



1933 INDUSTRIES INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended October 31, 2018

(All amounts expressed in Canadian Dollars unless otherwise noted)

The following Management's Discussion and Analysis ("MD&A") of the results of operations and financial condition of 1933 Industries Inc. (the "Company", or "1933"), prepared as at December 20, 2018, should be read in conjunction with the consolidated financial statements of the Company for the period ended October 31, 2018 and accompanying notes thereto. Amounts are expressed in Canadian dollars unless noted otherwise.

This MD&A has been prepared in accordance with the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding 1933 Industries Inc, as well as the Company's Annual Information Form ("AIF") for the year ended July 31, 2018, is available on the Company's website at www.1933Industries.com or through the SEDAR website at www.sedar.com.

Forward-Looking Statements

This MD&A contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or to achieve. Statements such as those about expected number of users of medical marijuana, the Company's ability to become a leader in the field of medical and/or adult use cannabis and the Company's ability to achieve profitability without further equity financing or at all are all forward looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied

by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of the MD&A. There can be no assurance that forward-looking 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 the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

Use of Non-IFRS Financial Performance Measures

The MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance. These non-IFRS measures do not have any standardized meaning, and therefore are unlikely to be comparable to the calculation of similar measures used by other companies, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Non-IFRS measures are defined and reconciled to the most direct IFRS measure. Please see the Non-IFRS Financial Performance Measures section of this document for more information. Non-IFRS financial performance measures used in our MD&A include EBITDA and adjusted EBITDA.

Management's Responsibility

Management is responsible for the preparation and fair representation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Brief Description of Current Business Overview

1933 Industries Inc. is a Canadian-based company that operates in the medical and recreational cannabis sectors in Nevada, Colorado and California, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as a (i) cultivation facility; and (ii) a production facility for edible, and marijuana-infused products. Infused Mfg ("Infused"), also a 91% -owned subsidiary of the Company, is focused on developing, acquiring and designing hemp and CBD-infused products and brands for retail sale and use in jurisdictions where permitted.

The Company's wholly-owned subsidiary, Spire Global Logistics is a leading provider of customized security programs, compliance, information technology, buildout design, and due diligence services for the legal cannabis, mining and investment sectors.

Outlook

Operations, Cultivation, Production and Distribution

AMA's business involves the growing of marijuana indoors through hydroponic processes for personal medicinal and recreational use. AMA began commercial production in April 2015 when

it was the first MME approved for cultivation in Southern Nevada. Its first crops were harvested, dried, packaged and sold in October 2015 and it has consistently produced marijuana on a commercial scale in Nevada since that time.

AMA has cost-effectively facilitated cultivation of monthly crops of approximately 100 pounds per month, including both marijuana flower and trim, in full compliance with all state and local regulatory authorities. AMA has designed and constructed 4 indoor purpose specific grow rooms, each of which are planted monthly, and harvested at 60 days. Construction is underway on a new 67,750 sq. ft. cultivation facility where the Company expects to cultivate approximately 800 - 900 lbs / month. The facility is expected to be complete in March 2019, at which point production will start immediately. Product sales will begin in June that year.

Market

Nevada's potential marijuana market remains difficult to estimate. Although Nevada's population is only roughly three million persons as of 2017, Nevada ranked second for population growth between 2016 and 2017 at two percent. The vast majority of Nevada residents reside in Clark County, the county in which Las Vegas is located, and in Washoe County, where Reno is located. Nevada is also host to nearly 42 million visitors each year. While the local market is relatively modest, the tourism market for cannabis is growing. Nevada dispensaries sold nearly \$425 million worth of recreational marijuana and pulled in nearly \$70 million in tax revenue in the state's first full year of sales. Las Vegas is in the process of investigating the efficacy of creating safe cannabis consumption places for consumers in a social setting.

Market Plans and Strategies

The Company's business model is based on servicing the existing Medical Marijuana patient base in Nevada and the new Recreational Marijuana consumers, including those who visit Las Vegas each year, by establishing an aggressive presence and image for its unique branded flower and extraction products as well as several third-party brands. As this branded image and reputation is established, the Company may license or acquire other marijuana businesses in other US States that have legalized Medical Marijuana and/or Recreational Marijuana to sell its specific brands that are focused on high quality marijuana specific products with recurring sales to a loyal and growing clientele.

The Company believes that constantly evolving regulatory environment for the production and distribution of Recreational Marijuana within the United States, and the dispensing of both Medical and Recreational Marijuana will be disruptive for both producers and consumers, transforming the current industry into one of commercial scale. Consumers that rely on Medical Marijuana as a form of medical treatment have been required to seek new sources of supply from a distinctly different type of supplier.

Like other Licensed Operators, the Company has developed a comprehensive media relations program to create visibility and awareness in the market for commercially grown marijuana. The Company believes that its success in this market has been achieved by offering on a broad range of quality products offered at competitive prices and delivered through outstanding client service under a well identified brand. Each strain of marijuana is unique, and the Company believes that carrying a consistent base of high-quality strains and cannabis products, including CBD-Infused Products and Hemp-based products, is essential to its long-term success. The Company currently

has over 100 different cannabis products including flower, pre-rolls and many forms of extracts. Each of these is being formulated and branded for potential licensed sales in other US States which allow marijuana sales.

Additionally, the Company has worked to maximize media coverage and public relations activities. Reaching potential customers through a strong online informational and educational presence and word of mouth will also be important. Indirect outreach through collaboration with key stakeholders has been undertaken to reach potential clients.

The Company has also entered into a small number of wholesale arrangements with Licensed Operators who grow and produce marijuana products in Nevada.

CBD-Infused Products Segment

Operations, Design and Production

In its CBD-Infused Products Segment, the Company, through Infused MFG., is focused on developing, designing and producing CBD-Infused Products and brands for retail sale and use in jurisdictions where permitted. As CBD-Infused Products for medicinal and/or recreational use are currently not legal in Canada, the CBD-Infused Products Segment is focused solely on the U.S. States, where permitted by law and regulation.

The Company intends to manufacture and distribute products under 3 distinct brands: CannaHemp; CannaHemp FS (Full Spectrum which includes natural CBD); and CannaFused. The Hemp-only products may be sold nationwide through various retailers including Amazon and other fulfillment centers under the company brand name of "CannaHemp" and "CannaHemp FS". In addition, subject to the Company's quality control and unique formulations, it licenses its brand of CBD-Infused Products in California and Colorado. Additional products will be specifically infused with CBD for stronger health benefits without any psychoactive effects. These will be marketed direct to consumers in legal channels which will include online, health food stores, vape storefronts and Retail Dispensaries under the company brand name of "CannaHemp". The third line of company products will include products with both CBD and THC concentrates. These will be blended in pre-determined ratios and will be distributed under the Company brand name of "CannaFused". These blended products are considered controlled substances and will only be distributed through legal Retail Dispensaries, which have specific contracts or licenses with the Company. The Company believes branding will be important and is focusing on developing brands that it believes will resonate with consumers

Market

The Company's CBD-Infused Products Segment is focused exclusively in the U.S. States. With the passage of the 2018 Farm Bill, currently awaiting President Trump's signature, industrial hemp and all products derived from industrial hemp will be federally legal and will be explicitly removed from the CSA. The Company is anticipating increased demand for CBD-Infused Products and is positioning itself to handle the increased demand with the launch of its industrial-hemp processing facility in Las Vegas. However, each U.S. State may implement limitations and licensing requirements regarding industrial hemp. Therefore, as the Company's business will be affected by both state and federal regulation governing the production and sale of its CBD-Infused

Products, the Company is actively monitoring developments to maintain compliance with applicable regulation, while maximizing opportunities for its CBD-Infused Products Segment.

Results of Operations

| | October 31, 2018 | October 31, 2017 |
|----------------------------------|------------------|------------------|
| Total revenue | \$ 4,616,812 | \$ 2,464,487 |
| Gross profit | 1,932,332 | 1,162,866 |
| Net loss | (3,046,665) | (570,695) |
| Comprehensive loss | (2,705,802) | (1,106,103) |
| Basic and diluted loss per share | (0.01) | (0.06) |

| | October 31, 2018 | July 31, 2018 |
|---------------------|------------------|---------------|
| Current assets | \$ 23,761,885 | \$ 13,398,978 |
| Total assets | 56,486,526 | 41,339,616 |
| Current liabilities | 4,066,715 | 2,391,088 |
| Total liabilities | 14,994,814 | 4,356,119 |

The company achieved record quarterly sales revenue of \$4,616,812, representing a 46% increase over the quarter ended October 31, 2017 when revenue totalled \$2,464,487, and an 18% increase over revenues of \$3,905,243 in the fourth quarter of 2018. The increase in wage expense relates to a having hired a larger team in Las Vegas to manage the increased sales and prepare for cultivation and production in a larger facility. The general and administrative costs of \$1,420,306 include an increase in marketing efforts to drive sales in California, applicable licenses and taxes, and increased travel to maintain relationships and identify strategic opportunities. Share-based compensation expense recognized during the period of \$1,382,691 (October 31, 2017 - \$120,888) related to options granted and vested during the period. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model. Share-based compensation is non-cash compensation that the company uses to incentivize employees and management, preserve its cash resources and to encourage growth

During the period, the company invested \$4,881,789 into the construction of the new 67,750 sq. ft. cultivation and production facility where the Company expects to cultivate approximately 800 - 900 lbs / month of flower.

Historical Quarterly Results

| | 2018 October 31 | 2018 July 31 | 2018 April 30 | 2018 January 31 |
|--|--------------------|-----------------|------------------|--------------------|
| Revenue \$ | 4,616,812 | 3,905,243 | 3,317,497 | 2,962,699 |
| Net Income/(Loss)\$ | (3,046,665) | (3,844,953) | (534,260) | (750,257) |
| Basic/Diluted Income/(Loss) Per Share \$ | (0.01) | (0.02) | (0.00) | (0.01) |
| Number of weighted Average shares | 232,353,593 | 192,470,497 | 177,813,101 | 149,932,833 |

| | 2017 October 31 | 2017 July 31 | 2017 April 30 | 2017 January 31 |
|--|--------------------|-----------------|------------------|--------------------|
| Revenue \$ | 2,464,487 | 1,030,297 | - | - |
| Net Income/(Loss)\$ | (599,582) | (1,842,291) | (545,987) | (239,089) |
| Basic/Diluted Income/(Loss) Per Share \$ | (0.00) | (0.04) | (0.01) | (0.01) |
| Number of weighted Average shares | 149,932,822 | 45,698,825 | 49,296,093 | 39,695,950 |

Liquidity and Capital Resources

The Company's objectives in managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, acquisition, organic growth and contractual obligations. The Company monitors its liquidity primarily by focusing on total liquid assets and working capital. The table below sets out relevant liquidity related financial information at October 31, 2018 and July 31, 2018:

| | October 31, 2018 | July 31, 2018 |
|------------------------------|------------------|---------------|
| Cash | \$ 15,165,630 | \$ 5,056,183 |
| Liquid assets (1) | 19,769,375 | 8,305,806 |
| Quick ratio (2) | 4.86 | 3.47 |
| Working capital (deficiency) | 19,695,170 | 11,007,890 |
| Working capital ratio (3) | 5.84 | 5.60 |
| Convertible debt | 10,928,099 | 1,965,031 |

(1) Liquid assets includes cash, receivables, and inventory

(2) Quick ratio is defined as liquid assets divided by current liabilities

(3) Working capital ratio is defined as current assets divided by current liabilities

1933 monitors its level of working capital and working capital ratio to assess its ability to enter into strategic opportunities such as equity investments, royalty financing arrangements, and providing start-up working capital to its existing and future business units. The level of working capital surplus has increased from \$11,007,890 to \$19,695,170 at October 31, 2018. This is largely the result of net proceeds raised from the issuance of convertible debentures of \$17,250,000. The company invested \$3,730,322 more into the construction of the new facility, and supported operating activities using cash of \$1,472,618.

While the Company has historically issued shares as a component of the consideration for acquisitions there can be no assurance that the Company will be able to continue to finance strategic opportunities via the issuance of shares or debt. Management will continue to monitor and assess its acquisition activities to ensure that operating requirements are met over the next twelve months.

The chart below highlights the Company's cash flows during the periods ended October 31, 2018 and 2017:

| Net cash provided by (used in) | October 31, 2018 | October 31, 2017 |
|---|-------------------------|-------------------------|
| Operating activities | \$ (1,472,618) | \$ (1,162,317) |
| Investing activities | (3,953,394) | (178,959) |
| Financing activities | 15,608,084 | 6,343,276 |
| Effect of exchange rate changes on cash | (72,625) | 36,511 |
| Cash, beginning | 5,056,183 | 598,641 |
| Cash, end | \$ 15,165,630 | \$ 5,637,152 |

Of the total \$23,750,000 million in convertible debenture units issued, \$7,848,997 had been converted to shares as at October 31, 2018.

As at October 31, 2018, the Company has issued various warrants and stock options as summarized below:

| Description of Security | Number* | Exercise Price | Proceeds if Exercised | Expiry Date |
|--------------------------------|----------------|-----------------------|------------------------------|--------------------|
| Warrants | 678,392 | \$0.30 | 203,518 | April 24, 2019 |
| Warrants | 2,559,003 | \$0.30 | 767,701 | May 17, 2019 |
| Warrants | 2,358,002 | \$0.30 | 707,401 | June 14, 2019 |
| Warrants | 8,402,000 | \$0.35 | 2,940,700 | August 16, 2019 |
| Warrants | 2,852,500 | \$0.25 | 713,125 | October 4, 2019 |
| Warrants | 38,329,500 | \$0.45 | 17,248,275 | September 21, 2021 |
| Stock Options | 237,500 | \$0.50 | 118,750 | November 14, 2020 |
| Stock Options | 37,500 | \$0.64 | 24,000 | January 8, 2021 |
| Stock Options | 8,635,330 | \$0.15 | 1,295,300 | June 13, 2022 |
| Stock Options | 1,300,000 | \$0.65 | 845,000 | February 15, 2023 |
| Stock Options | 8,925,000 | \$0.55 | 4,908,750 | October 5, 2021 |
| | 74,314,727 | \$ | 29,772,519 | |

*Stock options subject to vesting, see consolidated financial statements

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the stock options are determined by the Board of Directors.

The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the plan shall not be lower than the

exercise price permitted by the CSE, and all stock options granted under the plan will have a maximum term of five years.

Commitments and Contingencies

Commitments

In April 2014, AMA entered into a lease agreement for its current operating facility in central Las Vegas, Nevada. AMA amended the lease agreement in June 2015. The amended lease agreement is for a period of six years and nine months with an option to extend for an additional two years beginning in April 2014. Base rent ranges from \$4,000 to \$6,800 over the life of the lease agreement. The rent under the two-year option period, if exercised will be \$6,800. The amounts reflected include charges for common area maintenance.

Future required minimum lease payments on the facility are as follows (approximate):

| | |
|------|-----------|
| 2019 | \$97,000 |
| 2020 | \$100,000 |
| 2021 | \$104,000 |
| 2022 | \$105,000 |
| 2023 | \$105,000 |

Contingencies

On March 28, 2018, an arm's length third party commenced a claim against the Company's subsidiary, Alternative Medicine Associates ("AMA") seeking payment under an alleged joint venture arrangement between the parties for the extraction of cannabis oil and distillates by AMA from trim provided by the claimant for marketing and sale by the claimant under its own branding. AMA initiated a counterclaim as against the claimant for breaches of the alleged joint venture arrangement in failing, among other things to properly market the products produced. At this time, it is premature to assess the potential merits of the claim and counterclaim and the value of any damages associated therewith.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Dividends

No dividends have been declared or paid by the Company in any of the periods presented above. The Company does not anticipate declaring or paying any dividends on its Common Shares in the foreseeable future.

Instruments and Risk Management

Fair value of financial assets and liabilities

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

| | |
|----------|---|
| Level 1: | Unadjusted quoted prices in active markets for identical assets or liabilities, |
| Level 2: | Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: As prices) or indirectly (i.e.: derived from prices); and |
| Level 3: | Inputs that are not based on observable market data. |

The fair value of cash and restricted cash is measured using Level 1 inputs. The carrying values of receivables, accounts payable and accrued liabilities, notes payable, and due to related parties approximate their respective fair values due to the short-term nature of these instruments. The fair value of convertible debentures approximates fair value as it is discounted using a market rate of interest.

Market Risk

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at October 31, 2018, the Company had cash, restricted cash, receivables, accounts payable and accrued liabilities, and notes payable, denominated in United States dollars ("USD"). The Company does not undertake currency hedging activities to mitigate its foreign currency risk. The impact on the Company's profit or loss resulting from a 10% fluctuation in foreign exchange rates would be approximately \$478,000.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds cash in accounts with variable interest rates, and currently does not carry variable interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. It is management's opinion that the Company is not exposed to significant interest rate risk.

Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, and receivables. Cash in banks is held with reputable Canadian and the United States financial institutions, from which management believes the risk of loss is remote. Receivables include of amounts due from the Government of Canada in which management believes the credit risk to be minimal and trade receivables which the Company feels there is minimal risk of non-collection. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has been granted a license pursuant to the laws of the State of Nevada with respect to cultivating cannabis. Presently, this industry is illegal under United States federal law. The Company has, and intends, to adhere strictly to the state statutes in its operations.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, convertible debentures and income taxes payable, which have contractual maturities within one year, notes payable, and due to related parties, which have no fixed terms of repayment. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. The Company regards liquidity risk to be low as it has sufficient working capital to for at least the next twelve months.

Capital Risk Management

The Company defines capital as equity (deficiency). The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the years presented. The Company is not subject to externally imposed capital requirement.

Related Party Transactions

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Key management personnel compensation during the periods ended October 31, 2018 and 2017, were as follows:

| | October 31, 2018 | October 31, 2017 |
|--------------------------------|-------------------------|-------------------------|
| Management and consulting fees | \$ 267,060 | \$ 98,744 |
| Share-based compensation | 648,048 | 64,240 |
| | \$ 915,108 | \$ 162,984 |

Other related party transactions:

| | October 31, 2018 | October 31, 2017 |
|----------------------|------------------|------------------|
| Legal fees - expense | \$ 26,203 | \$ 126,213 |

Due to related parties:

| | October 31, 2018 | July 31, 2018 |
|---------------|------------------|---------------|
| Notes payable | - | 39,339 |

Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these consolidated financial statements is as follows:

Determination of functional currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, the Company determined its functional currency, and the functional currency of its subsidiaries to be the Canadian dollar. The Company makes judgements in defining the functional currency based on the economic substance of the transactions relevant to each entity.

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 take into account factors such as economic and market conditions and the useful lives of assets.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options and warrants granted/issued, the expected life of the option and warrants, the volatility of the value of the Company's common shares and the risk-free interest rate are used.

Business combination

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition.

Estimates are made as to the fair value of assets and liabilities acquired. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuers. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates. The Company measures all the 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 the 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 non-controlling interest in the acquiree 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.

Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Impairment of long-lived assets

Long-lived assets, including property and equipment, and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable

amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized.

Subsequent Events

The following transactions occurred subsequent to October 31, 2018:

- a) Issued 400,000 common shares upon the conversion of convertible debentures at a conversion price of \$0.25 per share. The conversion represented a reduction in principal value of \$100,000.
- b) Issued 50,000 common shares upon the exercise of warrants for gross proceeds of \$15,000.
- c) Issued 260,000 common shares upon the exercise of stock options for gross proceeds of \$39,000
- d) Issued 597,775 common shares upon the conversion of convertible debentures at a conversion price of \$0.45 per share. The conversion represented a reduction in principal value of \$268,999.

Proposed Transactions

The Company currently does not have any proposed transactions pending.

Outstanding Share Data

Details regarding the Company's capitalization as at the date hereof are as follows:

| | October 31, 2018 | Date of MD&A |
|--|------------------|---------------|
| Common shares issued and outstanding | 237,928,896 | 239,236,671 |
| Warrants outstanding | 55,179,397 | 55,129,397 |
| Stock options outstanding | 19,135,330 | 19,096,330 |
| Agent options outstanding | 3,089,678 | 3,089,678 |
| Convertible debentures outstanding - \$0.25 conversion | \$ 1,168,000 | \$ 1,068,000 |
| Convertible debentures outstanding - \$0.45 conversion | \$ 14,733,003 | \$ 14,464,004 |

New accounting policies

Effective August 1, 2018, the Company adopted the following accounting standards:

1) IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on August 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at August 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), with a single model under which financial assets are classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39. We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

| Financial Assets | IFRS 9 | IAS 39 |
|--|----------------|-----------------------------|
| Cash | FVTPL | FVTPL |
| Restricted cash | FVTPL | FVTPL |
| Accounts receivable | Amortized cost | Loans and receivables |
| Financial Liabilities | IFRS 9 | IAS 39 |
| Accounts payable and accrued liabilities | Amortized cost | Other financial liabilities |
| Convertible debt | Amortized cost | Other financial liabilities |
| Notes payable | Amortized cost | Other financial liabilities |

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest.

The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, did not have an impact on the carrying amounts of financial assets.

2) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard.

Recently Adopted Accounting Standards and Interpretation Issued but not yet adopted

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards ("IAS") Board or International Financial Reporting Standards Interpretation Committee ("IFRIC") that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 16 *Leases*: New standard to establish principles for recognition, measurement, presentation, and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting this standard.
- IFRIC 23: *Uncertainty over Income Tax Treatments*: This standard was issued by IASB on June 7, 2017 to clarify the accounting for uncertainties in income taxes. The

interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. IFRIC 23 is effective January 1, 2019. The Company is currently assessing the impact of this new standard on its financial statements.

Non-IFRS Financial Performance Measures

EBITDA AND ADJUSTED EBITA

EBITDA and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, our method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation. Accordingly, we caution readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities.

| | October 31, 2018 | October 31, 2017 |
|------------------------------|-----------------------|---------------------|
| Net loss for the year | \$ (3,046,665) | \$ (570,695) |
| Add (Subtract) | | |
| Interest expense | 196,356 | 142,710 |
| Accretion expense | 125,556 | 46,505 |
| Depreciation | 340,898 | 63,089 |
| Income tax expense | 143,319 | 62,515 |
| EBITDA | \$ (2,240,536) | \$ (255,876) |
| Share-based compensation | 1,382,691 | 120,888 |
| ADJUSTED EBITDA | \$ (857,845) | \$ (134,988) |

For the period ended October 31, 2018, the Company incurred an Adjusted EBITDA loss of \$857,845 compared to a loss of \$134,988 in the comparative period in 2017. The company is incurring costs associated with constructing a larger facility with increased capacity for cultivation and production. These costs are necessary to incur now in advance of generating revenue from the new larger capacity.

The Company believes that Adjusted EBITDA is a useful financial metric and is meaningful and useful to investors, analysts, and other stakeholders for measuring and predicting 1933's operating performance by excluding interest expense, income taxes, and depreciation as well as the following charges which are non-recurring or can highly fluctuating in nature:

- Share-based compensation is non-cash compensation that the company uses to incentivize employees and management, preserve its cash resources and to encourage growth
- Transaction costs represent non-recurring charges specific to financing items
- Shares issued for services which are non-recurring performance incentives

DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY

General

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – *Issuers with U.S. Marijuana-Related Activities* (“**CSA Notice 51-352**”), 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.

In accordance with CSA 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.

Use of Cannabis

Marijuana is a preparation of the leaves and flowering tops of cannabis sativa, which contains a number of pharmacologically active principles (cannabinoids). It is used for its euphoric properties and is considerably more potent when smoked and inhaled than when simply eaten.

Medical cannabis refers to the use of cannabis and its constituent cannabinoids, such as THC and CBD as medical therapy to aid in treating disease or alleviating symptoms. The cannabis plant has a history of medicinal use dating back thousands of years across many cultures.

Smoking cannabis is the most traditional form of ingestion and consists of smoking the dried flowers or leaves of the cannabis plant. Cannabis can be smoked through a pipe, rolled into a joint (or cigarette), or smoked using a water pipe (bong). Vaporizing involves using a vaporizer, which is a device that is able to extract the therapeutic ingredients in the cannabis plant material at a much lower temperature than required for burning. This allows user to inhale the active ingredients as a vapor instead of smoke. Many medical marijuana patients find that vaporizing offers an improved medical effectiveness, compared to smoking.

Topical cannabis medicines are applied directly to the skin or muscles. These medicines include lotions, salves, balms, sprays, oils, and creams. Some patients report they are effective for skin conditions like psoriasis, joint diseases like rheumatoid arthritis, migraines, restless leg syndrome, some spasms, and everyday muscle stress and soreness. Unlike smoking, vaporizing or eating cannabis, topical products that are typically low in THC and higher in CBD are generally non-psychoactive.

Nevada

Despite legal, regulatory and political obstacles, the U.S. cannabis industry continues to experience substantial growth. As reported by the State of Nevada's Department of Taxation, Nevada's first eleven months of recreational sales exceeded expectations, with over USD \$400 million in adult-use and medical combined sales. Additionally, for the first five months of 2018, Nevada has averaged over USD \$45.8 million per month. Nevada is projected by the Department of Taxation to remain a significant cannabis market in the U.S., largely due to the tourism industry.

Legal and Regulatory Matters

United States Federal Overview

In the United States, 32 states, Washington D.C. and Puerto Rico have legalized medical marijuana, while 10 states and Washington D.C. have also legalized adult-use marijuana. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the U.S. Controlled Substance Act of 1970 (the "CSA"). Under U.S. 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 remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

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

On January 4, 2018 the Cole Memorandum was rescinded by Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memorandum was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated.

Sessions also issued a one-page memorandum known as the "Sessions Memorandum." This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the

“deterrent effect of criminal prosecution,” and “the cumulative impact of particular crimes on the community.”

While the Sessions Memorandum does emphasize that marijuana is a Schedule I controlled substance, and states the statutory view that it is a “dangerous drug and that marijuana activity is a serious crime,” it does not otherwise guide U.S. Attorneys that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses.

U.S. federal law does not deal separately with CBD and THC and so there is a degree of uncertainty with respect to the legality of CBD-only products derived from industrial hemp grown in the United States.

A summary of the history and current status of regulation of hemp and cannabinoids in the US follows.

In 2014, Congress enacted the Agricultural Act of 2014 (the “2014 Farm Bill”) which provided for the cultivation of industrial hemp as part of agricultural pilot programs for adoption by individual states and research by educational institutions. Approximately 30 states implemented legislation pursuant to the 2014 Farm Bill, which include a variety of requirements relating to registration of cultivators and processors, the involvement of institutions of higher education and permissible commercialization.

In response, the DEA took action and seized shipments of viable hemp seeds into certain states thereby impacting the full implementation of the 2014 Farm Bill. Congress responded by enacting the Consolidated and Further Continuing Appropriations Act, 2015, which contained provisions to block federal law enforcement authorities from interfering with state agencies and hemp growers, and to counter efforts to obstruct agricultural research, stating that “none of the funds made available” to the US Justice Department and DEA “may be used in contravention” of the 2014 Farm Bill. Similar language was included in the 2016 Consolidated Appropriations Act, and as further support, the U.S. Department of Agriculture (“USDA”) was also blocked from prohibiting the transportation, processing, sale or use of industrial hemp that is grown or cultivated in accordance with the 2014 Farm Bill. This language was carried into the 2017 Consolidated Appropriations Act and also the most recent Consolidated Appropriations Act, 2018 which is in effect until September 30, 2018.

On August 12, 2016, the USDA, with the concurrence of DEA and the U.S. Food and Drug Administration (“FDA”), issued a Statement of Principles on Industrial Hemp with the stated purpose of informing the public on how federal law applies to activities involving industrial hemp that is grown and cultivated in accordance with the 2014 Farm Bill. It acknowledged that the Statement of Principles did not establish any binding legal requirements. The USDA attempted to clarify the scope of the 2014 Farm Bill including outlining which conduct was authorized pursuant to the 2014 Farm Bill. The Statement of Principles further outlined that it did not believe the 2014 Farm Bill provided for “general commercial activity.”

In December 2016, the DEA published the “Final Rule” to establish a definition for “marihuana extract”. In the Final Rule, “marihuana extract” was defined for the first time under U.S. law as “an extract containing one or more cannabinoids that has been derived from any plant of the genus Cannabis” and the DEA established a four-digit code for the tracking of “marihuana extract.” The DEA issued a memorandum to clarify the new drug code and claimed the rule is administrative in nature and helps the agency better track research and meet international drug treaty requirements. The memorandum stated that the new drug code was merely a subset of what has always been included in the CSA definition of marijuana. The implication was that that cannabinoids derived from marijuana or hemp were included as a Schedule 1 controlled substance and thus required a DEA permit.

There were questions raised as to whether the DEA had the legal authority to enact the Final Rule and the Final Rule was challenged by the Hemp Industries Association in the Ninth Circuit Court on the basis that the Final Rule unilaterally created a new drug code without following the proper administrative procedures. See *Hemp Industries Association, et al v. US DEA, et al*, Case No. 17-70162 (9th Cir. filed Jan. 13, 2017). In the DEA’s responding brief in the pending litigation on the Final Rule, the DEA conceded that it maintained no jurisdiction with regard to 2014 Farm Bill activities. Despite the DEA’s concession that it maintained no jurisdiction with regard to 2014 Farm Bill activities, in practice, there remained concern over the extent to which other federal, state and local agencies defer to the DEA’s earlier, negative position towards the 2014 Farm Bill in the Statement of Principles. Potential adverse impacts included limited, misguided enforcement by state and local authorities that might be confused by DEA’s conflicting interpretations of, and misrepresentations of the congressional intent behind, the 2014 Farm Bill hemp’s amendment.

On April 30, 2018, the Ninth District Court issued a memorandum pursuant to which the petition by the Hemp Industries Association was denied due to technical considerations, however, the Court did say that the industrial hemp provisions of the 2014 Farm Bill pre-empt the CSA.

Shortly after the Hemp Industries Association filed its petition blocking enforcement of the Final Rule, it filed another action seeking to direct the DEA to show cause why it should not be held in contempt for failure to comply with a 2004 order that permanently enjoined the DEA from regulating hemp fiber, stalk, sterilized seed and oil as a controlled substance. In 2003, the DEA issued two final rules: one that expanded the CSA Schedule 1 listing of synthetic THC to include THC “naturally contained in a plant of the genus Cannabis (cannabis plant), and a second that exempted hemp fiber, seed and oil products containing THC not intended for human consumption from control (the “2003 Rules”). The collective result of the 2003 Rules was to classify all naturally-occurring THC intended for human consumption as a Schedule 1 controlled substance. In 2004, the Hemp Industries Association was successful in obtaining an injunction from the Court of Appeals of the Ninth Circuit prohibiting the DEA from enforcing the 2003 Rules (with respect to non-psychoactive hemp or products containing it). See *Hemp Industries Association v. DEA Enforcement Admin.*, 357 F. 3d 1012 (9th Cir. 2004). However, the DEA never took action as a result of the injunction, including not amending its listing of THC in Schedule 1 of the CSA. Until December 2016, the DEA also did not appear to have taken any enforcement action under the enjoined regulation, until the North Dakota Department of Agriculture advised a state-licensed farmer/producer that a planned shipment of hempseed oil out of the state would require a DEA

registration, citing the federal CSA. This action prompted Hemp Industries Association to file a motion for contempt with the Court of Appeals of the Ninth Circuit for failing to comply with the 2004 injunction.

On May 25, 2018, the Hemp Industries Association reached a negotiated settlement with the DEA with respect to the longstanding legal action from 2004, to uphold the legality of consumption, manufacturing and sale of hemp food products. This settlement restrains further illegal attempts and actions by the DEA to regulate hemp foods as Schedule I drugs. As noted by the Hemp Industries Association in a press release issued June 8, 2018, significantly, the DEA issued an internal and external directive to federal agencies, with language agreed to by the parties, clarifying that the mere presence of cannabinoids does not render material a controlled substance—as the issue of whether a material constitutes a drug is rather in fact determined by whether the material is derived from the non-exempt parts of the plant. The Hemp Industries Association's hope is that this directive should provide clarity to federal agencies and minimize interference with the expanding flow of hemp commerce. This directive should also have an impact on certain states that have enacted similar Controlled Substance Acts which prohibit or narrowly restrict the distribution, sale, possession and/or use of any products containing even trace amounts of THC.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors – Risks Related to the Business of the Company".

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

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities

on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See “Risk Factors– Risks Related to the Business of the Company”.

Ability to Access Public and Private Capital

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (“FinCEN”) issued a memorandum on February 14, 2014 (the “FinCEN Memorandum”) outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“SAR”) in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution’s belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively.

On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the “**2014 Cole Memo**”) directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. With the issuance of the Sessions Memorandum, the 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum.

However, Attorney General Sessions’ revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it remains difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution.

In the U.S., a bill was tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance that it will be passed in its current form or at all. In June of 2018, both a congressional committee and a senate committee rejected the provisions which would have provided the necessary protections for banks and other financial institutions. In both Canada and the U.S., transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions, although such changes appear to be unlikely as a result of the current political climate in the U.S.

Currently, management expects to be able to transfer any funds owed to the Company by its subsidiaries into bank accounts held by the Company outside of the United States. However, given the regulatory uncertainty with respect to banking and cannabis in the United States, such ability to transfer may be eliminated and/or hampered at any time. In the foreseeable future, the Company expects any amounts payable by the Company from its subsidiaries to remain in the United States to fund the further development of its businesses. The Company may also consider future debt or equity financings.

Extension of the RBA

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the "**Rohrabacher-Blumenauer Amendment**" or the "**RBA**") 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. However, this measure does not protect adult use marijuana businesses. As part of the \$1.3 trillion federal spending bill enacted on March 23, 2018, the U.S. Congress renewed the Rohrabacher-Blumenauer Amendment through September 2018. The RBA is an appropriations rider with bipartisan support that prohibits the DOJ from using federal funds to prevent states from implementing Medical Marijuana laws. The U.S. Ninth Circuit in *United States v. McIntosh* held that the prohibition under the Rohrabacher-Blumenauer Amendment also prevents the DOJ from spending federal funds to prosecute individuals who are engaged in conduct that is permitted by, and in compliance with, state medical marijuana laws. This is the eleventh time the Rohrabacher-Blumenauer Amendment has been approved or renewed since its first passage in 2014.

Compliance with Federal Laws

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 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 the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or 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, including the cases where such possession is permitted by regulation.

Nevada State Level Overview

This section presents an overview of market and regulatory conditions for the marijuana industry in Nevada.

The Nevada Division of Public and Behavioral Health (the "Division") licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation ("DoT"). In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number

of dispensary licenses was then increased to 66 by legislative action in 2015. The application process was merit-based, competitive, and is currently closed.

Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada retail dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients. Under Nevada's adult-use marijuana law, the DoT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." (the "Department") For the first 18 months after adult-use legalization, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.

The issuance of retail marijuana distribution licenses has been subject to an ongoing legal battle after the DoT opened distribution licenses to existing medical marijuana establishments based on the premise that there was an insufficient number of applications from existing liquor distributors to service the new adult-use cannabis market. There are currently 24 licensed distributors that are medical marijuana establishments and six licensed distributors that are liquor distributors.

Medical and adult-use marijuana is subject to a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis is subject to an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

The DoT is responsible for licensing and regulating retail marijuana businesses and the medical marijuana program in Nevada. There are five types of retail marijuana establishment licenses:

- *Cultivation Facility* – Licenses to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- *Distributor* - Licenses to transport marijuana from a marijuana establishment to another marijuana establishment.
- *Product Manufacturing Facility* - Licenses to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers.
- *Testing Facility* - Licenses to test marijuana and marijuana products, including for potency and contaminants.

- *Retail Store* - Licenses to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

The regular retail marijuana program began in early 2018. The Regulation and Taxation of Marijuana Act specifies that, for the first 18 months of the program, only existing medical marijuana establishment certificate holders can apply for a retail marijuana establishment license. Beginning in November 2018, the DoT will open up the application process to those not holding a medical marijuana establishment certificate. The regular program will be governed by permanent regulations drafted by the DoT.

The Nevada Legislature passed Senate Bill 305 (“SB 305”), which adopted Section 7606 of the 2014 Farm Bill. SB 305 allows eligible persons or entities in Nevada to carry out research projects as part of the pilot program within the State of Nevada under the guidance of the Department of Agriculture.

SB 305 sets the basic parameters for hemp programs in Nevada. It defines industrial hemp as “the plant *Cannabis sativa* L. and any part of such plant, whether growing or not, with a THC concentration of not more than 0.3 percent on a dry weight basis.” SB 305 required all producers or handlers of hemp to register with the Nevada Department of Agriculture and gave the Department the authority to restrict or prohibit the production of CBD oil or products from legally grown industrial hemp plants.

Under SB 305, the Nevada Department of Agriculture was given regulatory authority over the industrial hemp program in Nevada. Including:

- Acting as seed handler, procuring and delivering seed;
- Enforcing regulations to ensure proper legality with cultivation activity;
- Performing inspections to maintain research credibility and hemp status; and
- Providing industry support to assist with sustainable growth and development.

Senate Bill 396 (“SB 396”) expanded the industrial hemp program in Nevada to include the production of hemp for commercial purposes. SB396 also provides for the regulated production of seeds at licensed hemp farms in Nevada. Under SB 396 the Department of Agriculture maintains regulatory authority over the industrial hemp program. SB 396 also allows for testing of industrial hemp at a Nevada independent testing laboratory (which is a licensed marijuana establishment) and also allows for a facility for the production of marijuana infused products and a marijuana dispensary to purchase industrial hemp from a grower or handler of industrial hemp.

California State Level Overview

This section presents an overview of the regulatory landscape for California’s industrial hemp and hemp-derived CBD products industry, in which Infused operates.

The California Industrial Hemp Farming Act (Senate Bill 566, Chapter 398, Statutes of 2013) (the "CIHFA") was intended to authorize the commercial production of industrial hemp in California and became effective on January 1, 2017, due to a provision in the Adult Use of Marijuana Act (Proposition 64, November 2016). As directed by CIHFA, the California Department of Food and Agriculture (the "CDFA") is developing a program to administer this law.

California's industrial hemp program has stagnated and failed to develop. A main reason is that, contrary to many other states, CIHFA did not create a pilot program for the production of industrial hemp, in compliance with the 2014 Farm Bill. Second, it did not allow for industrial hemp seed cultivators to apply for licensure unless they were certified on or before January 1, 2013. The result was very few licensed industrial hemp cultivators.

Senate Bill 1409 (SB 1409) was introduced in March 2018 and received a unanimous passing vote from committee just weeks ago. SB 1409 would fill in crucial missing pieces of California's existing industrial hemp laws. It would delete the exclusionary requirement that industrial hemp seed cultivars be certified on or before January 1, 2013. It would broaden the definition of industrial hemp in the California Uniform Controlled Substances Act. It would authorize the California Department of Agriculture to carry out an agricultural pilot program for industrial hemp.

The California Department of Public Health (the "CDPH") recently released an 'FAQ' on cannabidiol in food products in which it concludes the following, "[A]lthough California currently allows the manufacturing and sales of cannabis products (including edibles), the use of industrial hemp as the source of CBD to be added to food products is prohibited. Until the FDA rules that industrial hemp-derived CBD oil and CBD products can be used as a food or California makes a determination that they are safe to use for human and animal consumption, CBD products are not an approved food, food ingredient, food additive, or dietary supplement."

The FAQ further states that the following are not allowed in food in California: any CBD products derived from cannabis; any CBD products, including CBD oil derived from industrial hemp; hemp oil not derived from industrial hemp seeds, and industrial hemp seed oil enhanced with CBD or other cannabinoids. The FAQ also confirms that "there is no regulatory agency that provides oversight for the production of CBD oil from industrial hemp," but CDPH does have authority over food and dietary use products generally, and therefore, food products containing CBD oil are within its authority to regulate.

Cannabis products are outside the purview of the CDPH, and are solely regulated by Bureau of Cannabis Control (the "BCC"). But there remains confusion as what qualifies as a 'cannabis product' that is regulated under MAUCRSA, which places it out of the reach of the CDPH. The BCC allows retail marijuana stores to sell non-cannabis products, but it currently does not permit retail marijuana stores to sell stand along products infused with CBD oil derived from industrial hemp.

There is substantial uncertainty concerning California's industrial hemp industry, and products infused with CBD derived from industrial hemp. Infused has received no notices from the BCC

nor the CDPH regarding its products infused with CBD derived from industrial hemp. The Company is actively monitoring developments as it navigates to changing legal landscape.

U.S. Legal Advice

The Company believes it is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its U.S. counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. 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 or operations.

Regulatory Risks

The U.S. cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks, potentially affecting the Company may emerge. Management of the Company may not be able to predict all such risks or be able to predict how such risks may impact the Company's operations and actual results.

Participants in the U.S. cannabis industry will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or 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. 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 the Company's ability to conduct its 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 the Company's financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The U.S. cannabis 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 growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of the Company and which cannot be reliably predicted.

The Company expects to derive all, or substantially all, of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law. As a result of the conflicting views between the state and federal governments regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company expects to remain focused on operating in those U.S. states that have legalized the medical and/or adult-use of cannabis. Almost half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA.

As discussed above, the federal government of the U.S. has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use use marijuana even if state law has sanctioned such sale and disbursement. Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry.

Anti-Money Laundering Laws and Regulations

The Company is subject to a variety of laws and regulations in Canada and the U.S. 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 U.S. and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains federally illegal in the U.S. This may restrict the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its 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.

Ability to Access Private and Public Capital

The Company has historically relied on access to both public and private 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 despite the legal standing of cannabis businesses pursuant to U.S. federal laws, Canadian based issuers involved in the U.S. legal cannabis industry have been successful in raising substantial amounts of private and public financing. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. 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.

Canadian Securities Regulatory Matters

The Company's involvement in the U.S. cannabis industry may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It had been reported in Canada that the Canadian Depository for Securities Limited was considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("**CDS**"), refuse to settle trades for cannabis issuers that have investments in the U.S. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S., despite media reports to the contrary, and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**MOU**") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The 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 U.S.

The 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 U.S. 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 Shares to make and settle trades. In particular, the 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 the applicable stock exchange.

Heightened Scrutiny

For the reasons set forth above, the Company's activities in the U.S. may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result,

the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's activities in the U.S. or any other jurisdiction, in addition to those described herein.

Change in Laws, Regulations and Guidelines

The Company's proposed business operations will directly and indirectly be affected by a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also including laws and regulations relating to consumable products health and safety, the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations, which could require participants to incur substantial costs associated with compliance or alter certain aspects of its business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plans and result in a material adverse effect on certain aspects of its operations.

Unfavourable Publicity or Consumer Perception

The legal cannabis industry in the U.S. is at an early stage of its development. Cannabis has been, and will continue to be, a controlled substance for the foreseeable future. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). The Company's ability to gain and increase market acceptance of its business activities may require substantial expenditures on investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful and their failure may have an adverse effect on the Company.

Regulatory Issues related to CBD derived from industrial hemp

In 2014, the United States Congress passed the Agricultural Act, better known as the Farm Bill. As part of the Farm Bill, Congress excluded industrial hemp from the definition of marijuana under the CSA. As part of a recent settlement agreement with the hemp industry, the Drug Enforcement Administration has taken the position that only products produced solely from industrial hemp are legal but has also stated that the scientific literature indicates that CBD comes from the parts of the cannabis plant that are covered by the definition of marijuana.

The 2014 Farm Bill expired on September 30, 2018, which created uncertainty as to the federal government's intentions with industrial hemp and products derived from industrial hemp. However, in 2018 Congress introduced a new Farm Bill that includes a clarification that CBD derived from industrial hemp is excluded from the definition of marijuana under the CSA and is, therefore, federally legal. The 2018 Farm Bill has been approved by Congress and may be signed into law this week by President Trump. If President Trump veto's the 2018 Farm Bill, this clarification may be removed, and the DEA may start enforcement actions against manufacturers, processors and sellers of CBD derived from hemp, which would have a material adverse effect on the business of Infused.

RISK FACTORS

Holders of securities of the Company should carefully consider the following risk factors in addition to the other information contained in this MD&A. The risks and uncertainties below are not the only ones related to the Company. There are additional risks and uncertainties that the Company does not presently know of or that the Company currently considers immaterial which could become material, may also impair the Company's business operations. If any of the following risks actually occur, the Company's business may be harmed and its financial condition and results of operations may suffer significantly. Other risk factors are set forth in the Company's Financial Statements and AIF, which are incorporated by reference into this.

Risks Related to the Business of the Company

Risk Relating to the United States Regulatory System

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure or maintain all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's 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 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. 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 its ability to conduct business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future.

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.

This MD&A involves an entity that is expected to continue to derive a significant portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. Currently, the Company is directly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. **The enforcement of relevant laws is a significant risk.**

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

Risk of Heightened Scrutiny by Regulatory Authorities in Canada

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although the TMX MOU has confirmed 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. 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 Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the DTC for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Shares in the event of a CDS ban.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state

jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

Changes in Laws, Regulations and Guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To its knowledge, the Company is currently in compliance with such laws in all material respects. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

While the impact of the changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Company's operations that is materially different than the effect on similar-sized companies in the same business as the Company.

Local, state and federal laws and regulations governing marijuana for medicinal and recreational purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

Risks associated with the change in U.S. Administrations

As a result of the 2016 U.S. presidential election and the related change in political agenda, there continues to be uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as enforcement of the U.S. federal laws. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

Risks Concerning Banking

The U.S. federal prohibitions on the sale of marijuana may result in the Company and its partners being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company. Additionally, similar risks are associated with large amounts of cash at its business locations. These locations require heavy security with respect to holding and transport of cash.

The guidance provided in the FinCEN Memo may change depending on the position of the U.S. government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services.

In the event financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that the Company may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues. If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Product Liability, Operational Risk

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana and CBD infused products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and

could have a material adverse effect on the Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Should the Federal government legalize marijuana for medical or recreational use nation-wide, it is possible that the U.S. Food and Drug Administration ("FDA") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938. Additionally, the state of California has recently stated that it will only approve certain food related products for sale once approved by the FDA. The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical and adult use marijuana and CBD infused products. Clinical trials may be needed to verify efficacy and safety of the medical and adult use marijuana. It is also possible that the FDA would require that facilities where medical and adult use marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event any of these regulations are imposed, The Company cannot foresee the impact on its operations and economics. If the Company is unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency, the Company may be unable to continue to operate in its current form or at all.

Product Recall Risks

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by it or by licensed producers are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue due to a loss of and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has established procedures to test finished products (in connection with Nevada state requirements), there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will

attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition and results of operations.

Risks Inherent in an Agricultural Business

The Company's business will involve the growing of marijuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that its products will be grown indoors under climate-controlled conditions, carefully monitored by trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

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

Transportation Disruptions

Due to the perishable and premium nature of agricultural products, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Unfavorable Publicity or Consumer Perception

The Company believes the marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of marijuana products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the medical marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for medical marijuana products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or the

Company's products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Uninsurable Risks

The medical and adult use marijuana business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

The Company may not be able to accurately predict its future capital needs and it may not be able to secure additional financing.

The Company may need to raise significant additional funds in order to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing in order to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms, or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Threats from illegal drug dealers

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the United States, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized marijuana businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Reliance on Management

The success of the Company is currently dependent on the performance of its Chief Executive Officer and board of directors. The loss of the services of these persons would have a material adverse effect on the Company's business and prospects in the short term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early growth stage. There is a risk that the additional resources will be needed and milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- maintaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labor costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labor disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

Competitive Risks

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medical and adult use marijuana industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdictions increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client

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

Environmental and Employee Health and Safety Regulations

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

Difficulties in Forecasting

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in the U.S. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Holding Company

As a holding company with no material assets other than the stock of the Company's operating subsidiaries and intellectual property, nearly all of the Company's funds generated from operations will be generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally, specifically in the United States. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay the Company's dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Currency Fluctuations

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the United States using U.S. dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in U.S. dollars in its marijuana and CBD infused products segments. The depreciation of the Canadian Dollar against the U.S. Dollar could increase the actual capital and operating costs of the Company's U.S. operations and materially adversely affect the results presented in the Company's financial statements. Currency exchange fluctuations may also materially adversely affect the Company's future cash flow from operations, its results of operations, financial condition and prospects.

Enforcement of Legal Rights

In the event of a dispute arising from the Company's U.S. operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities provisions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain debt and equity financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Conflicts of Interest

Certain officers and directors of the Company are also officers and/or directors of other entities engaged in the cannabis industry generally. As a result, situations may arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors

and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

Success of Quality Control Systems

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service provider's) quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Company's business and operating results.

Inability to Renew Material Leases

The Company may be unable to renew or maintain its leases (commercial or real property) on commercially acceptable terms or at all. An inability to renew its leases, or a renewal of its leases with a rental rate higher than the prevailing rate under the applicable lease prior to expiration, may have an adverse impact on the Company's operations, including disruption of its operations or an increase in its cost of operations. In addition, in the event of non-renewal of any of the Company's leases, the Company may be unable to locate suitable replacement properties for its facilities or it may experience delays in relocation that could lead to a disruption in its operations. Any disruption in the Company's operations could have an adverse effect on its financial condition and results of operations.

Obtaining Insurance

Due to the Company's involvement in the cannabis industry, it may have a difficult time obtaining the various insurances that are desired to operate its business, which may expose the Company to additional risk and financial liability. Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive, because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurance coverage in the future, or that the cost will be affordable. If the Company is forced to go without such insurance coverage, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

Inability to Protect Intellectual Property

The Company's success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants,

service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Company's ability to successfully implement its business plan depends in part on its ability to maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Company's names and logos. If the Company's efforts to protect its intellectual property are inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs.