



AMERICAN ROOTS. GLOBAL GROWTH.

FRIDAY NIGHT INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE NINE MONTHS ENDED APRIL 30, 2018

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This management's discussion and analysis ("**MD&A**") discusses the activities and financial position of Friday Night Inc. (formerly QuikFlo Health Inc.) (the "**Company**") for the nine month period ended April 30, 2018. The following information should be read in conjunction with the consolidated financial statements of the Company for the period ended April 30, 2018 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

Additional information can be accessed through the System for Electronic Document Analysis and Retrieval ("**SEDAR**") website at [www.sedar.com](http://www.sedar.com), and the Company's website at [www.fridaynightinc.com](http://www.fridaynightinc.com).

All dollar amounts are expressed in Canadian currency unless otherwise stated.

**Date of Report – August 29, 2018 and presents material information up to this date.**

### **Forward-Looking Statements**

This MD&A may contain forward-looking statements relating to future events. In some cases, forward-looking statements can be identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "believe", or similar expressions. These forward-looking statements by their nature involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements, including the "Risks and Uncertainties" discussed in this MD&A. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company, may ultimately prove to be incorrect.

### **Brief Description of Current Business Overview**

Friday Night Inc. is a Canadian-based company that operates in the medical and recreational cannabis sectors in Nevada, 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 recently acquired 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**

The current priority for the Company is to complete construction on its new building so that it can increase cultivation. It has acquired the necessary land, received zoning approval and is currently constructing the building shell as tenant improvement plans for the interior are being finalized. Longer than expected regulatory approval times, coupled with design changes has stretched out its expected build time.

AMA has optimized production quantities from its current facilities, allowing it to focus on producing higher quality plants.

Infused Mfg has increased its product offering and both its top line sales and profits. It is currently contributing significantly to the Company's bottom line.

With the recent acquisition of Spire Secure Logistics, management feels it has acquired a business with significant cash flow potential that is not constrained by local government regulations but will still benefit from the growing cannabis sector.

The Company continues to look at various acquisitions to augment its current operations, both within and outside of Nevada. It had entered into a number of letters of intent that did not close as management determined that these acquisitions either did not meet its stringent specifications or the asking price was not justifiable.

### **SPIRE SECURE LOGISTICS INC. ACQUISITION**

Effective March 2, 2018, the Company acquired a 100% interest in Spire Secure Logistics Inc. ("Spire"), a private Canadian company (the "Combination"). Spire is a provider of security, due diligence and logistics services. Pursuant to the Combination the Company issued 7,692,308 common shares with a fair value of \$0.65 per share for total consideration of \$5,000,000 to the former shareholders of Spire;

The purchase price allocation was as follows:

|                             |                     |
|-----------------------------|---------------------|
| <b>Net assets acquired:</b> |                     |
| Cash                        | \$ 4,034            |
| Accounts receivable         | 24,581              |
| Notes payable               | (22,117)            |
| <b>Net assets acquired</b>  | <b>6,498</b>        |
| Goodwill (Note 10)          | 5,023,502           |
| <b>Total</b>                | <b>\$ 5,030,000</b> |

Goodwill arose from the Combination because the consideration paid for the Combination reflected the benefit of expected revenue, future market development, and the assembled work forces of Spire. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the Combination is expected to be deductible for tax purposes.

### **Issued common shares**

During the three month period ended April 30, 2018, the Company issued common shares as follows:

a) 1,416,666 common shares were issued upon the exercise of stock options at an exercise price of \$0.15 per share, for total proceeds of \$212,500.

b) 3,867,052 common shares were issued upon the exercise of warrants at exercise prices of \$0.30 and 0.35 per share, for total proceeds of \$1,259,058.

c) 7,692,308 common shares were issued upon the acquisition of Spire at a fair market value of \$5,000,000;

d) 2,752,000 common shares were issued upon the conversion of convertible debentures at a price of \$0.25 per share, for a total value of \$688,000.

The following transactions were entered subsequent to April 30, 2018:

- a) The Company acquired a 12,160 square ft building adjacent to its future cultivation facility for US\$ 2,250,000;
- b) The Company repaid notes payable and accrued interest to a former related party in the amount of US\$ 600,000; and
- c) The Company entered into an exclusive license and option to purchase agreement with a third party to divest its stroke technology.

## Results of Operations/Selected Information

|   | 9 Months Ended<br>Apr 30, 2018 | 9 Months Ended Apr<br>30, 2017 |
|---|--------------------------------|--------------------------------|
| <b>GROSS REVENUE</b>                      | <b>\$ 8,744,683</b>            | <b>\$ -</b>                    |
| <b>LESS: COST OF SALES</b>                | <b><u>(4,568,027)</u></b>      | <b>-</b>                       |
| <b>GROSS MARGIN</b>                       | <b>4,176,656</b>               | <b>-</b>                       |
| <b>EXPENSES</b>                           |                                | <b>-</b>                       |
| Depreciation & Accretion                  | 304,542                        | -                              |
| General and administrative expenses       | 1,405,063                      | 79,064                         |
| Filing fees and shareholder communication | 210,779                        | 3,329                          |
| Interest expense                          | 393,218                        | -                              |
| Professional fees                         | 1,433,327                      | 434,800                        |
| Management and consulting fees            | 888,038                        | 379,273                        |
| Share-based payments                      | 522,330                        | (182,925)                      |
| Transaction costs                         | -                              | 8,056                          |
| Foreign exchange                          | (29,516)                       | -                              |
| Wages and benefits                        | 869,804                        | -                              |
| Income tax expense                        | 63,170                         | -                              |
| <b>Net loss for the period</b>            | <b>\$ 1,884,099</b>            | <b>\$ 721,597</b>              |
| Basic and diluted loss per share          | <b>\$ 0.01</b>                 | <b>\$ 0.03</b>                 |

For the nine months ended April 30, 2018, the Company incurred a net loss of \$1,884,099 or \$0.01 per share. (Nine months ended April 30, 2017 - \$721,597 or \$0.03 per share).

The overall higher management and consulting expenditures incurred in the nine month period ended April 30, 2018, were due to costs incurred towards completion of the Acquisition, and investigating and reviewing various potential business opportunities, some of which are no longer under consideration, and additional specific costs incurred in the Nevada operations acquisition transactions.

### Liquidity and Capital Resources

As at April 30, 2018, the Company had working capital of \$15,683,274. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At April 30, 2018, the Company had a cash balance of \$13,098,874.

### Selected Quarterly Financial Information

A summary of selected financial information for the periods indicated follows:

**Net Revenue and Net Income (Loss) for the last eight quarters:**

|   | 2018 Apr<br>30 | 2018<br>Jan. 31 | 2017<br>Oct. 31 | 2017<br>Jul. 31 | 2017<br>Apr. 30 | 2016<br>Jan. 31 | 2016<br>Oct. 31 | 2016<br>Jul. 31 |
|---|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue \$  | 3,317,497      | 2,962,699       | 2,464,487       | 1,030,297       | -               | -               | -               | -               |
| Net<br>Income/(Loss)<br>\$                                | (534,260)      | (750,257)       | (599,582)       | (1,842,291)     | (545,987)       | (239,089)       | (113,290)       | (2,721,2208)    |
| Basic/Diluted<br>Income/(Loss)<br>Per Share \$            | 0.01           | (0.00)          | (0.00)          | (0.00)          | (0.00)          | (0.00)          | (0.00)          | (0.07)          |
| Number of<br>weighted<br>Average<br>shares<br>Outstanding | 222,458,671    | 149,932,833     | 149,932,833     | 45,698,825      | 49,296,093      | 39,695,950      | 39,695,950      | 39,377,200      |

**THIRD QUARTER DISCUSSION**

Infused has increased its product offering and both its top line sales and profits. It is currently contributing significantly to the Company's bottom line. During the third quarter, Infused introduced a new vertical in the action sports industry and signed a one-year licensing agreement and partnership with professional skateboarder and Grizzly Griptape LLC. founder Tory Pudwill, to promote Canna Hemp's "Canna Hemp X", a CBD-infused recovery cream, targeting the rapidly growing recovery market.

Spire has achieved traction in a number of industries, geographies, and service lines and is providing strategic advice and expertise to a Canadian provincial government for the design and implementation of security programs and infrastructure for the legal distribution and sale of cannabis. Management feels that Spire is a strategic acquisition with significant cash flow potential that is not constrained by local government regulations but will still benefit from the growing cannabis sector.

The Company is focused on strengthening and expanding its current cannabis operations in Nevada, and is pursuing its growth strategy in the United States, while also evaluating opportunities in Canada and internationally. AMA is scaling up operations in Las Vegas through the expansion of both its cultivation and production space. The Company received approval from the Clark County Zoning Commission in Nevada for its building redesign from a one story, 33,000 sq. ft. facility to a two story, 67,750 sq. ft. facility for cannabis cultivation on 1.4 acres in an M-1 (Light Manufacturing) (APZ-1) (AE-75) Zone. The new facility, when completed, will significantly increase flower cultivation to support AMA's own line of cannabis-based products and white-label extraction in the State of Nevada. The Company anticipates that the construction of this new facility will be completed by end of Q2 2019. AMA has optimized production quantities from its current facilities, allowing it to focus on producing higher quality plants.

Infused has expanded its proprietary, hemp-based, CBD-infused Canna Hemp™ line and its products are now selling in licensed shops and retail outlets in the State of California, which is estimated to become one of the largest cannabis markets in the world, and where adult-use cannabis sales began in January of 2018. Infused will focus on penetrating new states, such as Colorado, which represents the most mature legalized cannabis market in the United States.

Spire will continue to provide consulting services in support of strategic policy analysis and development for domestic and international governments, while also focusing on private and public sector risk management and due diligence, physical security and force protection in a number of industries.

The Nevada operations were only acquired June 15th, 2017 when the Company changed its name and business identity. The quick turn-around of revenue is attributable to two main factors. Firstly, the Nevada operations had already been active with medicinal cannabis. Secondly, on July 1, 2017 the Nevada state laws changed legalizing recreational cannabis sales which increased sales dramatically. The Company's management is confident in future gross sales growth in the medicinal and recreational sectors within the state.

### **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.

### **Commitments and Contingencies**

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):

|      |           |
|------|-----------|
| 2018 | \$92,000  |
| 2019 | \$97,000  |
| 2020 | \$100,000 |
| 2021 | \$104,000 |
| 2022 | \$105,000 |

### **Significant accounting judgments and use of estimates**

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 payments*

In calculating the share-based payments 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.

### **Recently adopted accounting standards and interpretations issued but 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 9 *Financial Instruments*: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing all applicable disclosure requirements to ensure compliance. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements. The impact will be limited to changes in disclosures.
- IFRS 15 *Revenue from Contracts with Customers*: New standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15

Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue — Barter Transactions Involving Advertising Services, effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements as it does not presently earn revenues from sales of products involving multiple deliverables.

- 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.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

### Proposed transactions

The Company currently does not have any proposed transactions pending.

### Management’s responsibility for the financial statements

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.

### 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 quarters ended April 30, 2018 and 2017, were as follows:

|                                  | April 30, 2018 | April 30, 2017 |
|----------------------------------|----------------|----------------|
| Management and consulting fees   | \$ 438,137     | \$ 373,867     |
| Share-based payments             | 192,720        | -              |
| Interest expense – notes payable | 77,583         | (183,925)      |
| Total                            | \$ 708,440     | \$ 189,942     |

### Other related party transactions:

|                                   | April 30, 2018 | April 30, 2017 |
|-----------------------------------|----------------|----------------|
| Legal fees – expenses             | \$ 372,549     | \$ 80,034      |
| Legal fees – acquisition of Spire | 30,000         | -              |
| Total                             | \$ 402,549     | \$ 80,034      |



**Due to related parties:**

|   | <b>April 30, 2018</b> | <b>July 31, 2017</b> |
|---|-----------------------|----------------------|
| Legal fees – accounts payable and accrued liabilities | \$ -                  | \$ 428,463           |
| Notes payable   | 808,925               | 811,195              |

**Outstanding Share Data**

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

|  |             |
|--|-------------|
| Common shares issued and outstanding                                   | 230,719,060 |
| Warrants outstanding   | 13,574,932  |
| Stock options issued to directors, employees, officers and consultants | 10,493,333  |
| Convertible Debentures outstanding                                     | \$1,831,500 |

**CAPITAL RISK MANAGEMENT**

The Company defines capital as equity. 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.

**DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY**

**While some states in the United States have authorized the use and sale of marijuana, it remains illegal under federal law and the approach to enforcement of U.S. federal laws against marijuana is subject to change. Because the Company engages in marijuana-related activities in the United States, it assumes certain risks due to conflicting state and federal laws. The federal law relating to marijuana could be enforced at any time and this would put the Company at risk of being prosecuted and having its assets seized.**

**On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to United States district attorneys (the "Sessions Memorandum") which rescinded previous guidance from the United States Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, United States federal prosecutors no longer have guidance relating to the exercise of their discretion in determining whether to prosecute cannabis related violations of United States federal law. In response to the Sessions Memorandum, on April 13, 2018, the United States President Donald Trump promised Colorado Senator Cory Gardner that he will support efforts to protect states that have legalized marijuana. Nevertheless, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to cannabis could cause**

**significant financial damage to the Company. The Company may be irreparably harmed by a change in enforcement policies of the federal government depending on the nature of such change.**

**Given the current illegality of marijuana under United States federal law, the Company's ability to access both public and private capital may be hindered by the fact that certain financial institutions are regulated by the United States federal government and are thus prohibited from providing financing to companies engaged in marijuana related activities. The Company's ability to access public capital markets in the United States is directly hindered as a result. The Company may, however, be able to access public and private capital markets in Canada in order to support continuing operations.**

**For more information regarding the foregoing and the other risk factors applicable in respect of an investment in the Company, please see "*Description of the U.S. Legal Cannabis Industry*" and "*Risk Factors*".**

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, the hemp plant, 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 tetrahydrocannabinol ("**THC**") and cannabidiol ("**CBD**"), as medical therapy to treat disease or alleviate 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 encompasses herbal medicines that are applied directly to the skin or muscles. They 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 which 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. Nevada has one of the first states to legalize adult-use cannabis and is projected to

remain a significant market in the U.S., largely due to the tourism industry. Estimated in-state adult-use sales totaled approximately USD \$200 million in the first six months following legalisation on July 1, 2017.

## Legal and Regulatory Matters

### *United States Federal Overview*

In the U.S., 29 states and Washington D.C. have legalized medical marijuana, while nine 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, 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.

While technically 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.

However, on January 4, 2018 the Cole Memorandum was revoked 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. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. In Nevada, the U.S. Attorney has yet to make any comments regarding the revocation of the Cole Memorandum or indicate any changes to enforcement priorities.

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum, a nationwide "crackdown" is unlikely. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump administration. It is also possible that the rescission of the Cole Memorandum could motivate Congress to finally reconcile federal and state laws. Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal

government of the U.S. has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

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. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

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. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. 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 is 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 has been 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 with that it will be passed in its current form or at all. 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 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") 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 Recreational 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 Amendment is an appropriations rider with bipartisan support

that prohibits the Justice Department from using federal funds to prevent states from implementing Medical Marijuana laws. The Ninth Circuit in *United States v. McIntosh* held that the prohibition under the Rohrabacher-Blumenauer Amendment also prevents the Justice Department 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.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow. It was anticipated that the federal government would eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and

Given current political trends, however, these developments are considered unlikely in the near-term. 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 licensing 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 in place to ensure that revenue is distributed to criminal enterprises, gangs or cartels;
- Implement adequate inventory tracking system and necessary procedures in place 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, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company 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 the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products

#### *Nevada State Level Overview*

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the

legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health (the "Division") licensed medical marijuana establishments 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 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 adultuse marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months after 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 adultuse cannabis market. There are currently 24 licensed distributors that are medical marijuana establishments and six licensed distributors that are liquor distributors. 15 In February 2017, the DoT announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses expire at the end of the year and, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana. All cannabis cultivated and infused products produced under the adult-use program that were not existing inventory at a medical marijuana dispensary must be transported to retail marijuana stores utilizing a licensed retail marijuana distributor. Starting on July 1, 2017, medical and adult-use marijuana became 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 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.

#### *U.S. Legal Advice*

The Company 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 Issuer is not aware of the receipt by of any of its U.S. based subsidiaries of noncompliance orders, citations or notices of violation, that may have an impact on such entities licences, business activities or operations.

#### **Regulatory Risks**

The U.S. cannabis industry 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 impact on 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 16 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 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 Friday Night'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 most of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law (other than its business related to high CBD/low THC products, known as "hemp"). As a result of the conflicting views between state legislatures and the federal government regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company is expected to remain focused 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. 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 sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened by the revocation of the Cole Memorandum in January 2018.

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

#### *Nature of the Company's Involvement in the U.S. Cannabis Industry*

Through its 91 percent owned indirect subsidiaries AMA and Infused Mfg., the Company will have a material direct involvement in the cannabis industry in Nevada. Currently, the Company is directly engaged in the cultivation, manufacture, possession, use, sale and distribution of cannabis in the medical and adult-use cannabis marketplace in Nevada. Approximately 60% of the Company's assets and revenues are directly attributable to the medical and adult-use cannabis market in Nevada. Through its 17 subsidiaries AMA and Infused Mfg., the Company holds both cultivation and production licenses for the State of Nevada.

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, the listing of its securities on any stock exchange, 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.

The Company's involvement in the U.S. cannabis industry will be (i) only in those states that have enacted laws legalizing cannabis; and (ii) only in those state's where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

In addition, the Company will continue to ensure, that AMA and Infused Mfg. are in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada, either by way of a review of such entities licenses or affirmation certifications from management.

The Company will continue to monitor, evaluate and re-assess the regulatory framework in each state in which it may hold license, and the federal laws applicable thereto, on an ongoing basis; and will update its



continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the U.S.

#### *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 illegal federally 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 Common 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 entirely 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 has been reported in Canada that the Canadian Depository for Securities Limited is 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. 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.

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 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 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 19 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 cannabis use 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.

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.

### ***Regulatory Risks***

The activities and biomedical products of the Company are subject to regulation by governmental authorities, including, the U.S. Food and Drug Administration, and others. 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 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.

### ***Limited Operating History***

The Company is subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

*The Company has a history of net losses, may incur significant net losses in the future and may not achieve or maintain profitability.*

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

### ***Reliance on Management***

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

### ***Additional Financing***

The building and operation of production facilities and businesses are capital intensive. In order to execute the anticipated growth strategy, the Company will require some additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

### ***The cannabis industries are highly competitive***

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

### ***Product Liability***

As a manufacturer and distributor of biomedical products, the Company will face 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. The Company may be subject to various product liability claims, including, among others, that its products caused injury or illness, include inadequate instructions for use or include inadequate warnings. 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. 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's potential products.

### ***Product Recalls***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company intends to have detailed procedures in place for testing finished products, there can be no assurance that any problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of the 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 regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### ***Dependence on Suppliers and Skilled Labour***

The ability to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

### ***Operating Risk and Insurance Coverage***

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

### ***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 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 to deal with this growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

### ***Conflicts of Interest***

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

### ***Litigation***

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect its ability to continue operating. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

### ***The market price of the Common Shares may be subject to wide price fluctuations***

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in operating results, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

### ***Dividends***

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

### ***Limited Market for Securities***

There can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

## Financial instruments and risk management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

### Fair values

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.

The Company's exposures and the impact on its financial instruments are summarized below:

### 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 April 30, 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.

### 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 April 30, 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 \$540,000.

### **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.