of the remaining interest in Knox Servicing and the acquisition of Cansortium Colombia performed by the Company in 2018, together with higher depreciation expenses associated with the start of operations in the Puerto Rico and Texas markets and depreciation from Knox Servicing operations, previously accounted for as an equity method investment in the Financial Statements until August 15, 2018.

Pro-forma depreciation and amortization expenses for the three months ended June 30, 2018 were $232.

Other expense (income)

Other income for the three months ended June 30, 2019 and 2018 were as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Three months ended			Three months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
Interest expense, net	$ 2,543	$ 586	$ 1,957	$ 589	$ 1,954
Change in fair market value of derivative	(1,662)	(2,994)	1,332	(2,994)	1,332
Income on investment in associate	-	1,594	(1,594)	-	-
Gain in fair market value of investment in associate	(3,388)	-	(3,388)	-	(3,388)
Other income	(1,562)	(27)	(1,535)	(32)	(1,530)
Total other income	$ (4,069)	$ (841)	$ (3,228)	$ (2,437)	$ (1,632)

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

Total other income during the three months ended June 30, 2019 was $4,069, an increase of $3,228 compared to the same period last year.

Total other income for the three months ended June 30, 2019 included interest expense of $2,543, change in fair market value of derivative liabilities of ($1,662), gain in fair market value in investment in associate of ($3,388) and other income of $1,562. Total other income for the three months ended June 30, 2018 included interest expense of $589, change in fair market value of derivative of ($2,994) and other income of $32.

Interest expense of $2,543 for the three months ended June 30, 2019 was primarily comprised of notes payable interest expense of $646 and accretion expenses of $1,532 associated with the issuance of convertible notes payable, versus interest expense of $586 for the same period last year.

During the three months ended June 30, 2019, the Company recognized a gain in fair value on revaluation of the derivative liability of $1,662 associated with the convertible notes debentures issued during the period and equity price guarantee instruments from the Knox Servicing acquisition executed in 2018. During the three months ended June 30, 2018, the Company recognized a gain in fair value on revaluation of the derivative liability of $2,994 associated with issuance of the convertible notes outstanding during the period.

Gain on investment in Knox Servicing during the three months ended June 30, 2018 was $1,594 and represents the Company's share of income from the investment in Knox Servicing, accounted for as an equity method investment, as the Company has determined that during the period it had significant influence over the investee but did not have control until August 15, 2018.

Other income of $1,562 for the three months ended June 30, 2019 was driven by the Knox Servicing acquisition purchase price allocation finalization performed during the quarter, resulting in the adjustment of the debt restructuring charge of $1,134 recorded during the first quarter of 2019.

EBITDA

EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA from net income (loss), plus (minus) interest expense (income), plus taxes, plus depreciation and amortization, as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Three months ended			Three months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
Net income (loss)	$ (5,277)	$ (1,193)	$ (4,084)	$ 4,853	$ (10,130)
Interest expense	2,543	586	1,957	589	1,954
Income taxes	1,276	-	1,276	-	1,276
Depreciation and amortization	3,230	166	3,064	332	2,898
EBITDA	$ 1,772	$ (441)	$ 2,213	$ 5,773	$ (4,001)

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA from EBITDA plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. The reconciliation from EBITDA to Adjusted EBITDA is as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Three months ended			Three months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
EBITDA	$ 1,772	$ (441)	$ 2,213	$ 5,773	$ (4,001)
Change in fair value of biological assets	1,261	-	1,261	(2,669)	3,930
Change in fair market value of derivative	(1,662)	(2,994)	1,332	(2,994)	1,332
Gain in fair market value of investment in associate	(3,388)	-	(3,388)	-	(3,388)
Other non-recurring income [2]	(575)	-	(575)	-	(575)
Adjusted EBITDA	$ (2,592)	$ (3,435)	$ 843	$ 111	$ (2,703)

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

(2) Other non-recurring income includes IPO related fees and expenses of $559 and debt restructuring charges adjustment of $1,134.

FINANCIAL HIGHLIGHTS

The Company's investment in Knox Servicing was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member.

	GAAP (IFRS)			PRO-FORMA [1]	
	Six months ended			Six months ended	
Financial results	**June 30, 2019**	**June 30, 2018**	**Variance**	**June 30, 2018**	**Variance vs. 6/30/19**
Revenue	$ 11,619	$ 224	$ 11,395	$ 8,475	$ 3,144
Gross profit	$ 6,240	$ 169	$ 6,071	$ 11,682	$ (5,442)
Gross margin	*53.7%*	*75.4%*	*-21.7%*	*137.8%*	*-84.1%*
Adjusted gross profit [2]	$ 7,518	$ 169	$ 7,349	$ 7,170	$ 348
Adjusted gross margin [2]	*64.7%*	*75.4%*	*-10.7%*	*84.6%*	*-19.9%*
Selling, general and administative expenses	$ 26,834	$ 4,357	$ 22,477	$ 9,265	$ 17,569
EBITDA [2]	$ (7,370)	$ (7,456)	$ 86	$ 125	$ (7,495)
Adjusted EBITDA [2]	$ (6,616)	$ (4,516)	$ (2,100)	$ (1,448)	$ (5,168)
Net loss	$ (21,828)	$ (8,893)	$ (12,935)	$ (1,636)	$ (20,192)
Net loss per share (basic)	$ (0.12)	$ (0.07)	$ (0.05)	$ (0.01)	$ (0.11)
Net loss per share (diluted)	$ (0.11)	$ (0.07)	$ (0.04)	$ (0.01)	$ (0.09)

Notes:

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

(2) Adjusted gross profit, Adjusted gross margin, EBITDA and Adjusted EBITDA are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS and quarterly results of operations sections below for reconciliation to IFRS.

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QUARTERLY RESULTS OF OPERATIONS (three months ended June 30, 2019 and 2018)

(all figures in 000's)

Revenue

Consolidated revenue for the six months ended June 30, 2019 was $11,619, compared to $224 for the same period last year. Revenue for the six months ended June 30, 2019 was primarily driven by revenue from eleven of the fourteen existing dispensaries in Florida as of June 30, 2019 and home deliveries performed throughout the year, along with revenue from operations in Puerto Rico, Texas and Pennsylvania. Consolidated revenue for the six months ended June 30, 2019 increased $3,144, or 37.1%, compared with pro-forma revenues of $8,475 for the same period last year.

Financial results from the Company's investment in Knox Servicing for the period from January 1, 2018 to August 15, 2018 were accounted for as an equity method investment in the Financial Statements, as the Company has determined that it did not have control of Knox Servicing. On August 15, 2018, the Company entered into an agreement to acquire the remaining ownership of Knox Servicing which has changed the classification of its investment in Knox Servicing from that date forward from equity method to full consolidation.

Gross profit

Gross profit for the six months ended June 30, 2019 was $6,240, versus gross profit of $169 for the same period last year. Adjusted gross profit for the six months ended June 30, 2019 was $7,518 versus adjusted pro-forma gross profit of $7,170 for the same period last year.

Gross margin for six months ended June 30, 2019 was 53.7%, versus gross margin of 75.4% for the same period last year. Adjusted gross margin for the three months ended June 30, 2019 was 64.7% versus pro-forma adjusted gross margin of 84.6% for the same period last year, mainly driven by lower plant yields and higher cultivation and manufacturing costs incurred in the six months ended June 30, 2019 versus last year, primarily associated with the impact of the previously-disclosed partial crop loss experienced in Florida during the fourth quarter of 2018, as well as by various expenses related to our much smaller cultivation operations in developing markets.

Consolidated selling, general and administrative expenses

Consolidated selling, general and administrative (SG&A) expenses for the six months ended June 30, 2019 and 2018 were as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Six months ended			Six months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
General and administrative expenses	$ 15,023	$ 3,669	$ 11,354	$ 5,183	$ 9,840
Share-based compensation	1,487	-	1,487	-	1,487
Selling and marketing expenses	5,622	371	5,251	3,641	1,981
Depreciation and amortization	4,702	317	4,385	441	4,261
Total expenses	$ 26,834	$ 4,357	$ 22,477	$ 9,265	$ 17,569

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

Consolidated SG&A expenses of $26,834 for the six months ended June 30, 2019 increased by $22,477 compared to the same period last year due to higher corporate and general and administrative expenses of $11,354, higher share-based compensation expenses of $1,487, higher selling and marketing expenses of $5,251 and higher depreciation and amortization expenses of $4,385.

Consolidated SG&A expenses of $26,834 for the six months ended June 30, 2019 increased by $17,569 compared to the pro-forma SG&A expenses for the same period last year due to higher corporate and general and administrative expenses of $9,480, higher share-based compensation of $1,487, higher selling and marketing expenses of $1,981 and higher depreciation and amortization expenses of $4,261.

General and administrative expenses

As noted above, total general and administrative expenses rose $11,354 year over year, driven primarily by increased professional fees of $9,212 versus $1,416, reflecting expenses and fees associated with the Company's initial public offering process, statutory audit and compliance procedures and incremental expenses related to our financing activities, and increased salaries and benefits of $4,076 versus $1,117, resulting from Company expansion efforts and onboarding of specialized personnel to support the business operations as well as the consolidation of salaries and benefits expenses from Knox Servicing.

Total pro-forma general and administrative expenses during the six months ended June 30, 2018 included professional fees of $1,546, salaries and benefits of $1,903, rent expenses of $690 and travel and entertainment expenses of $263.

Selling and marketing expenses

Selling and marketing expenses of $5,622 increased by $5,251 for the six months ended June 30, 2019 compared to $371 for the same period last year. The increased costs resulted mainly from the recognition of the selling and marketing expenses for the Florida dispensaries, previously accounted for as an equity method investment in the Financial Statements until August 15, 2018, increased dispensary footprint and brand and marketing expansion via promotional, informative and patient safety and care materials.

Pro-forma selling and marketing expenses for the six months ended June 30, 2018 were $3,641.

Depreciation and amortization expenses

Depreciation and amortization expense of $4,702 increased by $4,385 for the six months ended June 30, 2019 compared to the same period last year, primarily due to the amortization of the intangible assets obtained through the acquisition of the remaining interest in Knox Servicing and the acquisition of Cansortium Colombia performed by the Company in 2018, together with higher depreciation expenses associated with the start of operations in the Puerto Rico and Texas markets and depreciation from Knox Servicing operations, previously accounted for as an equity method investment in the Financial Statements until August 15, 2018.

Pro-forma depreciation and amortization expenses for the six months ended June 30, 2018 were $441.

Other expense (income)

Other expense (income) for the six months ended June 30, 2019 and 2018 were as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Six months ended			Six months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
Interest expense, net	$ 6,860	$ 1,119	$ 5,741	$ 1,124	$ 5,736
Change in fair market value of derivative	(3,541)	2,940	(6,481)	2,940	(6,481)
Income on investment in associate	-	647	(647)	-	-
Gain in fair market value of investment in associate	(3,388)	-	(3,388)	-	(3,388)
Other expense (income)	27	(1)	28	(12)	39
Total other expense (income)	$ (42)	$ 4,705	$ (4,747)	$ 4,053	$ (4,095)

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

Total other expense (income) during the six months ended June 30, 2019 was ($42), an increase of $4,747 compared to the same period last year.

Total other expense (income) for the six months ended June 30, 2019 included interest expense of $6,860, change in fair market value of derivative liabilities of ($3,541), gain in fair market value in investment in associate of ($3,388) and other income of $27. Total other expense (income) for the six months ended June 30, 2018 included interest expense of $1,119, change in fair market value of derivative of $2,940 and income on investment in associate of $647.

Interest expense of $6,860 for the six months ended June 30, 2019 was primarily comprised of notes payable interest expense of $3,271 and accretion expenses of $2,909 associated with the issuance of convertible notes payable, versus interest expense of $1,119 for the same period last year.

During the six months ended June 30, 2019, the Company recognized a gain in fair value on revaluation of the derivative liability of $3,541 associated with the convertible notes debentures issued during the period and equity price guarantee instruments from the Knox Servicing acquisition executed in 2018. During the six months ended June 30, 2018, the Company recognized a loss in fair value on revaluation of the derivative liability of $2,940 associated with issuance of the convertible notes outstanding during the period.

Income on investment in associate during the six months ended June 30, 2018 was $647 and represents the Company's share of income from the investment in Knox Servicing, accounted for as an equity method investment, as the Company has determined that during the period it had significant influence over the investee but did not have control until August 15, 2018.

EBITDA

EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA from net income (loss), plus (minus) interest expense (income), plus taxes, plus depreciation and amortization, as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Six months ended			Six months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
Net loss	$ (21,828)	$ (8,893)	$ (12,935)	$ (1,636)	$ (20,192)
Interest expense	6,860	1,119	5,741	1,124	5,736
Income taxes	1,276	-	1,276	-	1,276
Depreciation and amortization	6,322	318	6,004	637	5,686
EBITDA	$ (7,370)	$ (7,456)	$ 86	$ 125	$ (7,495)

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA from EBITDA plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. The reconciliation from EBITDA to Adjusted EBITDA is as follows:

	GAAP (IFRS)			PRO-FORMA [1]	
	Six months ended			Six months ended	
	June 30, 2019	June 30, 2018	Variance	June 30, 2018	Variance
EBITDA	$ (7,370)	$ (7,456)	$ 86	$ 125	$ (7,495)
Change in fair value of biological assets	1,278	-	1,278	(4,513)	5,791
Change in fair market value of derivative	(3,541)	2,940	(6,481)	2,940	(6,481)
Gain in fair market value of investment in associate	(3,388)	-	(3,388)	-	(3,388)
Other non-recurring expenses [2]	6,405	-	6,405	-	6,405
Adjusted EBITDA	$ (6,616)	$ (4,516)	$ (2,100)	$ (1,448)	$ (5,168)

(1) Pro-forma measures reflect the consolidation of Knox Servicing, which was accounted for as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member, and are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

(2) Other non-recurring expenses includes IPO related fees and expenses of $6,405.

HISTORICAL QUARTERLY RESULTS

The following table sets out certain financial information for each of the eight fiscal quarters up to and including the second quarter of 2019. The information has been derived from the Company's unaudited condensed interim consolidated financial statements, which, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the years ended December 31, 2018 and 2017.

Quarter ended ($ in 000's)	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018	Dec-31 2017	Sep-30 2017
Revenue	$ 6,091	$ 5,528	$ 4,900	$ 2,937	$ 155	$ 69	$ -	$ -
Gross profit (loss)	$ 3,290	$ 2,950	$ 1,403	$ 1,296	$ 130	$ 39	$ -	$ -
Loss from operations	$ (8,070)	$ (12,524)	$ (9,700)	$ (5,908)	$ (2,034)	$ (2,154)	$ (3,719)	$ (1,837)

The following table sets out certain adjusted pro-forma financial information for each of the eight fiscal quarters up to and including the second quarter of 2019, reflecting the consolidation of Knox Servicing, which was accounted for under IFRS as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member.

Quarter ended ($ in 000's)	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018	Dec-31 2017	Sep-30 2017
Pro-forma revenue	$ 6,091	$ 5,528	$ 4,900	$ 5,475	$ 5,133	$ 3,342	$ 2,172	$ 953
Adjusted pro-forma gross profit (loss)	$ 4,551	$ 2,967	$ 1,998	$ 3,003	$ 4,398	$ 2,772	$ 1,460	$ 537
Pro-forma income (loss) from operations	$ (8,070)	$ (12,524)	$ (9,592)	$ (6,303)	$ 2,151	$ 266	$ (3,258)	$ (3,196)

Pro-forma revenue, Adjusted pro-forma gross profit and Pro-forma income (loss) from operations are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

RECONCILIATION TO IFRS

The Company calculates Pro-forma revenue from revenue plus Knox Servicing revenues for the respective periods through August 15, 2018, Adjusted pro-forma gross profit from gross profit plus Knox Servicing gross profit before fair value adjustment for the respective periods through August 15, 2018 and Pro-forma income (loss) from operations is calculated from loss from operations plus (minus) Knox Servicing income (loss) from operations for the respective periods through August 15, 2018, as follows:

Quarter ended ($ in 000's)	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018	Dec-31 2017	Sep-30 2017
Revenue	$ 6,091	$ 5,528	$ 4,900	$ 2,937	$ 155	$ 69	$ -	$ -
Knox Servicing revenue	-	-	-	2,538	4,978	3,273	2,172	953
Pro-forma revenue	$ 6,091	$ 5,528	$ 4,900	$ 5,475	$ 5,133	$ 3,342	$ 2,172	$ 953
Gross profit	$ 3,290	$ 2,950	$ 1,403	$ 1,296	$ 130	$ 39	$ -	$ -
Knox Servicing gross profit	-	-	-	1,121	6,936	4,577	2,916	537
Pro-forma gross profit	3,290	2,950	1,403	2,417	7,066	4,616	2,916	537
Change in fair value of biologicals	1,261	17	595	586	(2,668)	(1,844)	(1,456)	-
Adjusted pro-forma gross profit	$ 4,551	$ 2,967	$ 1,998	$ 3,003	$ 4,398	$ 2,772	$ 1,460	$ 537
Loss from operations	$ (8,070)	$ (12,524)	$ (9,592)	$ (5,908)	$ (2,299)	$ (1,889)	$ (3,719)	$ (1,837)
Knox Servicing income (loss) from operations	-	-	-	(395)	4,450	2,155	461	(1,359)
Pro-forma income (loss) from operations	$ (8,070)	$ (12,524)	$ (9,592)	$ (6,303)	$ 2,151	$ 266	$ (3,258)	$ (3,196)

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2019, the Company had $21,376 in cash and cash equivalents. The major components of the Company's statements of cash flows for the six months ended June 30, 2019 and 2018 are as follows:

	Six months ended		
	June 30, 2019	June 30, 2018	Variance
Cash and cash equivalents used in operating activities	$ (22,106)	$ (5,283)	$ (16,823)
Cash and cash equivalents used in investing activities	(9,049)	(2,053)	(6,996)
Cash and cash equivalents provided by financing activities	50,538	9,265	41,273
Effect of foreign exchange on cash and cash equivalents	(34)	15	(49)
Net change in cash and cash equivalents	$ 19,349	$ 1,944	$ 17,405

Operating activities

Cash flow used in operating activities for the six months ended June 30, 2019 was $22,106 compared to $5,283 for the same period last year. The increase of $16,823 in cash used in operating activities for the period was primarily driven by a $15,305 higher net loss adjusted for non-cash items for the period compared to the same period last year.

Investing activities

Cash flow used in investing activities for the six months ended June 30, 2019 was $9,049 compared to $2,053 for the same period last year. The increase of $6,996 in cash used in investing activities for the period was mainly driven by higher purchases of property and equipment in the current year associated with the cultivation and manufacturing facilities expansion and investments in new dispensaries in Florida.

Financing activities

Cash flow provided by financing activities for the six months ended June 30, 2019 was $50,538 compared to $9,265 for the same period last year. The increase of $41,273 in cash provided by financing activities was primarily driven by the proceeds of $56,178 from the Company's initial public offering and listing on the Canadian Securities Exchange on March 22, 2019 and proceeds of $41,066 from issuance of notes payables during the first and second quarter of 2019 partially offset by repayments of notes payable in the amount of $44,500 mainly related to the acquisition of the remaining interest of Knox Servicing in October of 2018.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2029 and contain certain renewal provisions. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

For the twelve months period ending June 30,	Scheduled payments
2019	$ 2,999
2020	2,431
2021	2,306
2022	2,060
2023	1,839
Thereafter	7,243
Total future minimum lease payments	**$ 18,878**

SUMMARY OF OUTSTANDING SHARE DATA

The share capital of the Company is comprised of 77,850,911 common shares, 11,564,455 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 49,729,281 warrants and convertible debt allotments and 1,182,106 stock options as of June 30, 2019.

Earnings per share have been calculated using the weighted average number of shares outstanding during the year on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt and stock options into common shares, have a dilutive effect on earnings per share. The weighted average number of basic and diluted shares are presented in the table below:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Weighted average number of shares - basic	168,200,499	127,154,861	177,839,267	128,852,914
Weighted average warrants	26,828,637	-	18,071,296	-
Weighted average convertible debt allotment	10,430,847	-	7,599,886	-
Weighted average options	1,182,106	-	653,097	-
Weighted average number of shares - diluted	206,642,090	127,154,861	204,163,546	128,852,914

TRANSACTIONS WITH RELATED PARTIES

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the three and six months ended June 30, 2019 key management personnel compensation consisted of the following:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Salary	$ 497,307	$ 383,331	$ 910,833	$ 775,000
Option-based compensation	-	-	46,845	-
All other compensation	12,433	7,196	26,705	13,673
	$ 509,740	**$ 390,527**	**$ 984,383**	**$ 788,673**

The Company maintains employment agreements with certain key management personnel which includes separation or severance payments.

Transactions with related parties

The Company leases one of its cultivation and production facilities from Knox Nursery Inc., a company owned by a member of Fluent Servicing until August 15, 2018. The lease began October 2017 and terminates on August 15, 2020. The monthly rental fee is $1.5 per month.

The Company purchases material from Knox Nursery Inc., a company owned by a member of the Company until August 15, 2018. Total purchases during the three and six months ended June 30, 2019 were $216 and $293, respectively. Total purchases during the three and six months ended June 30, 2018 were approximately $80 and $112, respectively. The balances due to this entity as of June 30, 2019 and December 31, 2018 were approximately $9 and $144, respectively, and were included in accounts payable.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. 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 review affects both current and future periods.

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

(i) Biological Assets and Inventory

In calculating the value of biological assets and inventory, management is required to make a number of estimates, including the stage of growth of the plant up to the point of harvest, harvesting costs, average or expected selling prices and expected yields for the plants. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is included in Note 4 of the Unaudited Condensed Interim Consolidated Financial Statements.

(ii) Estimated Useful Lives and Depreciation of Property and Equipment

Depreciation of property 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 consider factors such as economic and market conditions and the useful lives of assets.

(iii) Estimated useful lives, impairment considerations and amortization of capital and intangible assets

Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment. Goodwill and indefinite life intangible asset impairment testing requires management to make estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired.

Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

The recoverable value of goodwill, indefinite and definite long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

(iv) Derivative Liabilities

In calculating the fair value of its derivative liabilities, the Company uses either the Black-Scholes option-pricing model or the Monte-Carlo simulation model, for Level 3 recurring fair value measurements to estimate fair value at each reporting date. The key assumptions used in the models are similar and include the expected future volatility in the price of the Company's member units, the fair market value of the price of the Company's member units and the expected life of the underling instrument.

(v) Business Combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at

subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any noncontrolling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaced the previous guidance on leases, IAS 17, Leases. IFRS 16 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 Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in deficit at January 1, 2019. Accordingly, the comparative information presented for previous periods have not been restated.

In accordance with the practical expedients applied, the Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected to measure the right-of-use assets at the carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate, which ranged from 8.60% to 8.76% defined based on the underlying countries and asset classes related risks.

The following table summarizes the impacts of adopting IFRS 16 on the Company's condensed interim consolidated financial statements as at January 1, 2019, the date of initial application:

	January 1, 2019
Assets	
Right-of-use assets	$ 14,792
Liabilities	
Accrued expenses	$ (487)
Lease liabilty	$ 16,020
Shareholders' equity	
Deficit	$ (741)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, due from associate, accounts payables, accrued liabilities, income taxes payable, derivative liability, and notes payable. See note 17 "Financial instruments and financial risk management" to the Condensed Interim Consolidated Financial Statements for the assessment of related risks.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 29, 2019, which is the date this MD&A was issued.

On November 23, 2017, the Company entered into an agreement of purchase and sale for the acquisition of land for a 54-acre property on which the Grimsby Facility will be expanded to for a purchase price of $750 thousands of Canadian dollars. This acquisition closed on March 15, 2019. To allow for the best and most efficient use for its Canadian operations, the Company also entered into a lease agreement for 130,000 square feet of existing greenhouses for a base rent of $81 thousands of Canadian dollars plus taxes per month and has an option to purchase such property for $3,100 thousands of Canadian dollars. This option is expected to close on or around November 29, 2019, unless extended.

UNITED STATES REGULATORY ENVIRONMENT

Federal Regulatory Environment

In accordance with the Canadian Securities Administrators ("**CSA**") Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* ("**Staff Notice 51-352**") dated February 8, 2018, and Staff Notice 51-357 – *Staff Review of Reporting Issuers in the Cannabis Industry* dated October 10, 2018 below is a discussion of the current federal and state-level U.S. 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, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

On January 4, 2018, former U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice ("**DOJ**") federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the memorandum authored in August 2013 by then Deputy Attorney General, James Cole (collectively the "**Cole Memorandum**"). The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of the Cole Memorandum and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandum was never legally binding; however, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018 and was replaced by Matthew Whitaker as interim Attorney General. On February 14, 2019, William Barr was sworn in as Attorney General. It is unclear what position the new Attorney General will take on the enforcement of federal laws with regard to the U.S. cannabis industry.

As an industry best practice, despite the recent rescission of the Cole Memorandum, the Company intends to abide by the following to ensure compliance with the guidance provided by the Cole Memorandum:

- 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;
- ensure that its cannabis related activities adhere to the scope of the licenses obtained (for example: in the states where cannabis is permitted for recreational adult use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking systems 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;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, and is not engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- 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 to prevent impaired driving.

In addition, the Company may conduct background checks to ensure that certain individuals working at 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 use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of its cannabis business activities, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises.

As of March 31, 2019, all of the Company's assets and operations were and continue to be exposed to U.S. marijuana related activities. By these measures all of the Company's assets and operations were related to U.S. marijuana related activities.

U.S. Legal Advice

The Company and its subsidiaries are in compliance with U.S. state laws and the related licensing frameworks. The Company and its subsidiaries use reasonable commercial efforts to confirm, through the advice of U.S. counsel, the monitoring and review of its business practices, and regularly monitoring of changes to U.S. federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and regulatory frameworks. Other than as disclosed herein, the Company's U.S. based subsidiaries have not received non-compliance orders, citations or notices of violation that may have an impact on such entities licenses, business activities and/or operations. The Company's U.S. based subsidiaries have obtained legal advice regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.

Compliance Program

The Company's Compliance Director oversees, maintains and implements the compliance program and personnel in conjunction with the Chief Legal Officer and Chief Operating Officer. The Compliance Director and Chief Legal Officer serve as liaisons to the various state and local regulators at all times. It is the responsibility of the Compliance Director to work with all operational department heads to ensure operations and employees strictly comply with applicable laws, regulations and licensing requirements to ensure that the operations do not endanger the health, safety, or welfare of the communities that the Company operates in. The Compliance Director works closely with the operations and security directors to ensure that operations and all employees are following and complying with the Company's written standard operating procedures.

The Company has developed a uniform set of standard operating procedures that establish minimum standards and requirements for operations in each market, encompassing operational aspects such as cultivation, manufacturing, packaging of product, the handling of confidential or personal information and method by which an employee may dispense cannabis to an authorized individual. Upon the Company's entry into a new market, the Compliance Director and Chief Legal Officer work with each department director to adapt these uniform policies into a unique set of operating procedures for each respective market. It is these respective market-specific procedures that are based upon the regulatory requirements unique to each such market.

Working with the operations, human resources, and security departments, the Compliance Director overseas training for all employees, including on the following topics:

- compliance with applicable state and local laws
- safe cannabis use
- dispensing procedures
- cultivation and processing procedures
- security and safety policies and procedures
- inventory control
- point of sale and seed to sale tracking software
- quality control
- transportation procedures

The Company's compliance protocols emphasize quality assurances, as evidenced by its efforts to obtain GMP (or similar) certification in its facilities, security and inventory controls, as well as patient safety. These efforts ensure strict monitoring of cannabis and inventory in all phases of the process. Only authorized and properly trained employees are permitted to access any seed-to-sale system or dispense cannabis to an authorized individual.

The Company is in compliance with U.S. state law and the related licensing framework in each state in which the Company has active marijuana operations, being Florida, Puerto Rico, Pennsylvania and Texas. The Company uses reasonable commercial efforts to ensure that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by Florida, Puerto Rico, Pennsylvania and Texas, through the duties of the Compliance Director and Chief Legal Officer, who monitor and review the Company's business practices and changes to U.S. Federal enforcement priorities.

The Compliance Director and Chief Legal Officer monitor regularly any and all compliance notifications from various state regulators, to the extent they occur; and ensure timely response and corrective action if necessary. No notifications have been received other than as set out below. The Company maintains comprehensive recordkeeping and retention procedures for any action involving the products it cultivates, processes, and/or dispenses. In addition, the Company maintains accurate records of all activities it is licensed to conduct in each market and does so in compliance with applicable laws and regulations. Adherence to the Company's compliance protocols in each market is mandatory and ensures that all operations remain compliant with the regulation(s) set forth by the applicable regulatory bodies, as well as all requirements of licensure.

Each subsidiary is monitored and supervised under a uniform set of policies and procedures that also requires daily, weekly, monthly and quarterly reporting on applicable activities that occur in each subsidiary. These reports, completed by or under the supervision of the subsidiary President or General Manager include: germination, cloning, plant destruction, harvest details, extraction rates, product formulation details, logistics, transportation, delivery, sales and customer complaints. Each subsidiary also utilizes a password protected, role based, seed to sale inventory tracking and reporting software system. The Compliance Director, Chief Legal Officer and Chief Operating Officer all have full administrative access to the seed-to-sale tracking and reporting software. The seed-to-sale software program gives the Compliance Director real time access to the source data, which reports all daily activities of each subsidiary in order to conduct independent analysis and verification of the standard reports submitted by each subsidiary.

In addition to the standard reports submitted by each subsidiary and the seed-to-sale software program access, the Compliance Director and staff perform scheduled and unscheduled site visits and audits of each subsidiary. The scheduled and unscheduled site visits and audits are performed at least quarterly and are used to verify source data on all reported subsidiary activities, debrief and interview key employees, and conduct an overall review of the operating conditions of all subsidiary facilities.

State Regulatory Environment

Florida

Regulatory Framework

Florida regulates medical marijuana as set forth in the Florida Constitution, Florida Statutes, implementing regulations of the Florida Administrative Code, and other applicable laws. The Florida Department of Health, Office of Medical Marijuana Use is responsible for oversight and implementation of medical marijuana laws in Florida.

Compassionate Medical Cannabis Act of 2014

The Compassionate Medical Cannabis Act (Section 381.986, Florida Statutes), was signed into law on June 16, 2014. It authorized the ordering of low-THC cannabis by qualified Florida-licensed physicians for medical use by qualified patients beginning on January 1, 2015. Under this law, "low-THC cannabis" means:

> A plant of the genus *Cannabis*, the dried flowers of which contain 0.8 percent or less of tetrahydrocannabinol and more than 10 percent cannabidiol weight for weight; the seeds thereof; the resin extracted from any part of such plant; or any compound, manufacture, salt, derivative, mixture, or preparation of such plant or its seeds or resin that is dispensed only from a dispensing organization.
>
> The term "medical use" under this law specifically excludes possession, use, or administration by smoking.

Under the Compassionate Medical Cannabis Act, only Florida-licensed physicians who underwent the required training could order low-THC cannabis for medical use in Florida. Qualified patients were required to be permanent Florida residents. In addition, all low-THC cannabis must have been dispensed by a licensed dispensing organization under the Compassionate Medical Cannabis Act. Under this act, the Florida Department of Health was allowed to approve up to five dispensing organizations in Florida, located in specific geographic regions throughout the state.

Chapter 64-4, Florida Administrative Code

As required by Florida Statutes, the Florida Department of Health implemented regulations governing the use of medical marijuana in the state, including the licensing of businesses to cultivate, process, and dispense medical marijuana to qualified patients. These regulations are found in Chapter 64-4, Florida Administrative Code.

Amendment 2

In November 2016, Florida voters adopted an amendment to the Florida Constitution via ballot initiative known as Amendment 2. It became effective on January 3, 2017 and is found in Article X, Section 29 of the Florida Constitution. Amendment 2 increased the scope of qualifying medical conditions for medical marijuana to include certain "debilitating medical conditions," which includes cancer, epilepsy, glaucoma, HIV-positive status, AIDS, post-traumatic stress disorder, amyotrophic lateral sclerosis (ALS), Crohn's disease, Parkinson's disease, multiple sclerosis, and similar conditions. It also renamed dispensing organizations "medical marijuana treatment centers" and directed the Florida Department of Health to implement rules to effectuate the amendment.

Revision of Section 381.986, Florida Statutes

Following the passage of Amendment 2, the Florida Legislature revised Section 381.986, Florida Statutes to incorporate many of the amendment's provisions and revised definitions that include further specifications for medical marijuana patient and caregiver registration and identification, and to direct the Department of Health to issue ten additional licenses for medical marijuana treatment centers.

Rulemaking Implementation of Amendment 2 and Section 381.986 Revision

Following changes to the original medical marijuana statute in Section 381.986, Florida Statutes (described below), the Florida Department of Health announced proposed changes to Chapter 64-4 and the creation of Regulations 1-1.01, 1-1.02, 2-1.01, and 2-1.02 to implement the new terms, procedures, and application procedure for medical marijuana treatment center licenses. The procedure for modifying and developing these rules, as applicable, is governed by Florida's Administrative Procedures Act, Chapter 120, Florida Statutes. Required public notices and public hearings have occurred and continue to occur. The Florida Department of Health, Office of Medical Marijuana Use has awarded seven out of the ten additional medical marijuana treatment center licenses authorized under Section 381.986, Florida Statutes.

Recent Case Law

A number of administrative challenges have been encountered by the newly created regulations, primarily involving the procedures for new licenses to be awarded; however as of the date of this Prospectus most of these challenges are still pending final determination by the courts. Additionally, Florida law currently prohibits smoking as a method of administration of medical marijuana. Challenges to this provision are also pending final determination by the courts and is expected to be appealed until ultimately ruled upon by the Florida Supreme Court or addressed by the legislature.

U.S. Attorney Statements

To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Florida.

Licensing and Compliance in Florida

In Florida, the Department of Health administers and maintains the state's medical marijuana program pursuant to the Florida Constitution and Statutes. Florida law currently requires each Medical Marijuana Treatment Centre ("**MMTC**") license holder to be vertically integrated, which requires the license holder to control all aspects of the operations from "seed to sale". Additionally, as a condition to becoming operational, each MMTC license holder is statutorily required to comply with all disclosures made to obtain the license. All cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Each facility must also have armed security on site. All MMTC license holders must track cannabis from "seed to sale," accounting for all disposed and dispensed cannabis and related materials in the process. All buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities as well as video surveillance maintenance. Only qualified patients or registered caregivers can be dispensed cannabis pursuant to a qualified physician's active recommendation; all of which must be confirmed prior to dispensation. The MMTC license holder must maintain approved waste management and sanitation policies. Only certain routes of administration are

allowed and must be approved by Department of Health first. Furthermore, as part of the application process, each License holder must outline how it intends to maintain Health Insurance Portability and Accountability Act ("**HIPAA**") compliant guidelines. Additionally, all employees must pass state mandated criminal history background screenings.

To ensure compliance with state requirements, the Company has implemented a robust compliance program based on its standard operating procedures, which have been adapted to comply with the requirements of Florida law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately to identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished product being dispensed to the patient. This ensures that in the event of a recall event, the company has the capability of identifying the suspect products back to the original batch from the greenhouse. Additionally, a visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries to patients or dispensaries are conducted in unmarked, nondescript vehicles, which maintain interior and exterior security and surveillance features as well as global positioning system tracking capabilities. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring, but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the State has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

Licenses

The Company, through its direct and indirect wholly-owned subsidiaries, is licensed to cultivate, process and sell medical cannabis and initially, to own and operate up to twenty-five (25) individual dispensary locations as well as deliver product directly to customer's homes throughout the State of Florida. The Company was thereafter permitted to own and operate five (5) additional dispensary locations for every 100,000 newly registered qualified patients, which required patient registration count has been achieved and thus the Company is currently allowed to own and operate thirty (30) dispensaries.

In the State of Florida, the Department issues licenses to produce and sell medical cannabis i.e. the MMTC License (formerly a Dispensing Organization License) and as of June 30, 2019 has issued twenty-two (22) such licenses, of which the Company holds one (1).

The MMTC License held by the Company's subsidiary in Florida expires on June 13, 2020.

Dispensary Requirements

As an MMTC, there is a limit of a 70-day cannabis supply that can be dispensed at any time. The employee of the MMTC that is responsible for dispensing has a unique employee ID number that is used in a mandated point of sale program utilized to track all interactions with patients and/or their caregivers. The MMTC employee must verify that: (i) the patient and/or caregiver (if applicable) must each have an approved registration in the State Registry as well as the proper identification card issued by the State of Florida; (ii) the quantity and type of cannabis being ordered must match the physician directed registry entry; and (iii) the physician directed amount has not already been dispensed at another dispensary of any MMTC. No patient under the age of 18 may receive dispensed product. For patients under 18 years of age, product may only be dispensed to a properly registered and identified caregiver of the patient. In every case, the MMTC must be able to provide a record of activity in the registry indicating: (i) the date, time, quantity and form of cannabis dispensed; (ii) the delivery device for the cannabis that was dispensed; and (iii) the name and identification number of the individual that received the dispensed product. At all times, the MMTC employee must ensure the privacy of information in regards to the patient records as required by Florida legislation and applicable privacy laws.

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

Adequate outdoor lighting is required from dusk to dawn for all MMTC. 24-hour per day video surveillance is required and all MMTCs must maintain at least a rolling 45-day period that is made available to law enforcement upon demand. Alarm systems must be active at all items for all entry points and windows. Interior spaces must also have motion detectors and all cameras must give unobstructed view of key areas. Panic alarms must also be available for employees to be able to signal authorities when needed.

In dispensaries, the MMTC must provide a waiting area with a sufficient seating area. There must also be a minimum of one private consultation/education room for the privacy of the patient(s) and their caregiver (if applicable). The MMTC may only provide dispensing duties between 7:00 am and 9:00 pm. All active products must be kept in a secure location within the dispensary and only empty packaging may be kept in the general area of the dispensary. No product or delivery devices may be on display in the waiting area.

An MMTC must at all times provide secure and logged access for all cannabis materials. This includes approved vaults or locked rooms. There must be at least two employees of the MMTC or an approved security provider on site at all times. All employees must wear proper identification badges and visitors must be logged in and wear a visitor badge while on the premises. The MMTC has a 24-hour period in which it must report any suspected activity of loss, diversion or theft of cannabis materials.

Transportation Requirements

When transporting cannabis to dispensaries or to patients for delivery, a manifest must be prepared and transportation must be done using an approved vehicle. The cannabis must be stored in a separate, locked area of the vehicle and at all times there must be two people in a delivery vehicle. During deliveries, one person must remain with the vehicle. The delivery employees must at all times have identification badges. The manifest for all deliveries must be generated by the State approved tracking software. The manifest must include the following information: (i) departure date and time; (ii) name, address and license number of the originating MMTC; (iii) name and address of the receiving entity; (iv) the quantity, form and delivery device of the cannabis; (v) arrival date and time; (vi) the make, model and license plate of the delivery vehicle; and (vii) the name and signatures of the MMTC delivery employees. These manifests must be kept by the MMTC for inspection for up to three (3) years. During the delivery, a copy of the manifest is also provided to the recipient.

Department Inspections

The State of Florida Health Department shall conduct announced or unannounced inspections of MMTC's to determine compliance with the laws and regulations. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

Puerto Rico

Regulatory Framework

Executive Order OE-2015-35

The first law to legalize medicinal cannabis in Puerto Rico was *Ordén Ejecutiva* (Executive Order) OE-2015-35, issued on September 15, 2015 by the Governor of Puerto Rico. In it, the governor decriminalized the possession of 6 grams or less of marihuana or its derivatives.

Implementing Regulations

The initial implementing regulation governing the use of medicinal cannabis in Puerto Rico was Regulation 8686, dated December 28, 2015, better known as "Regulation 155." Regulation 155 was replaced entirely on July 8, 2016 with Regulation 8766, "Regulation for Use, Possession, Cultivation, Manufacturing, Production, Dispensing, Distribution and Research of medicinal cannabis." Regulation 8766 was amended on November 10, 2016 via Regulation 8766-A. For purposes of simplicity, this section refers to the amended regulation as Regulation 8766.

Regulation 8766 is thoroughly detailed, totaling over 169 pages before it was amended. It defines medicinal cannabis as including all parts of *Cannabis Sativa L.*, *Cannabis indica*, and any hybrids of those species that are or are not in the process of growing, along with: flower; seeds; resin extracted from any part of the plant; and any compound, product, salt, derivative, mixture, or preparation of the plant, its seeds or its resin.

Authorized Puerto Rico-licensed physicians are permitted to prescribe medicinal cannabis to patents with debilitating medical conditions, including cancer, chemotherapy treatment for cancer, HIV-positive status, AIDS, ALS, multiple sclerosis and other degenerative diseases, Crohn's disease, fibromyalgia, Alzheimer's disease, arthritis, rheumatoid arthritis, anxiety disorders, epilepsy, Parkinson's disease, anorexia, migraine, spinal cord lesions, hepatitis C, and other related conditions. Patients and, if applicable, authorized companions must obtain an identification card before patients may receive medicinal cannabis. Patients are authorized to consume medicinal cannabis products via tablets, drops, inhalers, lotions, ointments, creams, vaporization of flower or concentrate, suppositories, patches, and edibles. Smoking is not a permitted method of consuming medicinal cannabis under Regulation 8766.

Licenses are required to research, cultivate, manufacture, perform laboratory quality tests on, distribute, transport, or dispense medicinal cannabis under Regulation 8766. The Puerto Rico Department of Health is responsible for opening calls for submissions of new applications when it determines new medicinal cannabis establishments in any category are needed to meet demand. Licenses are awarded on a merit principle that includes business ability, operating plan and procedures, ability to operate, financial stability and access to funds, ability to meet security requirements, ability to meet the needs of qualified patients, and several other criteria involving the applicants' ability to comply with regulatory, privacy, and inventory control requirements.

All licensees are required to comply with inventory tracking, occupational licensing, and privacy laws and regulations. Every person wishing to engage in cultivation, production, manufacturing, distribution, dispensing, or performing laboratory quality tests of Cannabis or products containing Cannabis must follow the Good Manufacturing Practices (GMP) guidelines established in Title 21 of the Code of Federal Regulations, Part 211 and Good Agricultural Practices (GAP) guidelines established in Title 21 of the Code of Federal Regulations, Part 58, as they may apply and as appropriate to the establishment's activity. There are electronic surveillance and security-related facility design and staffing requirements for all licensees. medicinal cannabis establishments may not sell, ship, distribute, or initiate transport of medicinal cannabis at any time other than between 8:00 a.m. and 9:00 p.m., Monday through Saturday. Transportation and distribution of medicinal cannabis must be accompanied at all times by a manifest. Medicinal cannabis must be disposed in such a way as to render it unrecognizable and unusable.

In addition, there are specific requirements for each license category. For example, the cultivation requirements total over five pages and include specific requirements aimed at protecting patient health and safety. For example, cultivation may occur indoors or outdoors, via growth or hydroponic means, but pesticides, fungicides, herbicides, and/or hazardous solvents or chemicals are prohibited.

Senate Bill 340 – The Medicinal Act

Both Executive Order OE-2015-35 and Regulation 8766 were adopted without statutory authority to do so. On July 9, 2017, Puerto Rico adopted Senate Bill 340, the "Act for Managing the Study, Development and Research of Cannabis for Innovation, Applicable Rules and Limits" ("**Medicinal Act**") to create a statutory authority for the use of medicinal cannabis in Puerto Rico. While the Medicinal Act states that Regulation 8766 will be repealed, that has not occurred to date. In addition, many of the licensing requirements outlined in Regulation 8766 are similar to those enumerated in the Medicinal Act, although not in such granular detail. For example, medical cannabis has been redefined as "any compound, product, derivative, mixture or preparation of all parts of Cannabis Sativa and Cannabis Indica plant and any hybrids thereof, its seeds, its flowers, or its resin," which is similar to the definition in Regulation 8766, although less specific in nature.

The most significant change adopted under the Medicinal Act is that it established a Regulatory Board of nine (9) members including the Secretaries of Puerto Rico Department of Health, Agricultural Department, Puerto Rico Treasury Department, Department of Economic Development and Commerce, Consumer Affairs Department, the Superintendent of Puerto Rico Police, and three (3) members nominated by the Governor. The Regulatory Board will be in charge of the implementing the act and establishing new regulations related to the issuance of the licenses for patients, research, cultivation, manufacturing, laboratory testing, dispensing, distribution, and transportation of medicinal cannabis. They also will have the authority to do inspections and to issue fines, among others.

The Medicinal Act prohibits the recreational use of the plant, its flower, or bud. However, upon approval of a Medical Advisory Board, the flower may be available to patients with terminal diseases and where there is no other alternative treatment. Smoking medicinal cannabis remains illegal with or without a medical authorization card. Vaporization of medicinal cannabis is permitted, though dispensaries still are not permitted to sell any medicinal cannabis to a patient or authorized caregiver without a medical authorization card. The Medicinal Act prohibits the import or export of medicinal cannabis. All medicinal cannabis and derived

products purchased in Puerto Rico must be consumed in Puerto Rico. The Medicinal Act also prohibits the use of medicinal cannabis in public places. Patients may only consume medicinal cannabis in a private residence or place, which continues the policy adopted under Regulation 8766. The Medicinal Act includes a reciprocity clause that allows dispensaries to serve patients who hold medicinal cannabis authorization cards from their home states. It also authorizes the deposits of the income generated by the medicinal cannabis industry in Savings and Credit Cooperative of Puerto Rico, regulated by the Credit Unions Supervision and Insurance Corporation ("**COSSEC**") or any other financial institution not regulated by the Federal Deposit Insurance Corporation ("**FDIC**").

Until a new Regulation is approved, Regulation 8766 will remain in effect. Once the new Regulation is approved, license holders under Regulation 8766 will have a period of ninety (90) days to renew their licenses pursuant to the provisions of the new regulations. To obtain the licenses for cultivation, manufacturing, laboratory analysis, transportation, and dispensing, licensees will be required to show that fifty-one percent (51%) of their ownership comes from capital contributions of Puerto Rico. The Medicinal Act also regulates and promotes the research and development of the medicinal cannabis, security protocols, confidentiality of the patient's information, annual reports, job requirements, the timeframe to obtain licenses within the agencies, a Medicinal Cannabis Registration Program, and other areas.

U.S. Attorney Statements

To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Puerto Rico.

Licensing and Compliance in Puerto Rico

In Puerto Rico the Department of Health administers and oversees the medical cannabis program. Current regulations require a license to cultivate, manufacture, perform laboratory quality tests, distribute, transport, or dispense medical cannabis. All cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Each facility must also have armed security on site. Licensees must track cannabis using the state approved point of sale/ tracking software system for all disposed and dispensed cannabis and related materials in the process. All buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities as well as video surveillance maintenance. Only qualified patients or registered caregivers can be dispensed cannabis pursuant to a qualified physician's active recommendation; all of which must be confirmed prior to dispensation. Additionally, all employees must pass state mandated criminal history background screenings.

The Company's subsidiary in Puerto Rico currently holds and operates all licenses in Puerto Rico to cultivate, manufacture, dispense and transport medical cannabis in Puerto Rico. To ensure compliance with state requirements, the Company's subsidiary in Puerto Rico has implemented a robust compliance program based on its standard operating procedures which have been adapted to comply with the requirements of Puerto Rico law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately and identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished product being dispensed to the patient. This ensures that in the event of a recall event, the company has the capability of identifying the suspect products back to the original batch from the greenhouse. Additionally, a visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries to patients or dispensaries are conducted in unmarked, nondescript vehicles which maintain interior and exterior security and surveillance features, as well as global positioning system tracking capabilities. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the state has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

Licenses

All medical cannabis licenses are issued by the Medical Cannabis Regulating Board and are valid for one year. Application for renewal must be submitted at least 30 days prior to expiration date. There are four different types of licenses in Puerto Rico, each of which is held by the Company's subsidiary in Puerto Rico.

Cultivation License. An application was submitted on July 20, 2016. The original license was issued on June 5, 2017 and renewed on June 4, 2018. It is currently set to expire on June 4, 2019 and renewal has been submitted. This license allows for the cultivation of an area not exceeding 10,000 sq. ft. This license also allows for outdoor-style growing of cannabis to be utilized in the manufacture of extracted oils in conjunction with a facility that has a manufacturing license.

Manufacturing License. An application was submitted on September 8, 2016. The license was initially issued on October 26, 2017. The license was renewed and is currently set to expire on October 26, 2019. This license allows for the manufacturing of infused medical cannabis products with water-based or food-grade extractions and the manufacturing of medical cannabis products produced with solvent-based extractions or flammable gas extractions.

Dispensary License. An application was filed on October 20, 2016. The license was initially issued on December 22, 2017. The license was renewed and is currently set to expire on December 21, 2019. This license along with three (3) pre-qualified licenses allow for the operation of up to four (4) dispensary locations throughout Puerto Rico, with the first being a medical cannabis dispensary at 1332 Roosevelt Ave. in San Juan, Puerto Rico, as each dispensary requires a separate dispensary license. With the new regulations in place, it further allows the delivery of medical cannabis to patients or authorized companions and wholesale sales to other dispensaries.

Transportation License. An application was filed on October 18, 2017. The license was originally issued on March 26, 2018, with respect to a fleet location at Barranquitas. Thereafter on June 4, 2018, the license was amended to locate the fleet at the dispensary on Roosevelt Avenue. The license is set to expire on June 4, 2019, renewal for this license has been submitted. This license authorizes the transport of medical cannabis within Puerto Rico, to patients and wholesale customers.

Dispensary Requirements

As a licensed medical cannabis dispensary, there is a limit of 1.5 ounces of medical cannabis that may be dispensed to a patient daily. A patient may receive a physician recommendation for up to a 365-day supply. The employee of the medical cannabis dispensary that is responsible for dispensing has a unique employee ID number that is used in a mandated point of sale program that can be used to track all interactions with patients or their companion. Employee's must verify that: (i) the patient and/or authorized companion (if applicable), must each have a medical cannabis identification card issued by the Department of Health; and (ii) the quantity and type of cannabis being ordered must match the physician recommendation, which must be electronically stored in the inventory record for 5 years. No patient under the age of 21 may receive dispensed product. Minor patients may only be dispensed product to their properly registered and authorized companion. In every case, the medical cannabis dispensary must be able to provide a record of activity in the inventory tracking system indicating: (i) the date, time, quantity and form of cannabis dispensed; (ii) the delivery device for the cannabis that was dispensed; and (iii) the name and identification number of the individual that received the dispensed product. At all times, the employee must ensure the privacy of information in regards to patient records. All dispensary employees must have a valid occupational license and obtain a certificate of registration issued by the Secretary of Health on an annual basis to be authorized to dispense cannabis or medicinal products. medical cannabis dispensary may only operate Monday through Saturday, 8:00 am - 9:00 pm.

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

All medicinal cannabis dispensaries contain a limited access administration area where qualified patient and inventory control records are kept, as well as and a vault where the money is stored with strict security controls. The inventory storage area is located in an area separate from the sales area has reinforced walls with limited secured access. Every dispensary has security measures and alarms, which includes an electronic surveillance system with perimeter monitoring, motion sensors, video surveillance that records 24/7 and can be monitored remotely, silent alarms, panic alarm and hold up alarms. Additionally, each dispensary has one security guard on site 24 hours per day, 7 days per week.

The cultivation, manufacturing and production facility has 2 security guards present 24 hours a day, 7 days per week. One (1) security guard is located at the entrance gate to allow authorized access only inside the security perimeter. All visitors are logged in by the security guard and vehicles are inspected while entering and also while leaving the facility. The facility has a 12-foot double fence with privacy screening and barbed wire. There is a video surveillance system that has 360-degree views of the interior and exterior of the facility including the fence perimeter. All cameras have a battery back up and footage is maintained for 60 days. There is limited access control in each area of the facility allowing only the necessary personnel to enter the restricted areas. All cannabis product is stored in a secured storage room with limited access and video surveillance.

Transportation Requirements

Medical cannabis is transported from the cultivation, manufacturing and production facility to the dispensaries or from the dispensaries to patients' homes. Vehicles have 360-degree cameras inside and outside and global positioning system tracking software. The cannabis is always stored in a separate locked area of the vehicle and there must be two people in a delivery vehicle. During deliveries, one person must remain with the vehicle at all times. The delivery employees must at all times have identification badges. The manifest for all deliveries must be generated by the State approved tracking software. The manifest must include all of the following information: (i) departure date and time; (ii) name, address and license number of the medical cannabis establishment; (iii) name and address of the receiving entity; (iv) name of the product and quantity of product; (v) arrival date and time; (vi) the make, model and license plate of the delivery vehicle; and (vii) name, occupational license number and signatures of the delivery employees. These manifests must be kept for inspection for up to three (3) years. During the delivery, a copy of the manifest is also provided to the recipient.

Department Inspections

The Commonwealth of Puerto Rico Department of Health shall conduct announced or unannounced inspections of all facilities to determine compliance with laws and regulations. The Department shall conduct at least an annual inspection of all cultivation, manufacturing, production and dispensary locations to evaluate compliance with records, personnel, equipment, security, sanitation practices, and quality assurance practices.

Pennsylvania

Regulatory Framework

Pennsylvania legalized medical marijuana when it adopted the Pennsylvania Medical Marijuana Act in 2016. It is found in Chapters 1131 through 1210 of the Pennsylvania Code. Most of the regulation of Pennsylvania's medical marijuana program to date has occurred under this law and through temporary regulations, all of which are summarized below under the heading "Pennsylvania Medical Marijuana Act."

Pennsylvania Medical Marijuana Act

Under the act, the term "medical marijuana" refers to marijuana obtained for a certified medical use by a Pennsylvania resident with a serious medical condition. A serious medical condition includes 17 different conditions including cancer, HIV-positive status, AIDS, several neurological conditions and issues, and severe intractable pain. Medical marijuana is limited by statute in Pennsylvania to the following forms:

- Pill.
- Oil.
- Topical forms, including gel, creams, or ointments.
- A form medically appropriate for administration by vaporization or nebulization, excluding dry leaf or plant form.
- Tincture.
- Liquid.

Under the Pennsylvania Medical Marijuana Act, patients who are residents of the commonwealth and have a serious medical condition as certified by a physician will be able to obtain medical marijuana at dispensaries that are located in the commonwealth

and have a validly-issued permit from the Pennsylvania Department of Health. A "caregiver" who is designated by the patient and is registered with the Pennsylvania Department of Health will be able to obtain medical marijuana from a dispensary located in the commonwealth that has a validly- issued permit from the Pennsylvania Department of Health in order for the caregiver to deliver medical marijuana to the patient. The Pennsylvania Medical Marijuana Act provides for issuance of permits to grower/processors, dispensaries, and clinical registrants.

Clinical registrants are entities that hold a permit as both a grower/processor and a dispensary. They must have a contractual relationship with an approved academic clinical research center ("**ACRC**") under which the ACRC or its affiliate provides advice to the entity, regarding, among other areas, patient health and safety, medical applications and dispensing and management of controlled substances. The clinical registrant must have a research plan in place with the academic clinical research center, and an Institutional Review Board must approve any research projects. Each patient enrolled in a research project must be identified as such in the Commonwealth's electronic tracking system. The Pennsylvania Department of Health may approve no more than eight clinical registrants. Each clinical registrant may have up to six separate dispensing locations with no more than three of the six permitted to be located in the same medical marijuana regions or in the same county (designated by the Pennsylvania Department of Health).

A grower/processor may only grow, store, harvest or process medical marijuana in an indoor, enclosed, secure facility as approved by the Pennsylvania Department of Health. Public access to grower/processor facilities is not permitted. Grower/processors must comply with all security, surveillance, and anti-diversion requirements at their facilities. They also have to comply with all record keeping requirements and must track plant inventory information in the commonwealth's seed-to-sale tracking system. They may only use pesticides, fungicides or herbicides approved by the Pennsylvania Department of Agriculture and must maintain records of their use. Medical marijuana must have a specific concentration of total THC and total CBD and must have a consistent cannabinoid profile. The concentration of cannabinoids for each particular type of medical marijuana product must be reported to the Pennsylvania Department of Health by an approved laboratory. All waste must be disposed in a manner that renders it unusable and unrecognizable. All processing must meet proper sanitation requirements, and all packaging and labeling must comply with the act's requirements. Within the first six (6) months after the Pennsylvania Department of Health determines the grower/processor to be operational, the grower/processor must provide the Pennsylvania Department of Health with a forecast of the amount of medical marijuana it projects it will produce and in what form. The grower/processor shall notify the Pennsylvania Department of Health in writing immediately upon becoming aware of a potential increase or decrease in the forecasted amount occurring within any subsequent six (6) month period.

A dispensary may only dispense medical marijuana to a patient or caregiver in an indoor, enclosed, secure facility as approved by the Pennsylvania Department of Health. The dispensary must have an approved operation plan that includes appropriate safety, security, surveillance, inventory tracking, record keeping, and maintenance measures. It may only dispense medical marijuana to a patient or caregiver who presents a valid identification card to an employee at the facility who is authorized to dispense medical marijuana at the facility. The dispensary must employ and have on-site at all times the facility is open for dispensing a physician, pharmacist, physician assistant or certified registered nurse practitioner who has undergone required medical marijuana training. This medical professional may consult with patients regarding proper dosage and administration of medical marijuana for their condition if the referring physician has not done so. The entire transaction must be tracked in the commonwealth's seed-to-sale electronic tracking system.

Recent case law and U.S. Attorney Statements

Following the initial round of grower/processor and dispensary licenses, applicant Keystone ReLeaf LLC filed suit in Pennsylvania Commonwealth Court seeking an injunction against the Pennsylvania Department of Health that would invalidate all licenses and force the Pennsylvania Department of Health to begin its license application process again. On April 20, 2018, the Commonwealth Court dismissed the case, titled *Keystone ReLeaf LLC v. Pennsylvania Department of Health*, No. 399 M.D. 2017.

In 2018, the courts granted an injunction halting the implementation of the clinical registrant program under the proposed rules and regulations. In response, the Pennsylvania legislature adopted new legislation in May of 2018 which addressed and resolved the issues raised by the court and established revised regulations for the clinical registrant application process. The Pennsylvania Department of Health issued new regulations August 17, 2018 and began accepting applications for CR Registrant licenses in November 2018 from the newly promulgated rules. On December 5, 2018, the Pennsylvania Department of Health announced that none of the eight (8) applicants for a CR Registrant license were approved and that a second round of applications would

commence in early 2019. In March 2019, the Pennsylvania Department of Health released the new applications and eligibility requirements for the clinical registrant program and Cansortium Pennsylvania, LLC submitted its application on April 11, 2019.

David J. Freed, appointed to serve as U.S. Attorney for the Middle District of Pennsylvania on November 15, 2017, has previously stated, "I don't need a study to tell me marijuana is a gateway drug. We in law enforcement have to clean up the mess." He has also previously stated that he believes the law should not change.[1] Scott W. Brady, appointed to serve as U.S. Attorney for the Western District of Pennsylvania on December 14, 2017, has also indicated that his office would vigorously enforce federal law.

Licensing and Compliance in Pennsylvania

In Pennsylvania Department of Health administers and maintains the state's medical marijuana program pursuant to Pennsylvania laws and regulations. Pennsylvania awards permits separately for the growing and processing of medical marijuana, as well as for the dispensing of medical marijuana. As a dispensary permit holder, Pennsylvania law requires the use of state-mandated point of sale and product tracking software to log and record all inventory and sales activities, as well as all patient interactions. All marijuana must be stored with adequate security requirements to prevent diversion. Each facility must also have security measures to prevent unauthorized access and video surveillance; as well as the ability to maintain records of all activities. Only qualified patients or registered caregivers can be dispensed cannabis pursuant to a qualified physician's active recommendation; all of which must be confirmed prior to dispensation. Each dispensary must also employ a licensed pharmacist, doctor or registered nurse practitioner. Additionally, all employees must pass state mandated criminal history background screenings.

The Company's subsidiary in Pennsylvania, Cansortium Pennsylvania, LLC ("**Cansortium Pennsylvania**") currently holds and operates the dispensary permit in the Commonwealth of Pennsylvania. To ensure compliance with state requirements, Cansortium Pennsylvania has implemented a robust compliance program based on its standard operating procedures. which have been adapted to comply with the requirements of Pennsylvania law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately and identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process and are inspected upon receipt from any grower/processor facility. This ensures appropriate chain of custody of finished product being dispensed to the patient and that defective products are returned back to grower/processors and not placed into inventory. Additionally, all visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries must be scheduled in advance and received at the dispensary within an enclosed area outside of the public view or access. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the state has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

Permits

The original dispensary permit was issued on June 29, 2017 and was valid for one year. The permit was renewed on June 26, 2018 and again on June 26, 2019, with an expiration date of June 28, 2020. The permit allows the holder to operate up to three (3) dispensaries in the southcentral region of Pennsylvania (i.e. Adams, Bedford, Blair, Cumberland, Dauphin, Franklin, Fulton, Huntingdon, Juniata, Lebanon, Mifflin, Perry and York counties).

[1] http://www.pennlive.com/midstate/index.ssf/2012/11/marijuana_legalization_in_penn.html

Dispensary Requirements

A dispensary may only dispense medical marijuana products to a patient or caregiver who presents a valid identification card to an employee at the facility who is authorized to dispense medical marijuana products at the facility. Prior to dispensing medical marijuana products to a patient or caregiver, the dispensary shall: (1) Verify the validity of the patient or caregiver identification card using the electronic tracking system; and (2) Review the information on the patient's most recent certification by using the electronic tracking system to access the Pennsylvania Department of Health's database. The following requirements apply: (i) if a practitioner sets forth recommendations, requirements or limitations as to the form and/or dosage of a medical marijuana product on the patient certification, the medical marijuana product dispensed to a patient or caregiver by a dispensary must conform to those recommendations, requirements or limitations; (ii) if a practitioner does not set forth recommendations, requirements or limitations as to the form or dosage of a medical marijuana product on the patient certification, the physician, pharmacist, physician assistant or certified registered nurse practitioner employed by the dispensary and working at the facility shall consult with the patient or the caregiver regarding the appropriate form and dosage of the medical marijuana product to be dispensed; and (iii) the dispensary shall update the patient certification in the electronic tracking system by entering any recommendation as to the form or dosage of medical marijuana product that is dispensed to the patient. Prior to the completion of the transaction, the employee conducting the transaction at the dispensary shall prepare a receipt of the transaction, and file the receipt information with the Pennsylvania Department of Health utilizing the electronic tracking system. A dispensary shall provide a copy of the receipt to the patient or the caregiver, unless the patient or the caregiver declines the receipt. The receipt must include all of the following information: (1) the name, address and any permit number assigned to the dispensary by the Pennsylvania Department of Health; (2) the name and address of the patient and, if applicable, the patient's caregiver. (3) the date the medical marijuana product was dispensed; (4) any requirement or limitation noted by the practitioner on the patient's certification as to the form of medical marijuana product that the patient should use; and (5) the form and the quantity of medical marijuana product dispensed.

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

Security and Surveillance

A dispensary shall have security and surveillance systems, utilizing commercial-grade equipment, to prevent unauthorized entry and to prevent and detect an adverse loss. The security and surveillance systems must include all of the following:

(1) A professionally-monitored security alarm system that includes the following: (i) coverage of all facility entrances and exits; rooms with exterior windows, exterior walls, roof hatches or skylights; storage rooms, including those that contain medical marijuana and safes; and the perimeter of the facility; (ii) a silent security alarm system signal, known as a duress alarm, generated by the entry of a designated code into an arming station in order to signal that the alarm user is being forced to turn off the system; (iii) an audible security alarm system signal, known as a panic alarm, generated by the manual activation of a device intended to signal a life-threatening or emergency situation requiring law enforcement response; (iv) a silent alarm signal, known as a holdup alarm, generated by the manual activation of a device intended to signal a robbery in progress; (v) an electrical, electronic, mechanical or other device capable of being programmed to send a pre-recorded voice message requesting dispatch, when activated, over a telephone line, radio or other communication system to a law enforcement, public safety or emergency services agency; (vi) a failure notification system that provides an audible, text or visual notification of any failure in the systems. The failure notification system must provide by telephone, e-mail or text message an alert to a designated security person within the facility within 5 minutes after the failure; (vii) smoke and fire alarms; (viii) auxiliary power sufficient to maintain security and surveillance systems for at least 48 hours following a power outage; (ix) ability to ensure all access doors are not solely controlled by an electronic access panel to prevent locks from becoming released during a power outage; and (x) motion detectors.

(2) A professionally-monitored security and surveillance system that is operational 24 hours per day, 7 days per week and records all activity in images capable of clearly revealing facial detail. The security and surveillance system must include all of the following: (i) fixed camera placement that allows for a clear image of all individuals and activities in and around the following: (A) any area of a facility where medical marijuana products are loaded or unloaded into or from transport vehicles; (B) entrances to and exits from a facility. Entrances and exits must be recorded from both indoor and outdoor vantage points; (C) rooms with exterior windows, exterior walls, roof hatches or skylights and storage rooms, including those that may contain medical marijuana products and safes; (D) five feet from the exterior of the perimeter of a facility; (E) all limited access areas; (ii) auxiliary power sufficient to maintain security and surveillance systems for at least 48 hours following a power outage; (iii) the ability to operate

under the normal lighting conditions of each area under surveillance; and (iv) the ability to immediately produce a clear, color, still photograph in a digital format that meets the requirements of this subsection.

(3) The ability to clearly and accurately display the date and time. The date and time must be synchronized and set correctly and may not significantly obscure the picture.

(4) The ability to record and store all images captured by each surveillance camera for a minimum of two (2) years in a format that may be easily accessed for investigative purposes. The recordings must be kept: (i) at the facility: (A) in a locked cabinet, closet or other secure place to protect it from tampering or theft; (B) in a limited access area or other room to which access is limited to authorized individuals; and (ii) at a secure location other than the location of the facility if approved by the Pennsylvania Department of Health.

(5) A security alarm system that is separate from the facility's primary security system covering the limited access area or other room where the recordings are stored. The separate security alarm system must meet the same requirements as the facility's primary security alarm system. The following apply regarding the inspection, servicing or alteration of, and the upgrade to, the dispensary facility's security and surveillance systems: (i) the systems shall be inspected and all devices tested once every year by a qualified alarm system vendor and a qualified surveillance system vendor, as approved by the Pennsylvania Department of Health; (ii) the dispensary shall conduct maintenance inspections once every month to ensure that any repairs, alterations or upgrades to the security and surveillance systems are made for the proper operation of the systems; (iii) the dispensary shall retain at the facility, for at least four (4) years, records of all inspections, servicing, alterations and upgrades performed on the systems and shall make the records available to the Pennsylvania Department of Health and its authorized agents within two (2) business days following a request; (iv) in the event of a mechanical malfunction of the security or surveillance system that the dispensary anticipates will exceed a 4-hour period, the dispensary shall notify the Pennsylvania Department of Health immediately and, with Pennsylvania Department of Health approval, provide alternative security measures that may include closure of the facility; and (v) The dispensary shall designate an employee to continuously monitor the security and surveillance systems at the facility.

(6) Records retention: (i) if a dispensary has been notified in writing by the Pennsylvania Department of Health or its authorized agents, law enforcement, or other Federal, State or local government officials of a pending criminal or administrative investigation for which a recording may contain relevant information, the dispensary shall retain an unaltered copy of the recording for four (4) years or until the investigation or proceeding is closed or the entity conducting the investigation or proceeding notifies the dispensary that it is not necessary to retain the recording, whichever is longer; (ii) a dispensary shall install commercial-grade, non-residential steel doors and door locks on each room where medical marijuana products are stored and on each external door of the facility. Keys or key codes for all doors shall remain in the possession of designated authorized individuals; (iii) during all nonworking hours, all entrances to and exits from the facility must be securely locked; (iv) a dispensary shall have an electronic back-up system for all electronic records; (v) a dispensary shall install lighting to ensure proper surveillance inside and outside of the facility; and (vi) a dispensary shall limit access to a room in a facility containing security and surveillance monitoring equipment to persons who are essential to maintaining security and surveillance operations including, Federal, State and local law enforcement, security and surveillance system service employees, the Pennsylvania Department of Health or its authorized agents, and other persons with the prior written approval of the Pennsylvania Department of Health. The following requirements apply: (1) a dispensary shall make available to the Pennsylvania Department of Health or the Pennsylvania Department of Health's authorized agents, upon request, a current list of authorized employees and service employees or contractors who have access to any security and surveillance areas; and (2) a dispensary facility shall keep security and surveillance rooms locked at all times and may not use these rooms for any other purpose or function.

Storage Requirements

A dispensary shall have separate and locked limited access areas for storage of medical marijuana products that are expired, damaged, deteriorated, mislabeled, contaminated, recalled, or whose containers or packaging have been opened or breached until the medical marijuana products are returned to a grower/processor, destroyed or otherwise disposed of as required under § 1151.40 (relating to management and disposal of medical marijuana waste). A dispensary shall maintain all storage areas in a clean and orderly condition and free from infestation by insects, rodents, birds and pests.

Pennsylvania Department of Health Inspections

The Pennsylvania Department of Health may conduct announced or unannounced inspections or investigations to determine the medical marijuana organization's compliance with its permit. An investigation or inspection may include an inspection of a medical marijuana organization's site, facility, vehicles, books, records, papers, documents, data, and other physical or electronic information.

Texas

Regulatory Framework

Texas currently limits the scope of authorization of cannabis for medical purposes to the cultivation, processing, and dispensing of low-THC cannabis prescribed to epilepsy patients.

Compassionate Use Act

The Texas Legislature enacted the Texas Compassionate Use Act, found in Chapter 169 of the Texas Occupations Code and Chapter 487 of the Texas Health and Safety Code, in 2015. The Texas Compassionate Use Act directs the Texas Department of Public Safety ("**DPS**") to create a secure registry of Texas-licensed physicians who are authorized to treat epilepsy by prescribing low-THC cannabis to qualified, registered patients who have been diagnosed with intractable epilepsy. In addition, the bill required DPS to license at least three dispensing organizations by September 1, 2017, should they meet the requirements. The license authorizes the organizations to cultivate, process and dispense low-THC cannabis to prescribed patients.

The act defines low-THC cannabis as:

> the plant *Cannabis Sativa L.*, and any part of that plant or any compound, manufacture, salt, derivative, mixture, preparation, resin, or oil of that plant that contains:
>
> (A) not more than 0.5 percent by weight of tetrahydrocannabinols; and
>
> (B) not less than 10 percent by weight of cannabidiol.

Under the act, medical use of low-THC cannabis means "ingestion by a means of administration other than by smoking of a prescribed amount of low-THC cannabis by a person for whom low-THC cannabis is prescribed."

Administrative Rules

DPS adopted the rules implementing the Texas Compassionate Use Act in 2017. These rules, the Compassionate Use/Low-THC Cannabis Program Administrative Rules, are found in 37 Texas Administrative Code 1, Chapter 12. They specify licensing requirements and standards that licensees must satisfy for a variety of subjects, including building design and construction, records, testing, production (including limitations on the use of pesticides and other products that could harm patient health), packaging, labeling, restrictions on eligible persons who can receive low-THC cannabis, criminal history disqualifiers for licensees and their employees, sanitation, and waste disposal.

All low-THC cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Licensees must track low-THC cannabis from "seed to sale," accounting for all disposed and dispensed low-THC cannabis and related materials in the process. All licensee buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities. All licensees must confirm that patients are properly registered and that prescriptions for low-THC cannabis were properly submitted before completing a sale.

Production is limited under the rules; DPS will only issue sufficient licenses to provide the epileptic population of Texas with the most current scientifically accepted dosage. The amount of production permitted is recalculated every year as provided in the rules. As of June 30, 2019, DPS has issued three (3) dispensing organization licenses: The Company's subsidiary in Texas was licensed on September 1, 2017 and holds one (1) of the three (3) issued licenses.

U.S. Attorney Statements

To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Texas.

Licensing and Compliance in Texas

In Texas the Department of Public Safety administers the state's compassionate use program. State law currently requires each license holder to be vertically integrated, which requires the license holder to control all aspects of the operations from "seed to sale". State law requires strict limits on THC content which subsequently requires regular testing and maintenance of records. All low-THC cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Licensees must track low-THC cannabis from "seed to sale," accounting for all disposed and dispensed low-THC cannabis and related materials in the process. All licensee buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities as well as video surveillance maintenance. Each facility must also maintain armed security on site. All licensees must confirm that patients are properly registered and that prescriptions for low-THC cannabis were properly submitted before completing a sale. Department of Public Safety also maintains production and dosage limitations which are re-evaluated annually to comport with the needs of the applicable patient population. Additionally, all employees must pass state mandated criminal history background screenings.

The Company's subsidiary in Texas currently holds and operates a Dispensing Organization license in Texas. To ensure compliance with state requirements, the Company has implemented a robust compliance program based on its standard operating procedures which have been adapted to comply with the requirements of Texas law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately and identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished product being dispensed to the patient. This ensures that in the event of a recall event, the company has the capability of identifying the suspect products back to the original batch from the greenhouse. Additionally, a visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries to patients or dispensaries are conducted in unmarked, nondescript vehicles which maintain interior and exterior security and surveillance features, as well as global positioning system tracking capabilities. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the state has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

Licenses

In March of 2017, the Company's subsidiary in Texas applied for and then obtained a Dispensing Organization License from the Department of Public Safety on September 1, 2017. This license allows the Company's subsidiary in Texas to cultivate and produce cannabis as well as operate a dispensary at the cultivation site. The license also allows for home delivery of the product. The license expires on September 1, 2019. The Company's subsidiary in Texas holds one (1) of the three (3) licenses issued by the Department of Public Safety in Texas (as of June 30, 2019).

Dispensary Requirements

The State of Texas allows each Dispensing Organization to operate one retail dispensary located where they cultivate and manufacture low-THC medical cannabis. As we do not operate a dispensary currently, all dispensations are through our home delivery program. Prior to making a home delivery, Dispensing Organizations must verify a patient has an active order in Texas' Compassionate Use Registry of Texas (CURT) System.

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

The cultivation and processing facility has a security guard present 24 hours a day, 7 days per week who monitors the security cameras and provides access to the main gate and signs in all visitors. The facility has a security fence around the perimeter of the property and a second fence around the immediate cultivation and production campus. There is a video surveillance system that has 360-degree views of the interior and exterior of the facility including the fence perimeter. All cannabis products are stored in a secured storage room with limited access and video surveillance. The cannabis product is stored in a secured vault and cash is stored in a separate cash vault in the secured storage room. Security records are maintained including building access, visitor logs, video recordings, and transportation trip plans.

Staff may not allow access to the facility's cultivation, processing, and/or product storage areas by unauthorized individuals or to the public unless they are escorted at all times. All cultivation of low-THC cannabis shall take place in an enclosed, secured building, or an enclosure within a building that provides reasonably adequate protection against the diversion of low-THC cannabis or raw materials used in or by-products created by the production or cultivation of low-THC cannabis. Staff must limit access to each area to the minimum number of individuals or employees necessary for the licensee's activities, designate an individual or a limited number of individuals with responsibility for each area where a controlled item is cultivated, processed, dispensed, produced, or stored, and control entry into the area for authorized personnel only. Access to the enclosed, locked area is limited to a licensee, director, manager or registered employee when acting in his or her official capacity.

The facility has an alarm system capable of continuously monitoring the regulated premises for fire and intrusion by means of camera recording, door switches, motion sensors, and fire and smoke detectors. The camera monitoring system is capable of recording at least 90 days of footage to an external hard drive. All cameras have a battery back-up.

Transportation Requirements

Any vehicle used by a dispensing organization for the transportation of low-THC cannabis must have a vehicle security system and a securely attached and locked container within the vehicle. It is the responsibility of the licensee to ensure that only authorized registered employees have access to the locked secure container within the vehicle. Prior to transportation of any product, a licensee shall complete a trip plan that includes: (1) the name of the registrant responsible for the transportation; (2) the date and start time of the trip; (3) the anticipated route of transportation and destination; and (4) a detailed invoice or log of the specific type of product and amount to be transported. Promptly following transportation, the licensee shall enter the end time of the trip and any changes to the trip plan, including any changes to the amount of product delivered to the location.

Department Inspections

The Department of Public Safety performs weekly inspections of the facility. All requested records are given onsite or electronically as requested.

On January 17, 2019, the Company’s subsidiary in Texas received a notice of violation from the Texas Department of Public Safety Regulatory Services Division for failure to adequately respond to the Department’s requests for records on inventory and testing at its cultivation facility, in violation of Texas law. On January 25, 2019, the Company’s Chief Operating Officer and Compliance Director met in person with representatives of the Department to address the concerns raised in the notice and advised the Department as to the corrective measures already in place at the facility. On February 1, 2019, the Department issued a violation remediation letter confirming that the matter had been resolved to its satisfaction and that no further action would be taken.

Risks Specifically Related to the United States Regulatory System

The Company operates in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company's business incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company's subsidiaries are expected to continue to derive a portion of their revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. While the Company's and its applicable subsidiaries' business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The Company is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company and its subsidiaries are directly engaged in the manufacture and possession of cannabis in the medical cannabis marketplace in the United States. **The enforcement of relevant laws is a significant risk.**

Over half of the states in the United States have enacted comprehensive legislation to regulate the sale and use of medical cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the *United States Controlled Substances Act* of 1970. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future operations and investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future operations and investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in the United States and Canada.

On February 8, 2018, following discussions with the CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with Aequitas NEO Exchange Inc., the Canadian Securities Exchange, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Shares through the facilities of a stock exchange.

The operations of the Company and its subsidiaries are, and will continue to be, subject to evolving regulation by governmental authorities. The Company's and its subsidiaries' operations are directly in the medical cannabis industry in the United States, where local state law permits such activities. The legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions.

The Company's and its subsidiaries' operations have been focused in states that have legalized the medical use of cannabis. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. Some U.S. states have legalized recreational use of cannabis. However, the U.S. federal government has not enacted similar legislation for medical or recreational cannabis. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the CSA published Staff Notice 51-352 setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

The Company's and its subsidiaries' current or future operations in the medical and recreational cannabis industry are likely illegal under the applicable federal laws of the United States. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company or its subsidiaries. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company's and its subsidiaries' activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company and its subsidiaries of liability under United States federal law, nor

may it provide a defense to any federal proceeding which may be brought against the Company or any subsidiary. Any such proceedings brought against the Company may adversely affect the Company's and its subsidiaries' operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company and its subsidiaries, including their reputations and ability to conduct business, their holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of any publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements, including without limitation, the following factors:

- the activities of the Company and its subsidiaries are subject to evolving regulation that is subject to changes by governmental authorities in Canada, the U.S. and internationally and such authorities could impose restrictions on the Company's and its subsidiaries' ability to operate;
- third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's and its subsidiaries' cannabis business activities;
- the Company's ability to repatriate returns generated from operations and investments in the U.S. may be limited by anti-money laundering laws;
- under Section 280E of the Internal Revenue Code, certain normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, certain of the subsidiaries will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company and the subsidiaries will not be subject to Section 280E of the Internal Revenue Code in the future, and accordingly, there is no certainty that the impact that Section 280E of the Internal Revenue Code has on the Company's margins will ever be reduced;
- federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's or any subsidiary's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company or any subsidiaries will be able to maintain its existing accounts or obtain new accounts in the future; and
- although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

The Company's and its subsidiaries in the United States are subject to applicable anti-money laundering laws and regulations.

The Company and its subsidiaries are subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States, Canada and internationally. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a chequing account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, FinCEN issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities (the "**FinCEN Memorandum**"). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to and incorporates supplementary Cole Memorandum guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day.

Notwithstanding former Attorney General Sessions' revocation of the Cole Memorandum, the status of the FinCEN Memorandum has not been affected, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

The Company and its subsidiaries' operations, and any proceeds thereof, are considered proceeds of crime due to the fact that cannabis remains illegal federally in the United States. This restricts the ability of the Company and its subsidiaries to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

U.S. Federal trademark protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the Controlled Substances Act, the benefit of certain federal laws and protections that may be available to most businesses, such as federal trademark protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property in the United States, whether on a federal, state, or local level.

Ability to Access Private and Public Capital

The Company has historically relied on access to private and public capital in order to support its continuing operations and the Company expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and is not legal pursuant to U.S. federal law, Canadian based issuers involved in the U.S. cannabis industry have been successful in completing public financings. However, there is no assurance the Company will be successful, in whole or in part, in raising funds in the future, particularly if the U.S. federal authorities change their position toward enforcing the United States Controlled Substances Act of 1970. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

Service Providers

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Company could suspend or withdraw their services, which are necessary for the Company's operations. Such suspension or withdrawal by such third-party service providers may have a material adverse effect on the Company's business.

Enforceability of Contracts

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at the federal level in the United States, judges in multiple states have previously refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even where there was no violation of state law. It is not certain that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, and such lack of a remedy could have a material adverse effect on the Company's business.

Admissibility to the U.S.

Admissibility into the United States for those individuals involved with marijuana remains uncertain since the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law.

U.S. Customs practices continue to evolve and U.S. Customs and Border Protection ("**CBP**") released a statement on October 11, 2018 (the "**CBP Statement**") confirming that CBP enforces the laws of the United States and U.S. laws have not changed following Canada's legalization of marijuana. Requirements for international travelers wishing to enter the United States are governed by and conducted in accordance with U.S. federal law, which supersedes state laws. Although medical and recreational marijuana may be legal in some U.S. States and Canada, the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law. Consequently, crossing the border or arriving at a U.S. port of entry in violation of this law may result in denied admission, seizure, fines, and apprehension.

The CBP Statement also stated that CBP officers are thoroughly trained on admissibility factors and the *Immigration and Nationality Act*, which broadly governs the admissibility of travelers into the United States. Determinations about admissibility and whether any regulatory or criminal enforcement is appropriate are made by a CBP officer based on the facts and circumstances known to the officer at the time. Generally, any arriving alien who is determined to be a drug abuser or addict, or who is convicted of, admits having committed, or admits committing, acts which constitute the essential elements of a violation of (or an attempt or conspiracy to violate) any law or regulation of a State, the United States, or a foreign country relating to a controlled substance, is inadmissible to the United States.

The CBP Statement then continued to state that a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

The Company's and its subsidiaries' operations in the United States may be subject to heightened scrutiny.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical and recreational adult use cannabis under the *Cannabis Act* (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, may be in violation of federal law in the United States.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana

actors operating in compliance with state and local law (currently the "**Leahy Amendment**", but also referred to as the Rohrabacher-Farr Amendment).

The Leahy Amendment was set to expire with the 2018 fiscal year on September 30, 2018 ("**2018 Fiscal Year**"), however, Congress approved a nine-week continuing resolution from the 2018 Fiscal Year (the "**Continuing Resolution**"). The Continuing Resolution has the purpose of providing ongoing and consistent protection for the medical cannabis industry until December 7, 2018. Congress has been negotiating the 2019 Fiscal Year appropriations since February 2018. The much relied upon appropriations protecting the medical cannabis industry were renewed in both the House and Senate versions of the 2019 Fiscal Year Appropriations bills, with the expectation that the language will be included in the final 2019 Fiscal Year Appropriations Bill. However, it should be noted that there is no assurance that the final 2019 Fiscal Year Appropriations Bill will include appropriations protecting the medical cannabis industry. Until Congress agrees on the 2019 Fiscal Year Appropriations Bill, Congress may pass additional continuing resolutions from the 2018 Fiscal Year, which resolutions would provide ongoing and consistent protection for the medical cannabis industry.

On December 22, 2018, Congress failed to pass the 2019 Fiscal Year Appropriations Bill, including the Leahy Amendment, causing a shutdown of the federal government. During a federal government shutdown, certain "nonessential" governmental programs are stalled; however, federal law enforcement and prosecution actions are exempted from furlough, thus Drug Enforcement Administration agents and federal prosecutors can operate without any restriction otherwise imposed by the spending bill regarding interference with the cannabis industry. Accordingly, during a shutdown, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis business that are otherwise compliant with state law.

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on September 30, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in a future budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government would have the authority to prosecute individuals for violations of the law before it lacked funding under the five (5) year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provides no protection against businesses operating in compliance with a state's recreational cannabis laws.

Regulatory Action and Approvals from the Food and Drug Administration

The Company's cannabis-based products are supplied to patients diagnosed with certain medical conditions. However, the Company's cannabis-based products are not approved by the Food and Drug Administration ("**USFDA**") as "drugs" or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the USFDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Federal Food, Drug and Cosmetic Act ("**FFDCA**").

In recent years, the USFDA has issued letters to a number of companies selling products that contain CBD oil derived from industrial hemp warning them that the marketing of their products violates the FFDCA. USFDA enforcement action against the Company could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial or total suspension of the Company's production or distribution of its products. Any such event could have a material adverse effect on the Company's business, prospects, financial condition, and operating results.

Re-classification of Cannabis in and Removal of Industrial Hemp from the Controlled Substances Act in the United States

The USFDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements, and cosmetics, among other products, through its enforcement authority pursuant to the FFDCA. USFDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce.

If cannabis, THC or CBD derived from cannabis is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be improved; however, rescheduling cannabis, THC or CBD derived from cannabis may materially alter enforcement policies across many federal agencies, primarily the USFDA. Because cannabis is federally illegal to produce and sell, and because it has no federally recognized medical uses, the USFDA has historically deferred enforcement related to cannabis to the DEA; however, the USFDA has enforced the FFDCA with regard to industrial hemp-derived products, especially CBD derived from industrial hemp, sold outside of state-regulated cannabis businesses. If cannabis, THC or CBD derived from cannabis were to be rescheduled to a federally controlled, yet legal, substance, FDA would likely play a more active regulatory role. Further, in the event that the pharmaceutical industry directly competes with state-regulated cannabis businesses for market share, as could potentially occur with rescheduling, the pharmaceutical industry may urge the DEA, FDA, and others to enforce the Controlled Substances Act and FFDCA against businesses that comply with state but not federal law.

On December 28, 2018, the Agricultural Improvement Act of 2018 (commonly known as the "**2018 Farm Bill**") was signed into law. The 2018 Farm Bill, among other things, removed industrial hemp and its cannabidiols, including CBD derived from industrial hemp, from the Controlled Substances Act and will amend the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the United States. Under the Farm Bill, industrial hemp is defined as "the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis." The U.S. Department of Agriculture will promulgate regulations for the industrial hemp industry, the timing of which cannot be assured. Additionally, the 2018 Farm Bill does not legalize CBD derived from "marihuana" (as such term is defined in the Controlled Substances Act of 1970), which is and will remain a Schedule I controlled substance under the Controlled Substances Act of 1970. It is not yet known what role the USFDA will have in regulating industrial hemp and CBD derived from industrial hemp.

The potential for multi-agency enforcement post-rescheduling of cannabis and post-removal of industrial hemp from the Controlled Substances Act of 1970 could threaten or have a materially adverse effect on the operations of existing state-legal cannabis businesses, including the Company.

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