



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Period Ended December 31, 2018

Date: May 31, 2019

This Management's Discussion and Analysis ("MD&A") reports on the financial condition and results of operations of DionyMed Brands Inc. ("DionyMed Brands" or the "Company") for the fiscal period from March 1, 2018 to December 31, 2018. This MD&A should be read in conjunction with the Company's audited financial statements for the fiscal period from March 1, 2018 to December 31, 2018 (the "Financial Statements"), including the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Company's financial statements and other disclosure documents, including the Company's Annual Information Form for the period ended December 31, 2018, dated May 31, 2019, are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") under the Company's issuer profile at www.sedar.com and on the Company's website at www.dionymed.com. The subordinate voting shares of the Company are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "DYME", and on the OTCQB Venture Market under the symbol "DYMEF".

Unless otherwise indicated, all financial information in this MD&A is reported in United States dollars ("\$" or "US\$"), except share amounts or as otherwise indicated. Certain totals, subtotals and percentages may not reconcile due to rounding. This MD&A was prepared with reference to National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

This MD&A contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under "Cautionary Note Regarding Forward-Looking Statements". As a result of many factors, the Company's actual results may differ materially from those anticipated in these forward-looking statements and information.

CAUTIONARY NOTE REGARDING CERTAIN MEASURES OF PERFORMANCE

This MD&A presents certain measures that are not recognized measures and do not have any standardized meaning under IFRS. This data may not be comparable to data presented by other entities. Specifically, the Company presents Adjusted EBITDA. For a reconciliation of Adjusted EBITDA to the most directly comparable financial information presented in the Financial Statements prepared in accordance with IFRS, see "Adjusted EBITDA" in this MD&A.

The Company believes that Adjusted EBITDA is a realistic indicator of operating performance and is useful in performing year-over-year comparisons. However, this non-IFRS financial measure should be viewed as a supplement to, and not a substitute for, the Company's results of operations reported under IFRS.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws and United States securities laws, concerning the business, operations and financial performance and condition of the Company. Forward-looking information includes, but is not limited to, statements relating to:

- the Company's expectations regarding legislation, regulations and licensing related to the cannabis market and products;
- the future size of, or future growth rate of, any particular market or market segment;
- the ability to enter and participate in international market opportunities;
- the Company's expectations with respect to the Company's future financial and operating performance;
- the Company's expectations with respect to future performance, the Company's business plan, results and terms of strategic initiatives, and strategic agreements;
- future corporate development, including the items set out in the "Outlook" section;
- expectations with respect to future expenditures and capital activities; and
- statements about expected use of proceeds from fundraising activities.

Generally, this forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (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 “be achieved”. Forward-looking information is 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; including, but not limited to: the ability to complete the transaction with Pioneer Valley Extracts, LLC on favorable terms or at all, the ability to leverage the strategic partnership with Acres Cannabis in order to access the Nevada market, the ability to draw future commitments under the Inventory Finance Facility, the ability to make repayments under the Inventory Finance Facility and Early Draw Facility, the ability to complete the transaction with MM Esperanza 2 LLC on favorable terms or at all, the ability to exercise the option to acquire Waterside on favorable terms or at all, the ability to acquire Virginia’s Kitchen, LLC d/b/a Blue Kudu on favorable terms or at all, the completion of amendments to logistics and distribution services contracts on terms described herein or at all, the market for home delivery maintaining the same level of growth in California, the Company being able to obtain profits from Hometown Heart under the management services agreement, the revenue from Hometown Heart continuing on its current trajectory, Hometown Heart maintaining its market share in the cannabis industry in California, the Company maintaining its market share in the cannabis industry in which it operates, the Company’s expectations for initiatives in U.S. markets outside of those already within the Company’s platform, the Company’s expectations with respect to raising additional capital, and the Company’s ability to continue as a going concern. Forward-looking information involves 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 information. Such factors include, but are not limited to, the factors discussed in the section entitled “Risks Factors” herein and in the Canadian Securities Exchange Listing Statement in respect of the listing of the Company’s subordinate voting shares filed on the Company’s profile on SEDAR, the inability to complete the transaction with Pioneer Valley Extracts, LLC on favorable terms or at all, the inability to leverage the strategic partnership with Acres Cannabis in order to access the Nevada market, the inability to draw down or secure future commitments under the Inventory Finance Facility, the inability to make repayments under the Inventory Finance Facility and Earl Draw Facility, the inability to complete the transaction with MM Esperanza 2 LLC on favorable terms or at all, the inability to exercise the option to acquire waterside on favorable terms or at all, the inability to acquire Virginia’s Kitchen, LLC d/b/a Blue Kudu on favorable terms or at all, the inability to complete amendments to logistics and distribution services contracts on terms described herein or at all, material changes in the market for home delivery in California, the Company not being able to obtain profits from Hometown Heart under the management services agreement, the revenue from Hometown Heart deviating materially from its current trajectory, Hometown Heart losing significant market share in the cannabis industry in California, and the Company losing significant market share in the cannabis industry in which it operates, the Company not being able to raise additional capital, and the Company’s inability to continue as a going concern. 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 information, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated, or intended. There can be no assurance that forward-looking information 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 information. Forward-looking information contained herein is given as of the date of the MD&A. The Company does not undertake to update any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.



CANNABIS BRANDS AT SCALE

GENERAL

Overview and History

DionyMed Brands and its subsidiaries (“**DionyMed Group**” or “**DionyMed**”) operate a multi-state, cannabis brands, distribution and direct-to-consumer delivery platform.

DionyMed has two primary revenue streams: Distribution and Direct-to-Consumer. DionyMed generates Distribution revenue by selling a portfolio of wholly-owned and third-party brands to over 850 retail dispensaries in California, Oregon, Nevada and Massachusetts. DionyMed generates Direct-to-Consumer revenue by selling products online and delivering directly to customers through its website Chill (www.orderchill.com), as well as provides fulfillment services on behalf of other partner websites. Chill includes both wholly-owned and third-party products.

As used herein, “DionyMed Group,” “we,” “our,” and similar terms include DionyMed Brands and its subsidiaries, unless the context indicates otherwise.

DionyMed Holdings Inc. (“**DionyMed Holdings**”) was incorporated on January 11, 2018 under the Canada Business Corporations Act. On November 28, 2018, DionyMed Holdings closed a reverse takeover transaction (the “**Transaction**”) with Sixonine Ventures Corp., a public company trading on the NEX Board of the TSX Venture Exchange. In connection with the Transaction, Sixonine Ventures Corp. changed its name to “DionyMed Brands Inc.” (“**DionyMed Brands**” or the “**Company**”) and consolidated its common shares on an 8.43295184 old to 1 new basis.

To effect the Transaction, DionyMed Holdings amalgamated with 1180820 B.C. Ltd., a wholly-owned subsidiary of Sixonine Ventures Corp., which was formed solely for the purpose of facilitating the Transaction. Pursuant to this amalgamation, the shareholders of DionyMed Holdings received one subordinate voting share, one series A multiple/subordinate voting share, or one series F multiple voting share, as applicable, of DionyMed Brands for each common share, series A share or series F share of DionyMed Holdings registered in the name of such shareholders. Holders of DionyMed Holdings’ options and warrants (including all holders of Units) outstanding at the time of closing of the Transaction also received equivalent instruments of DionyMed Brands’ exercisable for, or convertible into, DionyMed Brands’ subordinate voting shares. As part of the Transaction, the corporation resulting from the amalgamation of DionyMed Holdings and 1180820 B.C. Ltd. was amalgamated with DionyMed Brands Inc.

Following closing of the Transaction, DionyMed Brands had 12,932,388 subordinate voting shares, 31,353 series A multiple/subordinate voting shares, and 6,598 series F multiple voting shares issued and outstanding. The series A multiple/subordinate voting shares and series F multiple voting shares are “compressed”. The 31,353 series A multiple/subordinate voting shares can be converted into 100 subordinate voting shares per series A multiple/subordinate voting share, equating to 3,135,300 subordinate voting share equivalents. The series F multiple voting shares can be converted into 5,000 subordinate voting shares per series F multiple voting share, equating to 32,990,000 subordinate voting share equivalents. DionyMed Brands also had convertible debentures convertible into 8,825,242 subordinate voting share equivalents and 8,825,242 warrants exercisable for 8,825,242 subordinate voting share equivalents at a conversion price of C\$2.06. In addition, an aggregate 20,766,130 subordinate voting share equivalents of the Company were reserved for issuance upon exercise of outstanding options, warrants, broker warrants, and upon conversion of outstanding convertible debentures. Therefore, as of November 30, 2018, on a fully diluted basis there were 84,929,588 subordinate voting share equivalents issued and outstanding.

The subordinate voting shares were approved for listing on the Canadian Securities Exchange (the "CSE") on November 28, 2018 and commenced trading under the symbol "DYME" on November 29, 2018.

Effective upon the closing of the Transaction, as a result of the reverse takeover of the Company by the shareholders of DionyMed Holdings and to align the financial years of DionyMed Holdings to that of the Company, the financial year of DionyMed Holdings has been changed from February 28 of each year to December 31 of each year.

The Company's registered office is located at 40 King Street West, Suite #2100, Toronto, ON M5H 3C2.

Recent Developments - Fiscal Period Ended December 31, 2018

Business Combination with Companies under Common Control

On February 28, 2018, DionyMed Holdings completed the acquisition of all issued and outstanding equity interests of entities under common control: DionyMed Inc. and Herban Industries, Inc. (and its subsidiaries) through a share exchange and contribution arrangement. (See Note 4 to the Financial Statements and Note 5 to the Financial Statements for analysis of the Company's interest in DionyMed Inc. and Herban Industries Inc.)

Acquisition of Assets from Rise Brands, Inc.

On June 14, 2018, DionyMed Holdings, through Herban Industries CA LLC, acquired certain assets from Rise Brands, Inc. dba Rise Logistics ("**Rise**") to contribute to the growth of the Company's logistics management and technological infrastructure for distributing cannabis products. The transaction was completed for a total purchase price of \$8,000,000 plus a \$4,000,000 earn-out, which will be paid subject to the Rise assets achieving certain performance metrics. To date, the initial \$5,625,000 and one earnout payment of \$666,666 have been paid by way of cash and 1,486,418 subordinate voting shares to the principals of Rise for the acquisition.

Series B Convertible Debenture Private Placement

Between June 14, 2018 and August 28, 2018, DionyMed completed a non-brokered private placement by issuing an aggregate of 13,240 common share convertible debentures and an aggregate of 4,940 series A convertible debentures at a price of C\$1,000 per convertible debenture for gross proceeds of C\$18,180,000 (US\$13,925,699). The common share debentures, which (following the Transaction) convert at C\$2.06 per subordinate voting share and the series A convertible debentures, which (following the Transaction) convert at C\$206.00 per series A multiple/subordinate voting share, bear interest at 14% per annum and have a maturity date of June 30, 2020. At December 31, 2018, C\$4,950,000 of the debentures (which are now debentures of DionyMed Brands Inc.) had been converted. At May 31, 2019, C\$5,630,000 of the debentures had been converted.

Acquisition of Assets from JDK Holdings, LLC (Winberry)

On August 31, 2018, DionyMed Holdings, through Herban Industries OR LLC, acquired certain assets from JDK Holdings, LLC dba Winberry Farms ("**Winberry**" or "**Winberry Farms**"), a cannabis concentrate and vape cartridge brand that holds licenses in the State of Oregon for the cultivation, distribution and manufacturing of medicinal and adult-use cannabis. The transaction was completed for a total purchase price of \$7,500,000 plus a \$4,000,000 earn-out, which will be paid subject to the Winberry Farms assets achieving certain performance metrics. To date, \$5,250,000 of the initial amount and two earnout payments totaling \$1,000,000 in cash have been paid to JDK Holdings for the acquisition.

Hometown Heart

On October 1, 2018, DionyMed invested \$2,000,000 in unsecured convertible notes of Hometown Heart, a California corporation that engages in the business of Direct-to-Consumer cannabis sales and delivery, that included the right, but not the obligation, to purchase the outstanding shares of Hometown Heart for \$6,000,000 plus a \$12,000,000 earn-out, which would be paid subject to Hometown Heart achieving certain performance metrics.

On December 5, 2018, the Company exercised its option to purchase the outstanding shares of Hometown Heart (the “**Hometown Shares**”). The transaction closed on December 13, 2018. Effective December 5, 2018, the Company transferred all of the Hometown Shares to a single individual who was a former owner of shares of Hometown Heart in consideration for the grant of an irrevocable option (the “**Option**”) to re-acquire the Hometown Shares for a nominal amount following the receipt of all required regulatory approvals. In connection with the foregoing, the Company’s subsidiary Herban Industries, Inc. (“**Herban**”) and Hometown Heart entered into a Master Services Agreement pursuant to which Herban exercises control over Hometown Heart and provides Hometown Heart with management, labor administration, marketing, branding, professional, banking, record-keeping, intellectual property, governance, and other support services. The Company has consolidated the accounts of Hometown Heart in its consolidated financial accounts since December 13, 2018 as a result of the Master Services Agreement and the Option.

Term Loan

On September 24, 2018, the Company entered into a term loan agreement with certain lenders in the aggregate principal amount of \$4,000,000 (the “**Term Loan**”). The Term Loan matured on the first to occur of: (i) an event of default which has not been cured or waived, (ii) thirty (30) business days after the Company is publicly listed and tradable on a recognized securities exchange and (iii) September 24, 2019, when the principal amount of the Term Loan, the unpaid interest thereon, and all other obligations relating to the Term Loan and the loan documents was immediately due and payable.

The Term Loan included a repayment premium equal to \$2,000,000 payable in the Company’s subordinate voting shares with the number of subordinate voting shares calculated as \$2,000,000 divided by the price per share at the listing event. The Term Loan was fully repaid during the first quarter of 2019 and the Company issued 611,765 subordinate voting shares in consideration of the repayment premium.

Subscription Receipt Private Placement

On November 1, 2018, the Company completed a private placement of 8,115,297 subscription receipts (the “**Subscription Receipts**”) at a price of C\$4.25 per Subscription Receipt for aggregate gross proceeds of approximately C\$34,490,012. Each Subscription Receipt automatically converted into one common share of DionyMed Holdings (the “**SR Shares**”) and one common share purchase warrant of DionyMed Holdings (the “**SR Warrants**”) immediately prior to and in connection with the completion of the Transaction, without payment of additional consideration or further action on the part of the holder. The SR Warrants were exercisable at a price of C\$6.37 per common share of DionyMed Holdings for a period of 24 months from the date certain escrow release conditions, including the completion of the Transaction, were satisfied.

As part of the Transaction, each SR Share was exchanged for a subordinate voting share of the Company and each SR Warrant was exchanged for a subordinate voting share purchase warrant of the Company. The subordinate voting share purchase warrants had the same terms as the SR Warrants, except that they are exercisable for the Company’s subordinate voting shares.

Early Draw Facility and Mandate Letter

On November 12, 2018, the Company entered into a mandate letter (the “**Mandate Letter**”) with a lender (the “**Arranger**”) to arrange a hybrid asset-based loan facility (the “**Inventory Finance Facility**”) of up to \$40,000,000 to provide working capital funding for the Company, including a \$3,000,000 early draw facility (the “**Early Draw Facility**”).

The Early Draw Facility is secured by a general security agreement over the assets of DionyMed in favor of certain credit funds managed by the Arranger, bears interest at a rate of LIBOR plus 8% per annum, plus an anniversary fee of 2.5% in the first year and 3.75% in the second year, and matures on February 6, 2021. Under the Early Draw Facility, DionyMed made one drawdown on November 13, 2018 for gross proceeds of \$3,000,000. Fees of \$877,650 were withheld from the gross proceeds for various fees, including a mandate fee, due diligence fee and legal fees, resulting in net proceeds of \$2,122,350. Neither the Company nor its subsidiaries may dispose of any asset, incur any indebtedness or create or permit any security over its assets, other than as permitted by the Early Draw Facility.

On November 28, 2018, as part of the consideration to the lenders, the Company issued 27,795 subordinate voting shares at a price of C\$4.25 and 744,000 warrants with an exercise price of C\$5.31 expiring three years from the date of issue.

Business Combination with Sixonine Ventures Corp.

On November 28, 2018, DionyMed Brands completed the Transaction. Consideration in the amount of \$2,618,584 in the Company's subordinate voting shares and \$614,173 in the Company's warrants were issued in respect of this Transaction.

As a result of the conversion of Subscription Receipts on completion of the Transaction, gross proceeds of C\$34,490,000 were generated. Transaction fee of CAD\$2,835,003 including agents' commissions and fees was netted against share capital resulting in net proceeds of CAD\$31,654,997.

Recent Developments Post Year-End

Acquisition of Assets from Cascade Distribution, Inc.

On September 27, 2018, the Company through its subsidiary, Herban Industries OR LLC ("**Herban OR**"), entered into an agreement to acquire certain assets of Cascade Cannabis Distribution, Inc. ("**Cascade**"). Cascade holds a recreational wholesale license in the State of Oregon for the distribution of adult-use cannabis and provides product processing, packaging and distribution services in Oregon. The State of Oregon approved the transfer of the recreational wholesale license to Herban OR in February 2019.

The transaction closed on March 1, 2019, for a total purchase price of \$150,000, paid in cash, plus an earnout of \$100,000, based on certain performance targets. The Company is now distributing third party products and its brands through Cascade.

Strategic Partnership with Nevada-Based Retailer Acres Cannabis

On January 10, 2019, DionyMed signed a strategic partnership agreement with Acres Cannabis ("**Acres**"), a vertically integrated cannabis retailer based in Las Vegas, Nevada. The partnership grants DionyMed's brands and services immediate access to the highly coveted Nevada market, which services more than 39 million tourists each year, and represents another significant step in DionyMed's national expansion plans.

Acres operates one of the largest cannabis cultivation and manufacturing sites in the state of Nevada, as well as a 20,000 square foot dispensary in the heart of Las Vegas. As part of the partnership agreement, DionyMed's infused products and edible brands, including its award-winning Winberry Farms, will be manufactured in Acres' facilities and sold state-wide, providing DionyMed with a scalable platform to penetrate the Nevada market.

Inventory Finance Facility

On January 17, 2019, the Company signed a definitive agreement for a two-year, up to \$40 million, senior secured credit facility in respect of the Inventory Finance Facility from a syndicate of investors (the "**Inventory Finance Facility**"). The Inventory Finance Facility consists of a \$15 million term loan facility and a \$25 million asset-backed loan facility. On February 6, 2019, the Company drew \$13 million of the Inventory Finance Facility following the completion of certain conditions to the satisfaction of the investors. Net proceeds in the amount of \$9,148,143 were received by the Company, net of the repayment of the \$3,000,000 Early Draw Facility and \$851,857 in capitalized transaction costs. \$27 million of the Inventory Finance Facility remains undrawn. Currently, the syndicate of investors have committed to provide \$13 million of the Inventory Finance Facility. Future commitments from existing or future lenders are expected for the full amount.

The Inventory Finance Facility will be used for acquisitions, capital expenditures, refinancing existing debt, working capital and general corporate purposes. The Inventory Finance Facility provides DionyMed an efficient capital structure as it continues to expand its US operational footprint and product portfolio, through both inorganic and organic growth opportunities. The Inventory Finance Facility includes up to an aggregate of 7.1 million warrants with warrants issued to investors based on the amount drawn on the Inventory Finance Facility proportionate to the maximum Inventory Finance Facility size of \$40 million.

Each warrant provides the investor the right to purchase one subordinated voting share and the warrants expire after 36 months. If the Inventory Finance Facility is fully drawn, the warrants would have a weighted-average exercise price of C\$4.76 per share.

Definitive Agreement to Acquire Pioneer Valley Extracts, LLC

On February 14, 2019, the Company signed a membership interest purchase agreement, subject to satisfaction of certain customary conditions, to acquire Pioneer Valley Extracts, LLC, a manufacturer and emerging cannabis brand in Massachusetts. At close, the total purchase price will be \$550,000 consisting of \$150,000 in cash and \$400,000 in subordinate voting shares priced at the 15-day volume-weighted average price at closing of the transaction.

Currently, DionyMed owns and sells its award-winning brand family, including the Winberry Farms concentrates and vape cartridges throughout California, Nevada and Oregon. The acquisition of Pioneer Valley Extracts expands the Company's national footprint in Massachusetts, the fast growing and first recreational cannabis market on the East Coast.

As of the date of this MD&A, this transaction has not yet closed.

Shares Approved to Trade on the OTCQB Venture Market

On March 18, 2019 DionyMed announced that its subordinate voting shares were approved to be quoted on the OTCQB Venture Market, and now trade under the symbol "DYMEF". The OTCQB trading provides early direct access for U.S. investors to participate in the exciting growth of the Company as it continues to expand into new U.S. markets from the primary markets in California and Oregon.

Binding Term Sheet to Acquire 1.83 Acre Southern California Cannabis Campus from MMAC

On March 20, 2019, the Company signed a binding term sheet, subject to satisfaction of due diligence performed by the Company, with MM Esperanza 2 LLC, doing business as "MMAC", to acquire select MMAC assets, including the 1.83 acre Los Angeles cannabis campus that includes a dispensary storefront, distribution facility, manufacturing hub and Direct-to-Consumer fulfillment center. The acquisition includes all property, leaseholds, equipment and licenses for a purchase price of \$18,000,000 and, if completed, would enhance the Company's brands distribution and Direct-to-Consumer footprint in southern California.

Completion of this arms-length acquisition is subject to several conditions, including, but not limited to, the execution and delivery of definitive documentation mutually agreeable to the parties, completion of due diligence on MMAC to the Company's sole satisfaction and receipt of all necessary board, shareholder, regulatory and third-party approvals for the acquisition.

As of the date of this MD&A, this transaction has not yet closed.

Termination of Relationship with Eaze

On March 29, 2019, Hometown Heart, a licensed California delivery service managed by DionyMed, terminated its relationship with customer acquisition provider Eaze Technologies, Inc., formerly Eaze Solutions, Inc. ("Eaze"). Following a review of certain of Eaze's business practices, the Company was unable to confirm that Eaze's credit card payment processing methodology met regulatory compliance requirements. The Company now utilizes the Company's Chill platform to acquire and service customers and is expected to achieve higher margins on product sales generated through the platform, as it includes house brands.

The Company is focusing its efforts on scaling its online delivery platform, Chill, through aggressive marketing and customer acquisition. Since the Company began to actively market Chill in early April 2019, Chill has increased to a \$10.6 million annual run-rate, based on the week ending May 26, 2019 results with a substantially improved contribution margin relative to revenue earned under the Eaze relationship.

Expanded Brand Portfolio

DionyMed announced an exclusive licensing and distribution agreement with Défoncé Chocolatier ("Défoncé"). Created and distributed exclusively in California, fine chocolate maker Défoncé is expanding its popular line of premium cannabis-infused

chocolate products. In addition to the brand's acclaimed selection of full-size chocolate bars, new single-serving squares and low-dose bites are now available. All new offerings are gluten free (gf), with vegan (v) options available as well.

DionyMed announced the expansion of its wholly-owned, award-winning brand, Winberry Farms, to offer consumers an even more comprehensive, diversified product portfolio with 12 new CBD-focused products. With these new additions, the Winberry Farms product line will encompass 75 high-quality distillate and full-spectrum THC and CBD concentrates, currently available in 300 retail locations in Oregon and 50 locations in California. One of the first recreational cannabis farms to be licensed by the state of Oregon, Winberry Farms specializes in expertly-cultivated, naturally sun-grown product. The launch of the new Winberry Farms CBD line in California includes 16 SKUs, which will be available in multiple flavors and configurations, offering both 3:1 and 1:1 CBD to THC ratios.

In addition to Winberry Farms, the Company's wholly-owned brand portfolio includes Gardeners and Afterglow, and DionyMed has established relationships with premier cannabis brands to offer its Direct-to-Consumer and retail distribution capabilities and further enhance and build upon the Company's position as a "house of brands." These brands include F/ELD, CBD Alive, Défoncé, Lemon Tree, Fire King, Higher Veda Medicinals, Lifestyle Delivery Systems, Lola Lola, and Zkittlez, amongst others.

Equity Bought Deal Private Placement

On May 7, 2019, the Company closed a bought deal private placement financing with a syndicate of agents co-led by Canaccord Genuity Corp. and Cormark Securities Inc. (collectively, the "**Underwriters**"), for 3,822,055 units of the Company at a price of C\$2.75 per Unit for aggregate gross proceeds to the Company of C\$10,510,651. Each unit was comprised of one subordinate voting share and one subordinate voting share purchase warrant exercisable into one subordinate voting share at price of C\$3.80 per share for a period of 36 months following the closing of the offering. The net proceeds from the Offering will be used primarily towards the Company's strategic growth initiatives and for general working capital purposes.

Definitive Agreement with Premium Manufacturer and Indoor Craft Cultivator Waterside Warehousing

March 15, 2019, the Company signed a definitive agreement with an irrevocable option to acquire Waterside Warehousing ("**Waterside**"), a premium manufacturer and indoor craft cultivator located in Oakland, California. The Company agreed to provide \$1,000,000 in cash by way of a secured convertible preferred note carrying a 6% interest rate per annum paid quarterly. \$600,000 of the loan has been advanced to date and the balance is to be paid during the second quarter of 2019. The agreement provides the Company with an option to acquire Waterside for an additional \$5 million payment. The Company has not exercised this option.

Term Sheet signed for Multi-State Distribution and Licensing Agreements with Edibles Brand Blue Kudu

DionyMed signed a term sheet to acquire Virginia's Kitchen, LLC d/b/a Blue Kudu, an award-winning edibles brand and wholesale platform based in Denver, Colorado. The total consideration for the deal is expected to be \$5,500,000, consisting of \$5,000,000 at close comprised of \$4,000,000 in cash and \$1,000,000 in DionyMed subordinated voting shares and the remaining \$500,000 subject to Colorado law allowing the Company to acquire Blue Kudu's cannabis business licenses.

Blue Kudu's products include award-winning chocolate bars, cookies and gummies. Under the term sheet, DionyMed will manufacture and distribute Blue Kudu products to its customer network of more than 850 dispensaries across California, Oregon, Nevada and Massachusetts. In addition, Blue Kudu products will be available on DionyMed's Chill Direct-to-Consumer delivery platform. Further, Blue Kudu will license and distribute DionyMed's brands to its more than 200 dispensary customers, including the award-winning Winberry Farms vape cartridges.

Completion of the distribution and licensing agreements are subject to several conditions, including, but not limited to, execution and delivery of definitive documentation mutually agreeable to the parties, and DionyMed's completion of due diligence on Blue Kudu.

Exclusive Distribution Agreement with CBD Alive

DionyMed announced an exclusive distribution agreement with CBD Alive to expand the Company's award-winning cannabis brand portfolio with one of California's highest-quality, premium CBD product lines.

Grown exclusively in natural sunlight, using organic, sustainable farming practices in California, CBD Alive products are all based on full-spectrum oil and are available in varying ratios that appeal to multiple consumer segments for a variety of uses. The product line, with over 40 products, is available in drops, capsules, topicals and raw oil.

Restatement of Previously Reported Consolidated Financial Statements

The Company has restated its previously reported consolidated financial statements as of February 28, 2018 and for the period from January 11, 2018 to February 28, 2018, and all related disclosures. In addition, the financial statements of DionyMed Holdings for July 31, 2018 (as included in the Company's CSE Listing Statement) and for the quarters ended May 31, 2018, August 31, 2018 and November 30, 2018 financial statements are also being restated. The restatement of the Company's consolidated financial statements followed a review of the Company's consolidated financial statements and accounting records that was undertaken as part of the audit of the consolidated financial statements for the period ended December 31, 2018. That review identified that an incorrect application of fair value methodology was used in the valuation of the DionyMed, Inc. and Herban Industries, Inc. common control business combinations. A continuity of interests was deemed more appropriate under the circumstances. The effects of the restatement are reflected in the Company's Financial Statements and accompanying notes. The corrections relate to removing the previously-recognized fair value adjustments, consisting of the associated intangible assets and goodwill recognized upon acquisition.

The total cumulative impact of the restatement decreases shareholders' equity as at February 28, 2018 by \$29,825,489. This total cumulative impact on shareholders' equity as at February 28, 2018 comprises a decrease in share capital in the amount of \$25,846,410 and a decrease in other reserves against equity in the amount of \$3,979,079.

No line items on the consolidated statement of loss and comprehensive loss or the consolidated statement of cash flows were affected.

Strategic Framework

The Company's mission is to build safe, trusted cannabis brands for medical and recreational consumers worldwide.

The Company's standards for governance, compliance and ethics are set company-wide. The Company weighs business decisions with consideration as to how our efforts affect our customers, employees, the environment, and both the communities where our employees live and where we do business. We intend to use business as a force for good, to share best practices, to be a catalyst for innovation, and to support the communities we serve while strengthening our brands.

The Company seeks to make access to cannabis safe, convenient and easy for both medical and recreational customers. The Company focuses on supporting communities and non-profits that can utilize the wellness aspects of our products (i.e. military veterans, medical foundations, university research, etc.). We believe this will ultimately have a positive impact on our customers, our employees, and our shareholders.

The Company delivers products directly to consumers through our own e-commerce site, as well as through dispensary retail partners. In addition, we support other brands and retailers by providing distribution, logistics, manufacturing and technology services. We strive to offer our customers products at price points that meet their needs, ranging from value-priced offerings to luxury products, together with fast and reliable fulfillment and timely customer service.

The Company uses state and local operating teams for the purpose of determining how best to apply our guiding strategic principles. Local market expertise is used to identify and deliver against the most valuable growth opportunities. This model provides greater flexibility to meet the diverse needs of our customers, while allowing for the speed of execution required in the dynamic cannabis market.

The Company identifies and acts on consumer trends to support growth. The Company uses consumer insights and marketing to drive product development and innovation at scale and develop relationships with our customers through distribution and sales. Our supply capabilities enable us to manufacture and distribute our brands efficiently and effectively.

The Company plans to build and sustain recognizable cannabis brands that play a positive role in society, serving all our partners: cultivators, manufacturers, dispensaries, customers, employees and shareholders.

FINANCIAL INFORMATION

Selected Annual Financial Information

The following is selected financial data derived from the Financial Statements of the Company as of December 31, 2018.

\$ 000's	For the three months ended December 31, 2018	For the three months ended February 28, 2018	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Revenues, net of discounts	5,507	53	10,123	53
Gross revenue of product delivered	3,495	-	6,175	-
Total revenue	9,002	53	16,298	53
Gross margin	1,961	30	2,984	11
Operating expenses	11,276	3,469	21,960	5,714
Adjusted EBITDA	(9,315)	(3,439)	(18,977)	(5,703)
Other expenses	10,390	93	14,040	564
(Loss) from operations	(19,706)	(3,532)	(32,919)	(6,267)
Fair value (losses)	(24,475)	-	(24,574)	-
Deferred tax recovery	65	-	166	-
Net (loss)	(44,116)	(3,532)	(57,327)	(6,267)
Total assets	54,730	1,892	54,730	1,892
Total liabilities	71,757	6,255	71,757	6,255

¹ Based on contractual arrangements with these customers, the Company only recognizes the net service fees of the product values processed through its distribution network.

RESULTS OF OPERATIONS

Revenue

For the three and ten months ended December 31, 2018, below is a summary of revenue by source.

Revenue stream	For the three months ended December 31, 2018	For the three months ended February 28, 2018	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Reported Distribution Revenue	3,514	53	8,130	53
Gross revenue of logistics product delivered through the Company	3,495	-	6,175	-
Distribution	7,009	53	14,305	53
Direct-to consumer	1,993	-	1,993	-
Total	9,002	53	16,298	53
Hometown Heart prior to Master Services Agreement being effective	7,194		7,194	

The Company has two primary revenue sources: i) Distribution - distributing product to dispensaries throughout California and Oregon, and ii) Direct-to-consumer - retailing and delivering products directly to consumers in California.

Distribution revenues are recognized by the Company resulting from servicing 490 of the 550 estimated active dispensaries in California and 425 dispensaries out of 600 estimated active dispensaries in Oregon. The Company distributes both its house brand products and third-party products. As the Company increases its brand portfolio, the ratio of higher-margin house brand products versus third-party products will increase.

The Company provides logistics and distribution services for certain customers while the product is in the Company's possession. Based on contractual arrangements with these customers, the Company only recognizes the net service fees of the product values processed through its distribution network. The value of this product was \$3,495,000 and \$6,175,000 for the three and ten months ended December 31, 2018. The Company includes the value of this product when discussing the total platform revenue for the full year. The Company is seeking amendments to these contracts such that the Company will take possession and title of the product and therefore recognize the full value of the sale as revenue. These amendments are expected to be completed by the end of May 2018.

The Company generates its Direct-to-Consumer revenues through its Master Services Agreement with Hometown Heart. Revenue was included in the Company's consolidated financial statements effective December 13, 2018 and totaled \$1,993,000 for the quarter and the year. During the three months ended December 31, 2018, Hometown Heart generated total revenue of \$9,002,000. Another \$7,194,000 of revenue would have been added to the platform if Hometown Heart had been included for the whole quarter. During the three months ended December 31, 2018, revenue was generated by Hometown Heart fulfilling orders generated by the Eaze platform. Hometown Heart terminated its relationship with Eaze at the end of the first quarter 2019 and currently utilizes the Company's Chill platform (www.orderchill.com) to acquire and service customers.

Gross Margin

Gross margin for the three and ten months ended December 31, 2018 totaled \$1,993,000 or 22.1% and \$3,082,390 or 18.5% of gross revenue, respectively. Gross margin generated from the distribution business was 12.5% and 13.3% for the three and ten months ended December 31, 2018, respectively. For the comparable periods ending February 28, 2018, due to the minimal volume, gross margins are not meaningful. The Company typically sells its house brand products through Distribution at a gross margin ranging from 35% to 45% and sells the distributed portfolio brands that are taken into inventory at gross margin rates ranging from 15% to 25%. For the brands the Company does not take possession of for accounting purposes, and only distributes, the gross margin ranges from 7% to 12%. In order to improve gross margin, the Company will continue to focus on increasing the share of sales from its higher-margin house brands.

Gross margin for the Direct-to-Consumer business was 54.5% for both the three and the ten months ended December 31, 2018. The Company is able to achieve higher margins on product sales generated through its Chill platform, which was initiated during the fourth quarter of 2018, as the Chill platform includes house brands.

The unrealized fair value gain on growth of biological assets represents the inherent value of the cannabis grown by the Company less cost to sell. This gain is highlighted separately on the profit and loss statement as part of gross margin.

Operating Expenses

Operating expenses were \$11,276,000 and \$21,960,000 for the three and ten months ended December 31, 2018, respectively. These operating expenses are outlined below

\$000's	For the three months ended December 31, 2018	For the three months ended February 28, 2018	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Wages and Salaries	4,551	974	9,660	1,844
Administrative and Other	3,836	1,557	7,163	2,128
Legal and Professional Fees	896	542	2,405	1,173

Sales and Marketing	1,038	396	1,608	569
Impairment of Trade Receivables	955	-	1,124	-
Total	11,276	3,469	21,960	5,714

Wages and salaries include all people related costs including management, sales and marketing, administrative and operational related costs.

The administrative and other costs are outlined below:

\$ 000's	For the three months ended December 31, 2018	For the three months ended February 28, 2018	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Rent expenses	617	101	1,345	133
Travel expenses	524	426	1,107	764
Write-down of inventory	264	646	872	646
Packaging and labels	194	-	516	-
Insurance	350	-	490	-
Business Taxes, Permits and licenses	160	-	436	-
Credit card processing fees	486	-	486	-
Loss of assets expense	60	-	60	238
Other operating and administrative expenses	1,181	384	1,851	347
Total administrative and other expenses	3,836	1,557	7,163	2,128

Administration and other expenses include a variety of operational and administrative expenses. Some of the larger items are discussed herein. Rent includes rent for all the facilities, plus vehicle and equipment rental expenses. Travel and business development expenses represent expenses incurred for the various fundraising road shows, corporate development meetings for completed and potential acquisitions and internal management travel between the various operations and offices. Indirect overhead allocation expenses, and packaging and labels expenses, lab testing expenses, and security services included full absorption items expensed during the period which are not attributed to specific products. The inventory write-off was as a result of changes in California regulations and testing requirements.

Credit card and related fees were incurred by Hometown Heart as a result of fees charged for the credit card payments and related fees for product sales processed.

During the periods, the Company either wrote off or provided for certain accounts receivable as collections for certain accounts which were deemed non collectible or at risk to be collectible.

Legal and professional fees include fees and expenses with respect to legal fees and expenses for various acquisitions, fundraising and general corporate requirements, audit related fees and expenses, tax preparation and advice and general consulting services received.

Sales and marketing expenses include all advertising, product launch and various efforts to market the various products and distributions channels.

Adjusted EBITDA

Adjusted EBITDA loss was \$9,315,000 and \$18,977,000 for the three and ten months ended December 31, 2018, respectively, with the loss primarily as a result of increasing platform costs to support the Company's growth activities, corporate general and administrative expenses, and professional fees. Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation and amortization, less certain non-cash equity compensation expenses, including impairments, one-time transaction fees and all other non-cash items. The Company considers Adjusted EBITDA an important operational measure for the business.

The chart below reconciles the Adjusted EBITDA to the IFRS reported net loss per the financial statements.

\$ 000's	For the three months ended December 31, 2018	For the three months ended February 28, 2018	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Net income (loss) as stated	\$ (44,116)	\$ (3,532)	\$ (57,327)	\$ (6,267)
Exclude				
Unrealized Fair Value Gain on Growth of Biological Assets	(99)	-	(99)	-
Add back				
Listing Expenses	3,745	-	4,429	-
Interest Expenses	3,407	-	3,927	-
Amortization and Depreciation Expenses	627	-	903	-
Financing Costs	1,830	-	2,329	-
Royalties Expenses	434	-	860	-
Business Development Expenses	143	-	669	522
Share-Based Compensation	279	58	999	83
Foreign Exchange (Gain) Loss	(74)	35	(75)	(41)
Fair Value Adjustment on Debt Carried at Fair Value	23,951	-	23,951	-
Fair Value Adjustment on Financial Liabilities	623	-	623	-
Deferred Tax Recovery	(65)	-	(166)	-
	\$			
Adjusted EBITDA	(9,315)	(3,439)	(18,977)	(5,703)

Other Expenses and Items not included in Adjusted EBITDA

Loss from operations includes Other Expenses totaling \$10,391,000 and \$14,041,000 for the three and ten months ended December 31, 2018. The detail of these expenses is outlined in the chart below:

\$000's	For the three months ended December 31, 2018	For the three months ended February 28, 2018	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Listing Expenses	3,745	-	4,429	-
Interest Expense	3,407	-	3,927	-
Amortization and Depreciation Expense	627	-	903	-
Financing Costs	1,830	-	2,329	-
Royalty Expenses	434	-	860	-
Business Development Expenses	143	-	669	522
Share-Based Compensation	279	58	999	83
Foreign Exchanges (Gains) Loss	(74)	35	(74)	(41)
Total	\$ 10,391	\$ 93	\$ 14,041	\$ 564

The loss from operations totaled \$19,706,000 and \$32,919,000 for the three and ten months ended December 31, 2018, respectively. The details of these losses are outlined in the different components above.

The loss on debt at fair value of \$23,951,000 for both the three and ten months ended December 31, 2018 is a non-cash item and it arises as a result of the subordinate voting share price increasing and the value of the convertible debentures increasing.

The net loss was \$44,116,000 and \$57,327,000 for the three and ten months ended December 31, 2018. These included the operating losses and EBITDA loss as discussed above and less the loss on debt at fair value.

As of December 31, 2018, the Company had approximately \$16,578,000 in current assets, including \$8,815,000 of cash and cash equivalents. As of December 31, 2018, total assets were \$54,730,000.

As at December 31, 2018, the Company had current liabilities of \$27,655,000 and total liabilities of \$71,757,000 which included the convertible debentures of \$29,815,000.

SUMMARY OF QUARTERLY RESULTS

\$000's	December 31, 2018	November 30, 2018	August 31, 2018	May 31, 2018	February 28, 2018
Revenue	5,507	3,970	1,386	1,691	53
Net Loss	(44,116)	(20,880)	(7,966)	(3,050)	(3,532)
Net Loss per share	(1.00)	(0.52)	(0.20)	(0.08)	(0.11)

The Company changed its year end to December 31; accordingly, continuity is lost between the third quarter of 2018 and the fourth quarter of 2018.

The losses during the third and fourth quarter are a result of the increase in the subordinate voting share price and accordingly the loss on the fair value of the convertible debenture and the costs associated with the listing of the Company on the Canadian Securities Exchange.

OUTLOOK

DionyMed Brands is enhancing its platform through the pursuit of both organic and inorganic growth opportunities. Since March 1, 2018, the Company has completed the following acquisitions or arrangements:

- i) Rise Brands in June 2018, a technology driven logistics and distribution business in California;
- ii) Winberry Farms in August 2018, an award-winning vape cartridge brand; and
- iii) Hometown Heart in December 2018, a Direct-to-Consumer delivery business (being consolidated following entering into of the Option and Master Services Agreement).

These operations, plus the Company's existing business, generated total gross revenue of approximately \$14.4 million for the first quarter of 2019. An additional \$5,007,000 of product sales were processed through the Company in the first quarter of 2019. The gross margin on this revenue was 33.5%.

The Company continues to execute its strategy of expanding its platform in a capital efficient manner by acquiring new businesses in its existing markets to add core operating capabilities, investing in promising brands, and opening up new markets via acquisitions and partnerships.

Since January 1, 2019, the Company announced four transactions to add core operating capabilities and open new markets:

- 1) Closed a strategic partnership agreement with Acres Cannabis, a Nevada based vertically integrated Las Vegas operation, which gives the Company immediate access to produce and sell its house brands within the growing and highly attractive Nevada cannabis market.
- 2) Entered into a membership purchase agreement with Pioneer Valley Extracts, LLC, a manufacturer and an emerging cannabis brand in Massachusetts. The Company expects to close this transaction by May 31, 2019. This transaction gives the Company access to the Massachusetts market.
- 3) Signed a binding term sheet with MM Esperanza 2 LLC to acquire select assets, including the 1.83-acre Los Angeles cannabis campus that includes a dispensary storefront, distribution facility, manufacturing hub and Direct-to-Consumer fulfillment center. The acquisition enhances the Company's house brands distribution and Direct-to-Consumer footprint in Southern California.
- 4) Invested \$600,000 of a \$1 million investment with Waterside Warehousing, a premium manufacturer and indoor craft cultivator located in Oakland, California. The investment includes an irrevocable option to acquire Waterside for an additional \$5.0 million. This acquisition, if completed, would give the Company an increased manufacturing platform.
- 5) Executed a Letter of Intent to acquire Virginia's Kitchen, LLC dba Blue Kudu, an award-winning edibles brand and wholesale platform based in Denver, Colorado. The total consideration for the deal is expected to be \$5,500,000,

consisting of \$5,000,000 at close comprised of \$4,000,000 in cash and \$1,000,000 in DionyMed subordinated voting shares and the remaining \$500,000 subject to certain performance conditions. This provides the Company a strong edible brand to market in Colorado and the ability to expand the brand to the other states the Company is doing business in.

The Company continues to add quality assets in strategic markets and is currently pursuing opportunities in key markets such as Colorado, Michigan and New Jersey.

At the end of the first quarter of 2019, Hometown Heart terminated its agreement with Eaze, its primary customer acquisition Direct-to-Consumer channel due to concerns related to credit card processing. Since the termination of relationship with Eaze, DionyMed and Hometown Heart have accelerated its focus on its Chill (www.orderchill.com) customer acquisition engine resulting in exponential week-over-week growth. During 4/20, the Chill platform achieved 342 orders in one day. The Chill platform is performing well and capturing market share quickly.

LIQUIDITY, FINANCING ACTIVITIES, AND CAPITAL RESOURCES

As of December 31, 2018, the Company had total current liabilities of \$27,655,000 and cash of \$8,815,000 to meet its current obligations. As of December 31, 2018, the Company had negative working capital of \$11,077,500.

Issued share capital of Herban and DionyMed Inc. before the common control acquisition on February 28, 2018

During the period ended February 28, 2018, Herban was authorized to issue 30,000,000 common shares following a share split in August 2017. Herban's common shares were voting and dividend-paying. Herban raised additional capital yielding proceeds of \$1,000,000.

During the period ended February 28, 2018, DionyMed Inc. had authorized unlimited common shares, Series F convertible preferred shares, and Series A convertible preferred shares. DionyMed Inc.'s common shares were voting and dividend-paying. DionyMed's Series F convertible preferred shares and Series A convertible preferred shares were also voting and dividend-paying. The holders of Series F convertible preferred shares (each with 5,000 votes per share and convertible to 5,000 common shares) and Series A convertible preferred shares (each with 100 votes per share and convertible to 100 common shares) had the right to convert into common shares of DionyMed Inc., DionyMed Inc. raised additional capital through the issuance of 116,666 common shares yielding proceeds amounting to \$27,325 (C\$35,000). DionyMed Inc. further issued 6,598 Series F Convertible Preferred Shares to Edward Fields and Daniel Fields at value of C\$100 per share for services related to creating DionyMed Inc.'s business plan. The value of the shares was determined by board resolution. The \$521,846 (C\$659,800) is expensed in the consolidated statement of loss and comprehensive loss.

Issued share capital of DionyMed Holdings before the reverse takeover on November 28, 2018

In March 2018, DionyMed Holdings raised \$1,481,379 through the issuance of 1,768,598 common shares and 1,289 series A preferred shares as part of Series A round of financing.

On March 2, 2018, the DionyMed Holdings issued 29,965 Series A convertible preferred shares and 1,110,514 common shares for equity conversions relating to the convertible preferred notes (see Note 12 of the Financial Statements). In addition, DionyMed Holdings issued 99 series A convertible preferred shares and 3,932 common shares in satisfaction of \$10,801 of accrued interest on the convertible preferred notes. In total, the convertible preferred notes are converted into 30,064 series A convertible preferred shares and 1,114,446 common shares.

In April 2018, DionyMed Holdings issued 560,000 common shares at C\$1 per share, for an aggregate of \$439,513, to settle part of the working capital loan (see Note 14 of the Financial Statements).

In October 2018, DionyMed Holdings issued 310,000 common shares to Hometown Heart to promote their growth and 100,000 common shares to Hometown Heart shareholders at C\$2.06 per share, equal to aggregate consideration of \$659,498, as part of the consideration for the acquisition of Hometown Heart (see Note 5 of the Financial Statements). These shares have been

returned to treasury subsequent to the Company exercising the option to purchase the shares of Hometown Heart. Effective December 5, 2018, when the Company announced the exercise of its option to acquire all the Hometown Shares and the subsequent completion of the acquisition on December 13, 2018, the Company transferred all of the Hometown Shares to a single individual who was a former owner of shares of Hometown Heart in consideration for the grant of the Option, which will permit the Company to re-acquire the Hometown Shares for a nominal amount following the receipt of all required regulatory approvals. In connection with the foregoing, Herban and Hometown Heart entered into a Master Services Agreement pursuant to which Herban exercises control over Hometown Heart and provides Hometown Heart with management, labor administration, marketing, branding, professional, banking, record-keeping, intellectual property, governance, and other support services. The Company has consolidated the accounts of Hometown Heart in its consolidated financial accounts since December 13, 2018 as a result of the Master Services Agreement and the Option.

Issued share capital of DionyMed Brands after the Transaction

In connection with the conversion of Subscription Receipts prior to the completion of the Transaction (Note 2 of the Financial Statements) and subsequent exchange of the SR Shares and the SR Warrants, the Company issued 8,115,297 subordinate voting shares and 8,115,297 warrants with an exercise price of C\$6.37 expiring two years from the date of completion of the Transaction for gross proceeds of approximately C\$34,490,000. Transaction fees of C\$2,835,003 including agents' commissions and fees were netted against share capital resulting in net proceeds of C\$31,654,997.

On November 28, 2018, in connection with the Transaction, 819,586 common shares of Sixonine Ventures Corp. remained issued and outstanding and became 819,586 subordinate voting shares of the Company at a deemed price of C\$4.25 (see Note 2 of the Financial Statements).

In connection with the Early Draw Facility, on November 28, 2018, the Company issued 27,795 subordinate voting shares at C\$4.25 and 744,000 warrants with an exercise price of C\$5.31 expiring three years from the date of issue.

On November 28, 2018, the Company also issued 427,913 warrants with an exercise price of C\$2.06 expiring two years from the date of issue to the brokers in connection with the series B convertible debentures financing (Note 15 of the Financial Statements) and 493,188 warrants with an exercise price of C\$4.25 expiring two years from the date of issue to the brokers in connection with the private placement of Subscription Receipts.

In December 2018, in connection with the repayment of Term Loan balances, the Company issued 21,412 subordinate voting shares at C\$4.25.

In December 2018, in connection with the series B convertible debenture financing (see Note 12 of the Financial Statements), \$3,206,348 (C\$4,950,000) of the convertible debentures were converted to 2,402,910 subordinate voting shares at C\$2.06.

DionyMed Brands entered into an agreement with a syndicate of agents co-led by Canaccord Genuity Corp. and Cormark Securities Inc., which agreed to purchase on a bought deal private placement basis, 3,636,364 units of the Company at a price of C\$2.75 per unit for aggregate gross proceeds to DionyMed Brands of C\$10,000,001 with an option to purchase up to an additional 3,636,364 units at C\$2.75 per unit for additional gross proceeds to DionyMed Brands of up to C\$10,000,001. Each unit was comprised of one subordinate voting share and one subordinate voting share purchase warrant exercisable into one subordinate voting share at price of C\$3.80 per share for a period of 36 months following the closing of the offering. On May 7, 2019, the Company closed the financing, issuing 3,822,055 units of the Company at a price of C\$2.75 per unit for aggregate gross proceeds to the Company of C\$10,510,651. The net proceeds from the offering will be used primarily toward the Company's strategic growth initiatives and for general working capital purposes.

The Company's business plan includes growth, both in the form of additional acquisitions and through facility expansion and improvements. Initiatives in U.S. markets outside of those already within the Company's platform are expected in the future. Accordingly, the Company expects to raise additional capital, both in the form of debt and new equity offerings, during the next fiscal year.

The Company is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for acquisitions in the medical and adult use cannabis industry, for capital expenditures and improvements in existing facilities, product development, and marketing, as well as customer, supplier, investor, and industry relations.

Going Concern

These consolidated financial statements have been prepared on a going concern basis under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company's ability to continue in the normal course of operations as a going concern is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company reported a net loss of \$57,327,151 (February 28, 2018 – \$6,266,929), operating cash outflows of \$22,556,896 (February 28, 2018 – \$3,746,506) and, as of that date, an accumulated deficit amounting to \$57,779,953 (February 28, 2018 – \$452,802), and a negative working capital of \$11,077,500 (February 28, 2018 – \$1,495,032). These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Cash Flows

Cash Used in Operating Activities

Net cash used in operating activities was \$22,557,000 for the ten-month period ended December 31, 2018 (\$3,747,000 for the twelve-month period ended February 28, 2018) primarily due to increases in operating expenses and change in working capital as a result of scaling up the corporate infrastructure.

Cash used for working capital for the ten-month period ended December 31, 2018 was \$2,689,000 (\$768,000 for the twelve-month period ended February 28, 2018), as a result of the changes in accounts receivable, inventory, and other current assets of \$4,567,000 (\$1,228,000 for the twelve-month period ended February 28, 2018) netted against the cash provided by increases in accounts payable and accrued liabilities and other current liabilities of \$1,878,000 (\$1,996,000 for the twelve-month period ended February 28, 2018).

Cash Flow from Investing Activities

Net cash used in investing activities was \$12,177,000 for the ten-month period ended December 31, 2018 (\$1,300,000 for the twelve-month period ended February 28, 2018) primarily due to cash used to acquire assets from Rise Brands and Winberry Farms, invest in Hometown Heart and to purchase fixed assets.

Cash Flow from Financing Activities

Net cash provided from financing activities was \$43,504,000 for the ten-month period ended December 31, 2018 (\$5,108,000 for the twelve-month period ended February 28, 2018) primarily due to cash acquired from the Subscription Receipt financing, the Term Loan, the Inventory Finance Facility, and issuance of series A and series B convertible debenture private placements, as described above.

Contractual Obligations

In the normal course of business, the Company is obligated to make future payments under various non-cancellable contracts and other commitments. The payments due by period are set forth in the following table:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
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USD-denominated						
Operating leases	\$ 2,092,824	\$ 2,109,153	\$ 1,998,844	\$ 1,450,709	\$ 1,040,929	\$ 2,585,613
Consultants and advisors	216,000	216,000	216,000	-	-	-
Total USD-denominated	\$ 2,308,824	\$ 2,325,153	\$ 2,214,844	\$ 1,450,709	\$ 1,040,929	\$ 2,585,613
CAD-denominated (in USD)						
Operating leases	\$ 77,402	\$ -	\$ -	\$ -	\$ -	\$ -
Royalties	183,299	-	-	-	-	-
Total CAD-denominated	\$ 260,701	\$ -				

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2028 and contain renewal provisions. The Company's net rent expense for the three-month and ten-month periods ended December 31, 2018 was \$617,000 and \$1,345,000 respectively.

As part of the acquisition of assets from Rise Brands, Inc (see Note 5 of the Financial Statements), the Company is obligated to make certain earn-out payments with aggregate maximum value of up to \$4,000,000.

Off-Balance Sheet Arrangements

As of the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised, and in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

Estimated useful lives and depreciation and amortization of property, plant and equipment, and intangible assets

Depreciation and amortization of property, plant and equipment, and intangible assets are 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.

Share-based compensation

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

Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available, the Company will engage third party qualified valuation experts to perform the valuation.

In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent

consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Information about the valuation techniques and inputs used in determining the fair value of financial assets and liabilities are disclosed in Note 20 of the consolidated financial statements.

Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. Judgment is also required to assess whether the amounts paid on achievement of milestones represent contingent consideration or compensation for post-acquisition services. Judgment is also required to assess whether contingent consideration should be classified as equity or a liability. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is re-measured at subsequent reporting dates in accordance with IFRS9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

IFRS provides no specific guidance on common control transactions. Because the application of fair value methodology would not be appropriate in circumstances where the parties involved were commonly controlled, the “pooling of interests” or “predecessor value” method of accounting must be used, whereby the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value and no goodwill is recorded in connection with the common control transactions discussed in Note 5.

Valuation of Biological Assets

Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair value to these assets. These assumptions primarily relate to the market wholesale price and expected efficiency in cannabis oil processing.

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Wholesale price per pound	Level 3 input	\$353
(b) Cannabis oil processing efficiency	Level 3 input	80%
(c) Cannabis potency level	Level 3 Input	15%

The Company’s estimates are, by their nature, subject to change.

Recognition of Deferred Income Tax Assets

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, its assessment requires significant judgment.

Determination of Functional Currency

An area of judgment that has a significant impact on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and its subsidiaries' functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

Going Concern Risk Assessment

The assessment of the Company's ability to continue as a going concern, including raising additional debt or equity financing, attaining commercial operations, generating sufficient revenue to achieve and sustain profitability for the ensuing year, and funding planned research and development activities, involves significant judgment based on historical experience and other factors such as expectation of future events that are believed to be reasonable under the circumstances.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

When contingencies exist, management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Determination of Cash Generating Units

Cash Generating Units ("**CGUs**") are determined based on the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. Management has exercised judgment in this assessment and determined the Company's CGUs to be the California Product Sales and Distribution; Oregon Product Sales; California Logistics and Services; Direct-to-Consumer delivery.

New Accounting Pronouncements Adopted in 2018

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 7, Financial instruments: Disclosure

IFRS 7, Financial instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. No significant impact on the Company's consolidated financial statements resulted from the adoption of this new standard.

New Accounting Pronouncements Issued but Not Yet Effective

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from

Contracts with Customers, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined. However, upon adoption of IFRS 16, the leases described in Note 19 of the consolidated financial statements will likely constitute right-of-use assets with a corresponding lease obligation.

Related Party Transactions

Related party transactions not described elsewhere in the financial statements are included herein.

Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management is as follows:

	From March 1, 2018 to December 31, 2018	From March 1, 2017 to February 28, 2018
Salaries and bonuses	\$ 1,548,799	\$ 388,462
Share-based compensation	275,961	1,923
Total	1,824,760	390,385

Consulting Services from Daniel Fields

Daniel Fields, a shareholder of the Company, provided consulting services for the Company. During the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company incurred consulting fees of \$200,000 and chargeable expenses of \$219,000 (February 28, 2018 – \$80,000 and \$50,000, respectively), included in Legal and Professional Fees on the consolidated statements of loss and comprehensive loss. As at December 31, 2018, \$33,000 (February 28, 2018 – \$111,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the consolidated statement of financial position.

Ambassador Technologies Inc Marketing Services

Ambassador Technologies Inc, over which the Company's Chief Executive Officer has significant influence, is a marketing agency company doing business in California as ByProxie. The entity is not consolidated with the Company because the Company is not entitled to its variable returns. Since August 2017, the Company engaged ByProxie to provide marketing services in California. During the ten-month period ended December 31, 2018, the Company incurred related expenses to ByProxie of \$317,000 for ByProxie services in addition to \$438,000 in reimbursements for payments made by ByProxie to third party vendors (February 28, 2018 – \$82,000), included in Sales and Marketing Expenses on the consolidated statements of loss and comprehensive loss. As at December 31, 2018, \$nil (February 28, 2018 – \$11,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the consolidated statements of financial position.

WestField Partners, LLC and WestField Aviation Partners, LLC

The Company's Chief Executive Officer has control over WestField Partners, LLC, a management services company, and WestField Aviation Partners, LLC, an aviation services company. WestField Partners, LLC and WestField Aviation Partners, LLC are not consolidated with the Company because the Company is not entitled to their variable returns. WestField Partners, LLC entered into a management services agreement with the Company to provide rent and employee services on March 1, 2016, and WestField Aviation Partners, LLC is engaged as needed. During the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company incurred rent and employee expenses of \$100,000 (February 28, 2018 – \$143,000) which are included in Administrative and Other Expenses and aviation expenses of \$669,000 (February 28, 2018 – \$nil) which are included in Business Development Expenses on the consolidated statements of loss and comprehensive loss. As at December 31, 2018, \$28,000 (February 28, 2018 – \$43,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the consolidated statements of financial position.

Share Based Compensation

The Company has granted options to employees during the period. Please refer to the Company's Note 15 of the Financial Statements for the period ended December 31, 2018 for further information on options granted.

Financial Instruments and Financial Risk Management

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, inventory finance facility, term loans, financial liabilities, royalty debt, and convertible debentures. Financial liabilities and convertible debentures are carried at fair value. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, inventory finance facility, and term loans equates to their fair value due to their short-term nature.

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

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 — Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 — Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the ten-month period ended December 31, 2018 and twelve-month period ended February 28, 2018.

The following table summarizes the Company's financial instruments:

As at December 31, 2018

	Financial Instruments Measured at Fair Value	Financial Instruments Measured at Amortized Cost	Carrying Value	Fair Value
Financial Assets				
Cash	-	8,814,561	\$ 8,814,561	8,814,561
Accounts Receivables	-	4,082,211	\$ 4,082,211	4,082,211
Financial Liabilities				
Accounts Payable and Accrued Liabilities	-	10,531,143	\$ 10,531,143	10,531,143
Notes Payable	-	125,000	\$ 125,000	125,000
Inventory Finance Facility	-	766,258	\$ 766,258	766,258
Term Loans	-	3,860,000	\$ 3,860,000	3,860,000
Financial Liabilities (Level 3)	15,432,000	-	\$ 15,432,000	15,432,000
Convertible Debentures (Level 3)	29,814,543	-	\$ 29,814,543	29,814,543
Royalty Debt	-	1,716,189	\$ 1,716,189	2,677,461

As at February 28, 2018

	Financial Instruments Measured at Fair Value	Financial Instruments Measured at Amortized Cost	Carrying Value	Fair Value
Financial Assets				
Cash	-	133,117	\$ 133,117	133,117
Accounts Receivables	-	165,313	\$ 165,313	165,313
Financial Liabilities				
Accounts Payable and Accrued Liabilities	-	2,115,128	\$ 2,115,128	2,115,128
Taxes Payable	-	59,086	\$ 59,086	59,086
Convertible Promissory Notes (Level 3)	3,206,348	-	\$ 3,206,348	3,206,348
Due to Shareholders	-	874,372	\$ 874,372	874,372

Financial Risk Management

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

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry.

Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. The Company has banking relationships in all jurisdictions in which it operates.

In addition, the Company maintains cash with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The failure of a bank or credit union where the Company has significant deposits could result in a loss of a portion of such cash balances in excess of the insured limit, which could materially and adversely affect the Company's business, financial condition, results of operations and the market price of the Company's share capital.

Credit Risk

Credit risk arises from the risk that a customer or counterparty will fail to meet its obligations. The Company is exposed to credit risk from cash and equivalents and accounts receivable.

The Company minimizes credit risk associated with its accounts receivable by performing credit evaluation, approval, and monitoring processes. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all accounts receivables as these items do not have a significant financing component. Accounts receivable is written off when there is no reasonable expectation of recovery.

Liquidity Risk

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

In addition to the commitments outlined in Note 19, the Company has the following contractual obligations:

As at December 31, 2018

	<u>< 1 year</u>	<u>1 to 3 years</u>		<u>Total</u>
Accounts Payable and Accrued Liabilities	10,531,143	-	\$	10,531,143
Notes Payable	125,000	-	\$	125,000
Inventory Finance Facility	766,258	-	\$	766,258
Terms Loans	3,860,000	-	\$	3,860,000
Financial Liabilities	5,947,000	9,485,000	\$	15,432,000
Convertible Debentures	-	29,814,543	\$	29,814,543
Royalty Debt	-	1,716,189	\$	1,716,189

As at February 28, 2018

	<u>< 1 year</u>	<u>1 to 3 years</u>		<u>Total</u>
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Accounts Payable and Accrued Liabilities	2,115,128	-	\$	2,115,128
Due to Shareholders	874,372	-	\$	874,372
Convertible Promissory Notes	-	3,206,348	\$	3,206,348

Market Risk

- Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to interest rate fair value risk.

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all variables held constant, the net loss of the Company could possibly have increased or decreased by approximately \$600,000 (February 28, 2018 – \$nil).

- Currency Risk

As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks.

The Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to USD denominated liabilities.

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all variables held constant, the net loss of the Company could possibly have increased or decreased by approximately \$600,000 (February 28, 2018 – \$nil).

As at December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Capital Management

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

The Company's capital is composed of equity and debt. The Company's primary uses of capital are future acquisitions and funding growth of existing operations. The Company also uses capital to finance operating losses, capital expenditures, and increases in non-cash working capital. The Company currently funds these requirements from cash raised through financings and may need to raise additional funds to reach its goals. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to fund operations from which it will obtain returns on investment.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance growth, the Company does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during the year.

OUTSTANDING SHARE DATA

The Company had the following securities issued and outstanding as of May 27, 2019:

Securities	Number of Shares
<hr/>	
<i><u>Issued and Outstanding</u></i>	
Subordinate Voting Shares	20,410,610
Series A Multiple/Subordinate Voting Shares	10,634
Series F Multiple Voting Shares	6,298
Total Subordinate Voting Share issued and outstanding (on an as converted basis)	52,964,010
<i><u>Subordinate Voting Shares Reserved for Issuance</u></i>	
On exercise of Warrants	22,634,297
On exercise of Options	9,412,035
On conversion of Convertible Debentures	6,145,631
Total Subordinate Voting Shares Reserved for Issuance (on an as converted basis)	38,191,963

RISK FACTORS AND UNCERTAINTIES

An investment in the securities of the Company is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations.

Investors should carefully consider all information contained in the Company's public disclosures, and in particular should give special consideration to the risk factors under the section titled "Risk Factors" in the Company's annual information form dated May 31, 2019, which may be accessed on the Company's SEDAR profile at www.sedar.com.

The risks and uncertainties described or incorporated by reference in this MD&A are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the subordinate voting shares could decline and purchasers could lose all or part of their investment.

Additionally, purchasers should consider the following risk factors:

Marijuana remains illegal under U.S. federal law

Marijuana is a Schedule I controlled substance and is illegal under federal U.S. law. Even in those states in which the use of marijuana has been legalized, its use, cultivation, sale, and distribution remains a violation of federal law. Any person connected to the marijuana industry in the U.S. may be at risk of federal criminal prosecution and civil liability in the United States. Any investments may be subject to civil or criminal forfeiture and total loss. Since federal law criminalizing the use of marijuana is not preempted by state laws that legalize its use, strict enforcement of federal law regarding marijuana would harm the Company's business, prospects, results of operation, and financial condition. Due to the federal illegality of cannabis and the charged political

climate surrounding the cannabis industries of various states, political risks are inherent in the cannabis industry. It remains to be seen whether policy changes at the federal level will have an effect on the cannabis industry.

Federal regulation of marijuana in the United States

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations (Canada) and the regulation of recreational cannabis under the Cannabis Act (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the State level.

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 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 subordinate voting shares. In addition, it is difficult 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.

Risks associated with travelling across borders

News media have reported that United States immigration authorities have increased scrutiny of Canadian citizens involved in cannabis businesses in the United States who are crossing the United States–Canada border. There have been a number of Canadians barred from entering the United States as a result of an investment in or act related to United States cannabis businesses. In some cases, entry has been barred for extended periods of time and lifetime bans have been imposed.

The majority of persons travelling across the Canadian and U.S. border do so without incident. Some persons are simply denied entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the United States has not changed the admission requirements in response to the 2018 legalization of recreational cannabis in Canada. Admissibility to the United States may be denied to any person working or ‘having involvement in’ the marijuana industry according to United States Customs and Border Protection. Additionally, legal experts have indicated that if the admission criteria are applied broadly, this may result in a determination that the act of investing in or working or collaborating with a U.S. cannabis company is considered trafficking in a Schedule I controlled substance or aiding, abetting, assisting, conspiring, or colluding in the trafficking of a Schedule I controlled substance. Inadmissibility into the United States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

Company directors, officers, or employees traveling from Canada to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to Company directors, officers, or employees, this may reduce the Company’s ability to manage its business effectively in the United States.

U.S. state regulatory uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company’s efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Company’s business activity. Although cannabis is legal under the laws of the states in which the Company’s business operates and will operate, local governments have the ability to limit, restrict, and

ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Company's business.

The Company is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. This is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

In addition, it is possible that regulations may be enacted in the future that will be directly applicable to the Company's business, including, but not limited to, regulations or laws impacting the amount of production that the Company's licensed entities are authorized to produce. The Company cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can the Company determine what effect additional governmental regulations or administrative policies and procedures, if promulgated, could have on the Company's business.

REGULATORY OVERVIEW

Issuers with U.S. Marijuana-Related Assets

Nature of Involvement

The Company, through its subsidiaries, is directly involved in the production, cultivation, distribution and sale of marijuana in the States of California and Oregon and is in the process of entering the Nevada, Colorado, Massachusetts and other markets.

Financial Exposure to U.S. Cannabis-Related Activities

All the Company's operations are in the United States. Therefore, the Company's balance sheet and operating statement exposure to U.S. marijuana-related activities is 100%.

United States Regulatory Environment

Under U.S. federal law, marijuana is currently a Schedule I drug. The CSA has five different tiers or schedules. A Schedule I drug means the Department of Justice ("DOJ") and U.S. Food and Drug Administration ("FDA") consider it to have a high potential for abuse, no accepted medical treatment, and lack of accepted safety for the use of it even under medical supervision.

Given that 33 states plus the District of Columbia, the Commonwealth of the Northern Mariana Islands, Puerto Rico, U.S. Virginia Islands and Guam that have legalized medical marijuana and approximately 10 states plus the District of Columbia and the Commonwealth of Northern Marina Islands who have legalized recreational marijuana, the federal government sought to provide guidance to enforcement agencies and banking institutions with the introduction of the United States Department of Justice Memorandum drafted by former Deputy Attorney General James Michael Cole in 2013 (the "Cole Memo")¹ and the Department of the Treasury Financial Crimes Enforcement Network ("FinCEN") guidance in 2014.²

¹ U.S. Dept. of Justice. (2013). *Memorandum for all United States Attorneys re: Guidance Regarding Marijuana Enforcement*. Washington, DC: US Government Printing Office. Retrieved from <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.

² Department of the Treasury Financial Crimes Enforcement Network. (2014). *Guidance re: BSA Expectations Regarding Marijuana-Related Businesses* (FIN-2014-G001). Retrieved from <https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses>.

The Cole Memo offered guidance to federal enforcement agencies as to how to prioritize civil enforcement, criminal investigations and prosecutions regarding marijuana in all states. The memo put forth eight prosecution priorities:

1. Preventing the distribution of marijuana to minors;
2. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs and cartels;
3. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
4. Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
5. Preventing the violence and the use of firearms in the cultivation and distribution of marijuana;
6. Preventing the drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
8. Preventing marijuana possession or use on federal property.

In January 2018, former United States Attorney General, Jeff Sessions, rescinded the Cole Memo and thereby removed its guidance for enforcement agencies and the Department of Justice. The FinCEN memo was not rescinded by Treasury Secretary Steven Mnuchin and still remains in effect.

Due to the CSA categorization of marijuana as a Schedule I drug, U.S. federal law makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under the United States Currency and Foreign Transactions Reporting Act of 1970 (the "**Bank Secrecy Act**"). 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 or conspiracy.

While there has been no change in U.S. federal banking laws to account for the trend towards legalizing medical and recreational marijuana by U.S. states, the DOJ issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses in compliance with the FinCEN memo, so long as that business is legal in their state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). Although the original FinCEN Memorandum is still in place, this supplementary DOJ guidance that accompanied the FinCEN Memorandum was rescinded when former Attorney General Sessions rescinded the Cole Memorandum. The FinCEN guidance also clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk. The customer due diligence steps include:

1. verifying with the appropriate state authorities whether the business is duly licensed and registered;
2. reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
3. requesting from state licensing and enforcement authorities available information about the business and related parties;
4. developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus recreational customers);
5. ongoing monitoring of publicly available sources for adverse information about the business and related parties;

6. ongoing monitoring for suspicious activity, including for any of the red flags described in the FinCEN guidance; and
7. refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk. With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

Due to the fear by financial institutions of being implicated in or prosecuted for money laundering, marijuana businesses are often unable to secure stable banking relationships and forced into becoming “cash-only” businesses. As banks and other financial institutions in the U.S. are generally unwilling to risk a potential violation of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to marijuana businesses. Recently, some banks that have been servicing marijuana businesses have been closing accounts operated by marijuana businesses and are now refusing to open accounts for new marijuana businesses for the reasons enumerated above.

The few credit unions that have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government could enforce its banking laws as they relate to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the needs of their other customers.

The U.S. Treasury Department, headed by Steven Mnuchin, has publicly stated they were not informed of former Attorney General Sessions’ desire to rescind the Cole Memo and do not have a desire to rescind the FinCEN guidance for financial institutions.³ Multiple legislators believe that Sessions’ rescinding of the Cole Memo invites an opportunity for Congress to pass more definitive protections for marijuana businesses in states with legal marijuana programs during this Congress, but there is no guarantee that this will occur.⁴

Both Congress and marijuana-related businesses recognize that guidance is not law and thus have worked to continually renew the Rohrabacher Blumenauer Appropriations Amendment (originally the Rohrabacher Farr Amendment) since 2014. This amendment prevents the DOJ from using congressional funds to prosecute cannabis businesses in states that have medical

³ Angell, Tom. (2018 February 6). Trump Treasury Secretary Wants Marijuana Money In Banks. Retrieved from <https://www.forbes.com/sites/tomangell/2018/02/06/trump-treasury-secretary-wants-marijuana-money-in-banks/#2848046a3a53>; see also Mnuchin: Treasury is reviewing cannabis policies. (2018 February 7). Retrieved from <http://www.scotsmanguide.com/News/2018/02/Mnuchin--Treasury-is-reviewing-cannabis-policies/>.

⁴ Jackson, Cherese. (2018 January 30). State-by-State Analysis of Sessions Move to Rescind Cole Memo. Retrieved from <http://guardianlv.com/2018/01/state-state-analysis-sessions-move-rescind-cole-memo/>; see also Velasquez, Josefa. (2018 January 23). NY Lawmaker Asks US Attorneys to Keep Hands Off State’s Med Marijuana Programs. Retrieved from <https://www.law.com/newyorklawjournal/sites/newyorklawjournal/2018/01/22/ny-lawmaker-asks-us-attorneys-to-keep-hands-off-states-med-marijuana-programs/?slreturn=20180205182803>; see also “This is Outrageous”: Politicians react to news that A.G. Sessions is rescinding Cole Memo. (January 4 2018). Retrieved from <https://www.thecannabist.co/2018/01/04/sessions-marijuana-cole-memo-politicians/95890/>.

marijuana laws and programs. In 2017, Senator Patrick Leahy (D-Vermont) introduced a similar amendment to H.R.1625 (a vehicle for the Consolidated Appropriations Act of 2018), preventing federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding (“**Leahy Amendment**”). The Leahy Amendment remained in effect through September 30, 2018, the end of the federal government’s 2018 fiscal year, at which point Congress was to reauthorize its extension. As the government was not able to negotiate a budget at the end of the fiscal year, the government partially shut down at the end of 2018. On January 25, 2019, a three-week continuing resolution was enacted to reopen the government. In February congress passed, and the president signed, full appropriations for the remaining seven appropriations bills for the rest of fiscal year 2019. The Leahy Amendment was included in these most recent budget appropriations bills and will remain in effect through the end of the 2019 fiscal year. For the remainder of fiscal year 2019, the strategy amongst the Congressional Marijuana Working Group is to introduce numerous marijuana-related appropriations amendments in the Appropriations Committee in both the House and Senate, similar to the strategy employed in fiscal year 2018.⁵ The amendments will include protections for marijuana-related businesses in states with medical and adult use marijuana laws, as well as protections for financial institutions that provide banking services to state-legal marijuana businesses.⁶ However it should be noted that there is no assurance that such amendments will be passed into law.

Since 2014, Congress has made immense strides in marijuana policy. The bipartisan Congressional Cannabis Caucus launched in 2017 and is headed by Representatives Dana Rohrabacher (CA-48), Earl Blumenauer (OR-03), Don Young (AK-At Large), and Jared Polis (CO-02). The group is “dedicated to developing policy reforms that bridge the gap between federal laws banning marijuana and the laws in an ever-growing number of states that have legalized it for medical or recreational purposes”⁷ Additionally, each year more Representatives and Senators sign on and co-sponsor marijuana legalization bills including the CARERS Act, REFER Act and others. While there are different perspectives on the most effective route to end federal marijuana prohibition, Congressman Blumenauer and Senator Wyden introduced the three-bill package, Path to Marijuana Reform which would have fixed the 280E provision, eliminated civil asset forfeiture and federal criminal penalties for businesses complying with state law, reduced barriers

⁵ Congress of the United States. (2018 January 12). Letter to The Honorable Paul Ryan, The Honorable Nancy Pelosi, Chairman Rodney P. Frelinghuysen and Ranking Member Nita Lowey. Retrieved from https://polis.house.gov/uploadedfiles/marijuana_appropriations_mcclintock-polis_language_1-12-18.pdf.

⁶ Congress of the United States. (2018 January 17). Letter to Director Kenneth Blanco of the Financial Crimes Enforcement Network of the Department of the Treasury. Retrieved from <https://dennyheck.house.gov/sites/dennyheck.house.gov/files/FINCEN%20MJ%20Guidance%20Letter%20FINAL.pdf>; see also United States Senate. (2018 January 11). Letter to Director Kenneth Blanco of the Financial Crimes Enforcement Network of the Department of the Treasury. Retrieved from <https://www.documentcloud.org/documents/4347431-368944892-Letter-Urging-FinCEN-to-Maintain.html#document/p1>; see also United States Senate. (2018 January 18). Letter to Director Kenneth Blanco of the Financial Crimes Enforcement Network of the Department of the Treasury. Retrieved from <https://www.documentcloud.org/documents/4356160-18-01-18-FinCEN-LTR-Cannabis-Banking.html>; see also Congress of the United States. (2018 January 25). Letter to The Honorable Donald Trump. Retrieved from https://www.warren.senate.gov/files/documents/2018_01_25%20Letter%20to%20Trump%20on%20Sessions%20withdra wal%20of%20the%20Cole%20memo.pdf.

⁷ Huddleston, Tom Jr. (2017 February 17). Pro-Pot Lawmakers Launch a Congressional Cannabis Caucus. Retrieved from <http://fortune.com/2017/02/16/congress-cannabis-caucus/>.

to banking, and would have de-scheduled, taxed and regulated marijuana in 2017.⁸ Senator Booker has also introduced the Marijuana Justice Act, which would de-schedule marijuana, and in 2018 Congresswoman Barbara Lee introduced the House companion. In 2018, Senator Gardner and Senator Warren introduced the STATES Act, ostensibly supported by President Trump, which would exempt state-legal marijuana activities from being violations of the Controlled Substances Act, but there is no guarantee that this will occur.⁹

Notwithstanding the foregoing, there is no guarantee that the current presidential administration will not change the stated policy of the previous administration regarding the low-priority enforcement of U.S. federal laws that conflict with state laws.

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

The following sections describe the legal and regulatory landscape in the states in which the Company operates. While the Company's operations are in full compliance with all applicable state laws, regulations and licensing requirements, for the reasons described above and the risks further described in below, there are significant risks associated with the business of the Company. Readers are strongly encouraged to carefully read all the risk factors contained in this AIF.

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Compliance with Applicable State Laws in the United States

California

California Regulatory Landscape

In 1996, California was the first state to legalize medical cannabis through Proposition 215, the Compassionate Use Act of 1996 ("**CUA**"). This legalized the use, possession and cultivation of medical cannabis by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which cannabis provides relief.

In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical cannabis patients.

In September 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA established a licensing and regulatory framework for medical cannabis businesses in California. The system created multiple license types for cultivators, manufacturers, distributors, testing laboratories and dispensaries. Infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their

⁸ Wyden, Blumenauer. (2017 March 30). Wyden, Blumenauer announce bipartisan path to marijuana reform. Retrieved from <https://blumenauer.house.gov/media-center/press-releases/wyden-blumenauer-announce-bipartisan-path-marijuana-reform>.

⁹ Seung Min Kim (April 13, 2018), "Trump, Gardner strike deal on legalized marijuana, ending standoff over Justice nominees", The Washington Post.

specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the “Adult Use of Marijuana Act” (“**AUMA**”) creating an adult-use cannabis program for adult-use 21 years of age or older. AUMA had some conflicting provisions with MCRSA, so in June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act (“**MAUCRSA**”), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the State of California. The three agencies that regulate commercial cannabis activity at the state level are the California Department of Food and Agriculture (“**CDFA**”), the California Department of Public Health’s Manufactured Cannabis Safety Branch (“**MCSB**”) and the California Department of Consumer Affairs’ Bureau of Cannabis Control (“**BCC**”).

To legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires operators to operate in cities with cannabis licensing programs. Cities in California can determine the number of licenses they will issue to cannabis operators or can choose to outright ban cannabis businesses, though they cannot prohibit deliveries made by operators based in other cities.

MAUCRSA went into effect on January 1, 2018. The Company began receiving its medical and adult-use cannabis licenses on January 1, 2018 in Oakland, CA. The Company currently operates two licensed distribution facilities and operates two distribution licenses and a manufacturing license, as well as operates two non-retail storefront delivery licenses under a management services agreement.

In California, there are four U.S. Attorneys covering the Central, Eastern, Northern, and Southern regions of the state, respectively. Below is a brief summary of each U.S. Attorney’s enforcement priorities related to state-legal cannabis.

In the Central District, current U.S. Attorney Nicola T. Hanna is a former Assistant U.S. Attorney who has prosecuted cases involving money laundering, narcotics trafficking, as well as violent and economic crimes. Hanna has not yet taken a public stance on his office’s enforcement priorities related to state-legal cannabis.

The U.S. Attorney for the Eastern District, McGregor Scott, previously served in the same position from 2003 to 2009. During his first tenure in the role, Scott prosecuted several people in California’s medical cannabis industry, including one case in which two of the individuals prosecuted each received prison sentences of 20 years or more.¹⁰ After the rescission of the Cole Memo in January 2018, Scott’s office issued the following statement: “The cultivation, distribution and possession of cannabis has long been and remains a violation of federal law for all purposes. We will evaluate violations of those laws in accordance with our district’s federal law enforcement priorities and resources.” In May 2018, Scott stated that his cannabis enforcement priorities would be focused on illegal cultivation on federal land, cartels dealing in cannabis, and interstate trafficking.¹¹ Scott also said, “The reality of the situation is that there is so much black-market marijuana in California that we could go after just the black

¹⁰ Branan, Brad. (2018 January 4). Sessions’ weed decision puts spotlight on new U.S. attorney for eastern California. Retrieved from <https://www.sacbee.com/news/state/california/california-weed/article193086764.html>.

¹¹ Miller, Cheryl. (2018 May 29). McGregor Scott’s Pot Policies Track Obama-Era ‘Cole Memo.’ Retrieved from <https://www.law.com/therecorder/2018/05/29/mcgregor-scotts-pot-policies-track-obama-era-cole-memo/?sreturn=20180916155413>.

market and never get to state-licensed operations.” He explained that this black market is made up of “people who have no intent of ever entering the legal system that has been created and California has attempted to establish.”

In the Northern District, U.S. Attorney Alex G. Tse was previously the First Assistant U.S. Attorney in the same district. Earlier in his career, Tse spent time working in the San Francisco City Attorney’s Office. Though the U.S. Attorney’s office in this district has previously targeted medical cannabis businesses,¹² Tse has not yet issued a public statement on the issue.

The U.S. Attorney for the Southern District, Robert S. Brewer, Jr., has been a litigator in private practice since 1982. Before that he served as a Deputy District Attorney in Los Angeles County from 1975 to 1977, and as an Assistant US Attorney in the Central District of California from 1977 to 1982 where he prosecuted a variety of cases including espionage, bank robbery, murder for hire and aircraft hijacking. Brewer’s views on medical marijuana have been raised as he previously underwent aggressive chemotherapy and radiation treatment to fight non-Hodgkin lymphoma in the late 1990s. He mentioned to the media that he would have considered using marijuana had it been available at that time.

Licenses

The Company and its subsidiaries are licensed to operate as Medical and Adult-Use Retailers, Manufacturers and Distributors under applicable California and local jurisdictional law. The Company’s licenses permit it to possess, process, distribute, dispense and sell medical and adult-use cannabis in the State of California pursuant to the terms of the various licenses issued by the MCSB and BCC under the provisions of the MAUCRSA and California Assembly Bill No. 133. The Company obtained the rights to the entities that were ultimately licensed pursuant to several acquisitions in the form of stock and/or asset purchase agreements.

The licenses are independently issued for each approved activity for use at the Company facilities in California. Please see the table below for a list of the licenses issued to the Company in respect of its operations in California.

¹² Adlin, Ben. (2016 August 16). Federal Court Bars Justice Department From Prosecuting Medical Cannabis. Retrieved from <https://www.leafly.com/news/politics/federal-court-bars-justice-department-from-prosecuting-medical-ca>.

Holding Entity	Permit/License	City	Expiration/Renewal Date (if applicable) (MM/DD/YY)	Description
Herban Industries CA, LLC dba Rise Logistics	M11-18-0000061- Temp	Oakland, CA	7/26/19 ⁽¹⁾	Adult-Use and Medicinal Type 11 Distributor License ⁽²⁾
	C11-18-0000024-Temp	Santa Rosa, CA	7/17/19 ⁽¹⁾	Medicinal Type 11 Distributor License
	CDPH-10002509	Oakland, CA	04/17/20 ⁽⁴⁾	Adult-Use and Medicinal Type N (Infusion) Manufacturer License ⁽³⁾
Hometown Heart Inc.	A9-18-0000032-TEMP	San Francisco, CA	8/19/19	Adult-Use and Medicina Type 9 Non-Storefront Retail
	A9-17-0000005-TEMP	Oakland, CA	7/25/19	Adult-Use and Medicina Type 9 Non-Storefront Retail
<p><u>Notes:</u></p> <ol style="list-style-type: none"> 1) The Company is currently working to renew its temporary licenses and secure annual licenses. 2) A Type 11 Distribution License is a broader license that allows the holder to store product, whereas Type 13 would only allow the holder to transport the product. 3) A Type N Manufacturing License allows for infusion but not extraction. 4) This is a provisional license. 				

California state and local licenses are renewed annually. Each year, licensees are required to submit a renewal application per the applicable licensing body's regulations. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, the Company would expect to receive the applicable renewed license in the ordinary course of business. While the Company's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the Company's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Company and have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

License and Regulations

The Adult-Use Retailer licenses permit the sale of cannabis and cannabis products to any individual age 21 years of age or older without a physician's recommendation. Under the terms of such licenses that it holds, the Company is permitted to sell adult-use cannabis and cannabis products provided that the customer presents a valid government-issued photo identification. The Company maintains an open and collaborative relationship with the BCC and city level cannabis regulators.

The Medicinal Retailer licenses permit the sale of medicinal cannabis and cannabis products for use by a medicinal cannabis patient in California 18 years or older who possesses a physician's recommendation. The Company maintains an open and collaborative relationship with the BCC and city level cannabis regulators.

The Adult-Use and Medicinal Distribution licenses permit cannabis-related distribution activity which means the procurement, sale, and transportation of cannabis and cannabis products between licensed entities. Distribution activity is permissible to and from the Company and certain non-Company licensees.

In the state of California, only cannabis that is grown in the state can be sold in the state. Although California's framework does not require that all retailers must also cultivate and process all of their own cannabis sold at retail (commonly referred to as a vertically integrated system), the Company is vertically integrated and has the capabilities to process and sell/dispense/deliver

cannabis and cannabis products. The state also allows the Company to make wholesale purchase of cannabis from, or a distribution of cannabis and cannabis product to, another licensed entity within the state.

Reporting Requirements

The state of California has selected Franwell Inc.'s METRC solution ("METRC") as the state's track-and-trace ("T&T") system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). The METRC system is in the process of being implemented state-wide but has not been released. When operational, the system will allow for other third-party system integration via application programming interfaces ("API"). The Company currently utilizes an electronic T&T system independent of METRC that will integrate with METRC via API. The Company's T&T system currently captures required data points for cultivation, distribution and retail as stipulated in BCC regulations. Certain processes remain manual, with proper control and oversight, in anticipation of METRC and greater integration of processes.

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Company is required to do the following:

- 1) maintain a fully operational security alarm system;
- 2) contract for security guard services;
- 3) maintain a video surveillance system that records continuously 24 hours a day;
- 4) ensure that the facility's outdoor premises have sufficient lighting;
- 5) not dispense from its premises outside of permissible hours of operation;
- 6) store cannabis and cannabis product only in designated areas per the premises diagram submitted to the state of California during the licensing process;
- 7) store all cannabis and cannabis products in a secured, locked room or a vault;
- 8) report to local law enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and
- 9) to ensure the safe transport of cannabis and cannabis products between licensed facilities, maintain a delivery manifest in any vehicle transporting cannabis and cannabis products. Only vehicles registered with the BCC, that meet BCC distribution requirements, are to be used to transport cannabis and cannabis products.

California Compliance Summary

As of the date hereof, the Company and its subsidiaries are in full compliance with California law. The Company maintains several layers of compliance and internal checks and balances in order to ensure ongoing compliance with California law.

Compliance Team: While the executive management and operational management team members are well versed on the most current cannabis regulations, we also leverage outside counsel and consultants as resources for the development of standard operating procedures and answer day-to-day questions as they come up.

Our primary counsel for California regulation and licensing is Vicente Sederberg LLC, one of the most respected and notable law firms for the cannabis industry. For the development of our contract with supply chain partners, we also work closely with Hinman & Carmichael LLP, a leading law firm in beverage law for more than 25 years and for the past several years as a trusted firm for the cannabis industry as well.

For the development of operating procedures and ongoing day-to-day compliance questions, we primarily depend on our Director of Compliance, Andy Shelley. Mr. Shelley is a former Law Enforcement Officer, Crime Scene Investigator and Oregon State Marijuana Inspector. He was one of the first cannabis compliance inspectors hired by the state of Oregon and has personally inspected and licensed over 300 locations. Andy is also the owner of CannXperts, which oversees the compliance needs of approximately 25 other licensees in the state. The Director of Compliance is responsible for documenting all operating procedures and keeping them up to date, and is responsible for auditing each position in the company to ensure these procedures are being followed and all documentation properly maintained. Additionally, he is responsible for evaluating each department for training opportunities, and scheduling and facilitating trainings as needed. The company also works with a compliance consultant, Lauren Fraser. Ms. Fraser is also the Executive Director for the Cannabis Distribution Association. She has been a key stakeholder in California cannabis policy since May 2015.

The Director of Compliance performs regular inspections at the licensed facilities in order to identify risks and to insure all employees and facilities are compliant with California laws and rules. Each location is subject to inspection by the state at any time, without warning. Therefore, surveillance equipment, security, product storage and products themselves must be compliant at all times. Inventories are routinely performed on all products to ensure quantities match those reported to the state's cannabis tracking system. Product labeling is also scrutinized to ensure that all products meet the strict packaging and labeling requirements for each state.

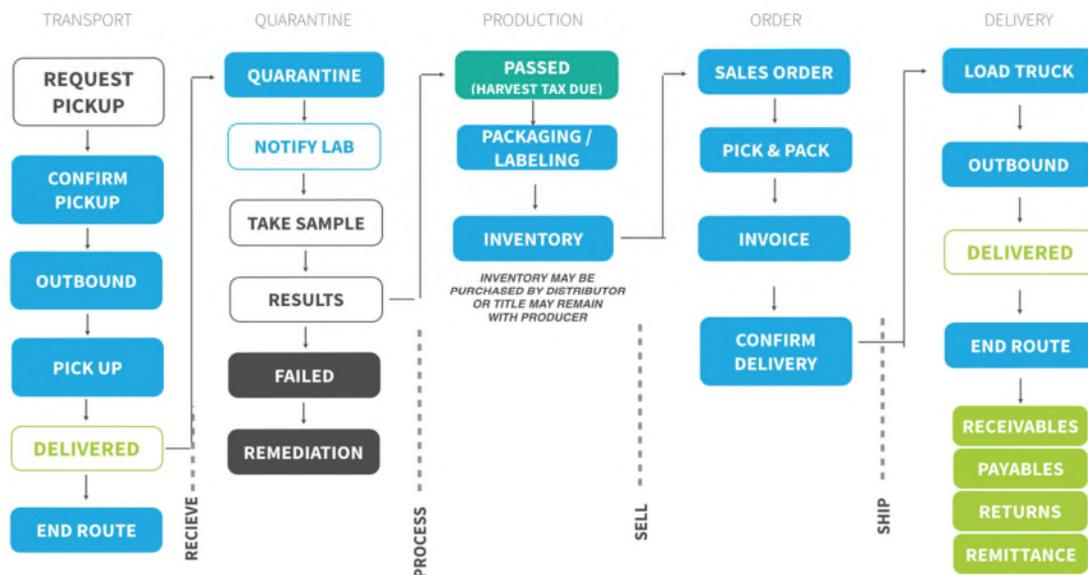
We maintain a Client Services Team with over six full-time personnel and growing. This team serves as the primary points of contact between licensed producer clients and the internal operational team. As that bridge, it is important that this team also be well versed on cannabis regulations. This team has direct access to our compliance officers for in-the-moment questions, maintains a database of responses to commonly asked questions, and receives regular compliance training.

Our Product Safety Manager is responsible for ensuring all product flowing through our distribution network undergoes mandatory state lab testing procedures before entering the commercial market. Additionally, a dedicated Track and Trace Administrator maintains a chain of custody on all products.

Our three-person Accounting Team is responsible for, among several duties, ensuring all cultivation and excise taxes are collected and remitted to the Department of Tax and Fee Administration and that all cannabis transactions are properly accounted for.

Compliance Technology Systems: Our custom developed technology platform tracks and maintains a database of every movement of product flowing into or out of our distribution network, and internally between facilities. The system safeguards the company by limiting pick-ups and deliveries to only addresses of licensed facilities, pulling licensee data directly from the agencies' approved license databases. Our drivers, for example, can never be routed to a non-licensed premise as the system would recognize this as not matching an approved state licensed facility. Furthermore, the technology time-stamps each transaction and tracks the user who initiated the movement.

To illustrate the process flow, please find the illustration below:



Each step in the workflow diagram is accompanied by a series of physical processes and technology enabled procedures. Each vertical column represents a department or division within the organization’s warehouse and transportation operations.

Our law firm, Vicente Sederberg, has launched a compliance platform called Simplifya, which provides three core compliance functions: a) documented standard operating procedures up-to-date with latest state and local regulations, b) learning management system for initiating regular or ad hoc training for specific employees on specific regulation tests most relevant to their position, and c) document storage for all compliance documentation. The Company is in the process of onboarding this new tool, which will become the basis for our companywide compliance and quality management system of record. Maintaining this system will be the responsibility of the incoming Compliance Manager.

Nevada

Regulatory Landscape

Nevada has a medical marijuana program and passed adult-use legalization through the ballot box in November 2016. Previously, 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 was passed by the state legislature and signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry in Nevada.

The Nevada Division of Public and Behavioral Health 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. 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 is merit-based and 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.

After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency became the “Marijuana Enforcement Division of the Department of Taxation.” Under Nevada’s adult-use marijuana law, the Department of Taxation licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. Retail marijuana licenses are issued within each county and unincorporated area proportionally based on the population of each jurisdiction. As of August 16, 2018 Nevada had 64 licenses yet to be allocated and conducted an application period for recreational licenses between October 30, 2018 and November 13, 2018. Currently, only medical marijuana establishments that hold a registration certificate(s) or ones that hold a provisional registration certificate(s) may apply. Any medical marijuana establishment that currently holds a retail marijuana license is not permitted to apply. In December 2018, the DOT issued 61 conditional adult-use dispensary permits. There are currently at least 24 licensed distributors that are medical marijuana establishments and at least six licensed distributors that are liquor distributors.

In the summer of 2017, the Department of Taxation began issuing “early start” recreational marijuana establishment licenses. These licenses expired at the end of 2017 but marijuana establishments holding both a retail marijuana store and dispensary license were allowed to sell their existing medical marijuana inventory as either medical or adult-use marijuana. In January 2018, the Nevada Department of Taxation approved permanent regulations to govern the industry. The adopted regulations included 66 new licenses and allowed for home delivery. Additionally, the new regulations included information on how the Department of Taxation will rank competing applications and break any ties. Included in the tiebreaking calculation will be, among other things, an applicant’s (including owners, officers, or board members): (1) prior business experience that is applicable to the marijuana establishment; and (2) amount of taxes paid or philanthropic involvement within the state.

Currently, The Department of Taxation has approved 126 Dispensaries, 121 Cultivation licenses, 84 Production licenses, and 10 laboratory licenses. The issue of allowing social use facilities to operate is gaining some traction within the state and is expected to be taken up by the legislature in 2019. Medical and adult-use marijuana incurs a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis incurs an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

Although Dayle Elieson, U.S. Attorney for the District of Nevada, has been relatively quiet on the issue of marijuana enforcement priorities,¹³ Nevada’s Governor, Brian Sandoval, stated in January 2018 that he would like to see Nevada’s U.S. Attorney take the same approach as Colorado’s U.S. Attorney by not enforcing federal laws against the legalized industry in the state.¹⁴ In February 2018, Nevada’s Attorney General Adam Laxalt stated, “I don’t really see a scenario where a U.S. Attorney is actually going to go down and shutdown recreational marijuana or legalized facilities that are recognized by the state.”¹⁵ Laxalt also added in regard to the ballot initiative to legalize recreational marijuana, “While I was opposed to the ballot initiative, I have done exactly what I promised... If voters want this, we’re going to do our job and support it.” Sandoval and Laxalt have each had meetings with

¹³ Dehaven, James and Kane, Jenny. (2018 January 12). With pot shops’ fate in their hands, Nevada’s new U.S. Attorney remains mum on marijuana. Retrieved from <https://www.rgj.com/story/news/politics/2018/01/12/pot-shops-fate-her-hands-nevadas-new-u-s-attorney-remains-mum-marijuana/1029001001/>.

¹⁴ Marroquin, Art. (2018, January 8). Sandoval wants Nevada to follow Colorado plan on marijuana Retrieved from <https://www.reviewjournal.com/news/pot-news/sandoval-wants-nevada-to-follow-colorado-plan-on-marijuana/>.

¹⁵ Joecks, Victor. (2018 February 7). Laxalt talks education, Medicaid work requirements and what’s next for marijuana in Nevada. Retrieved from <https://www.reviewjournal.com/opinion/opinion-columns/victor-joecks/laxalt-talks-education-medicaid-work-requirements-and-whats-next-for-marijuana-in-nevada/>.

Elieson.¹⁶ After his meeting, Sandoval would not disclose what was discussed but said, “There’s going to be a continuing dialogue with the U.S. Attorney’s office.” U.S. Senator Catherine Cortez Masto also met with Elieson, calling it a “positive conversation” in which Cortez Masto encouraged Elieson to “respect the spirit of the Cole Memo.”¹⁷

Oregon

Oregon Regulatory Landscape

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

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

The Oregon Health Authority licenses and regulates medical marijuana businesses and the OLCC licenses and regulates adult-use marijuana businesses. There are six distinct types of license types available for medical and adult-use businesses: cultivation, manufacturing (“processing”), wholesaling, dispensing, testing and research. Vertical integration between cultivation, processing, and sales is permissible, but not required, for both medical and adult-use.

The law does not impose a limit on the number of licenses and applications are currently being accepted for both medical and adult-use businesses on a rolling basis. Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

On May 18, 2018, Billy J. Williams, U.S. Attorney for the District of Oregon, issued a memorandum outlining his office’s enforcement priorities related to marijuana.¹⁸ Williams listed the following primary enforcement priorities in the memorandum: (1) overproduction and interstate trafficking; (2) protecting Oregon’s children; (3) violence, firearms, or other public safety

¹⁶ Rindels, Michelle. (2018 March 6). Sandoval, Laxalt meet with new U.S. attorney, but won’t say how conversations about marijuana went. Retrieved from <https://thenevadaindependent.com/article/sandoval-laxalt-meet-with-new-u-s-attorney-but-wont-say-how-conversations-about-marijuana-went>.

¹⁷ Sanchez, Humberto. (2018 March 22). Cortez Masto urged hands-off approach to marijuana with Nevada U.S. attorney in February. Retrieved from <https://thenevadaindependent.com/article/cortez-masto-urged-hands-off-approach-to-marijuana-with-nevada-u-s-attorney-in-february>.

¹⁸ The United States Attorney for the District of Oregon. (2018 May 18). Priorities in Enforcement of Federal Laws Involving Marijuana in the District of Oregon. Retrieved from [http://media.oregonlive.com/marijuana/other/2018/05/18/USAOR-Marijuana%20Enforcement%20Priorities-Final%20\(1\).pdf](http://media.oregonlive.com/marijuana/other/2018/05/18/USAOR-Marijuana%20Enforcement%20Priorities-Final%20(1).pdf).

threats; (4) organized crime; and (5) protecting federal lands, natural resources, and Oregon’s environment. As to overproduction in particular, Williams stated, “there can be no doubt that there is significant overproduction of marijuana in Oregon, and as a result, a thriving black market is exporting marijuana across the country, including to states that have not legalized marijuana under their state laws.” He also made clear that he “will not make broad proclamations of blanket immunity from prosecution to those who violate federal law,” but added that his “office’s resources are finite” and that they “must use appropriate discretion before prosecuting any federal case.” He went on to explain that his office will explore the use of civil law enforcement mechanisms, coordinate closely with partners in state, tribal, and local governments around the state, and “focus enforcement efforts on federal violations implicating one or more of the priority elements of this memorandum.” Williams has told Oregon Governor Kate Brown’s senior policy advisor that he would like to see limits on licenses for marijuana producers and retailers.¹⁹

In June 1999, the White House Office of National Drug Control Policy created the Oregon-Idaho High Intensity Drug Trafficking Area program (“**HIDTA**”) to “facilitate, support and enhance collaborative drug control efforts among law enforcement agencies and community-based organizations; thus significantly reducing the impacts of illegal trafficking and use of drugs throughout Oregon and Idaho.”²⁰ In August 2018, HIDTA released a report entitled “An Initial Assessment of Cannabis in Oregon.” In response to this report’s findings, U.S. Attorney Williams issued the following statement:

The recent HIDTA Insight Report on marijuana production, distribution, and consumption in Oregon confirms what we already know—it is out of control. The industry’s considerable and negative impacts on land use, water, and underage consumption must be addressed immediately. State officials should respond quickly and in a comprehensive manner to address the many concerns raised by this assessment. To date, we’ve seen insufficient progress from our state officials. We are alarmed by revelations from industry representatives, landowners, and law enforcement partners describing the insufficient and underfunded regulatory and enforcement structure governing both recreational and medical use. A weakly-regulated industry will continue to detract from the livability and health of communities throughout the state.

What is often lost in this discussion is the link between marijuana and serious, interstate criminal activity. Overproduction is rampant and the illegal transport of product out of state—a violation of both state and federal law—continues unchecked. My ask continues to be for transparency, responsible regulation, adequate funding, and a willingness to work together. It’s time for the state to wake up, slow down, and address these issues in a responsible and thoughtful manner.²¹

In late August 2018, federal prosecutors made six arrests related to marijuana allegedly being trafficked from Oregon to Florida, Texas, and Virginia.²² Those arrested were not affiliated with licensed recreational or medical programs in Oregon. In response to these arrests, Williams said, “These cases provide clear evidence of what I have repeatedly raised concerns over: Oregon’s marijuana industry is attracting organized criminal networks looking to capitalize on the state’s relaxed regulatory environment.”

Licenses

¹⁹ Crombie, Noelle. (2018 May 18). Feds will target marijuana black market, overproduction in Oregon. Retrieved from https://www.oregonlive.com/marijuana/index.ssf/2018/05/black_market_overproduction_am.html.

²⁰ Oregon-Idaho High Intensity Drug Trafficking Area Program Overview. Retrieved from <http://oridhidta.org/>.

²¹ The United States Attorney for the District of Oregon. (2018 August 2). U.S. Attorney Statement on Release of 2018 HIDTA Marijuana Insight Report. Retrieved from <https://www.justice.gov/usao-or/pr/us-attorney-statement-release-2018-hidta-marijuana-insight-report>.

²² Flaccus, Gillian. (2018 August 29). 6 arrests in pot trafficking case. Retrieved from <https://www.bendbulletin.com/localstate/6483494-151/6-arrests-in-pot-trafficking-case>.

Holding Entity	Permit/License	City	Expiration/Renewal Date (if applicable) (MM/DD/YY)	Description
Herban Industries OR LLC dba Winberry Farms	No.020 1011442A893	Fall Creek, OR	08/16/19	Recreational Producer
	No. 060 1011452FFD4	Eugene, OR	08/16/19	Recreational Wholesaler

Regulatory Management and Reporting Requirements

The state of Oregon has selected Franwell Inc.’s METRC system as the state’s T&T system used to track commercial cannabis activity and movement across the distribution chain. The system allows for third-party system integrations via API. The Company currently utilizes an electronic T&T system independent of METRC that integrates with METRC via API. The Company’s T&T system currently captures required data points for cultivation, distribution and retail as stipulated in OLCC regulations. Certain processes remain manual, with proper control and oversight, in anticipation of greater integration of processes within METRC.

Storage, Security and Compliance

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Company is required to do the following:

- 1) maintain a fully operational security alarm system;
- 2) contract for security guard services;
- 3) maintain a video surveillance system that records continuously 24 hours a day;
- 4) ensure that the facility’s outdoor premises have sufficient lighting;
- 5) not dispense from its premises outside of permissible hours of operation;
- 6) store cannabis and cannabis product only in designated areas per the premises diagram submitted to the state of Oregon during the licensing process;
- 7) store all cannabis and cannabis products in a secured, locked room or a vault;
- 8) report to local law enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and
- 9) to ensure the safe transport of cannabis and cannabis products between licensed facilities, maintain a delivery manifest in any vehicle transporting cannabis and cannabis products.

Oregon Compliance Summary

As of the date hereof, the Company is in full compliance with Oregon law. The Company maintains several layers of compliance and internal checks and balances in order to ensure ongoing compliance with Oregon law.

Compliance Team: While the executive management and operational management team members are well versed on the most current cannabis regulations, we also leverage outside counsel and consultants as resources for the development of standard operating procedures and to answer day-to-day questions as they come up.

We have external regulatory counsel in the state of Oregon. For the development of our contract with supply chain partners, we also work closely with Hinman & Carmichael LLP, a leading law firm in beverage law for more than 25 years and for the past several years as a trusted firm for the cannabis industry as well.

For the development of operating procedures and ongoing day-to-day compliance questions, we primarily depend on our Director of Compliance, Andy Shelley. Mr. Shelley is a former Law Enforcement Officer, Crime Scene Investigator and Oregon State Marijuana Inspector. He was one of the first marijuana compliance inspectors hired by the state of Oregon and has personally inspected and licensed over 300 locations. Andy is also the owner of CannXperts, which oversees the compliance needs of approximately 25 other licensees in the state. The Director of Compliance is responsible for documenting all operating procedures and keeping them up to date, and is responsible for auditing each position in the company to ensure these procedures are being followed and all documentation properly maintained. Additionally, he is responsible for evaluating each department for training opportunities, and scheduling and facilitating trainings as needed. The company also works with a compliance consultant, Lauren Fraser. Ms. Fraser is also the Executive Director for the Cannabis Distribution Association. She has been a key stakeholder in California cannabis policy since May 2015.

The Director of Compliance performs regular inspections at the licensed facilities in order to identify risks and to insure all employees and facilities are compliant with Oregon laws and rules. Each location is subject to inspection by the state at any time, without warning. Therefore, surveillance equipment, security, product storage and products themselves must be compliant at all times. Inventories are routinely performed on all products to ensure quantities match those reported to the state's cannabis tracking system. Product labeling is also scrutinized to ensure that all products meet the strict packaging and labeling requirements for each state.

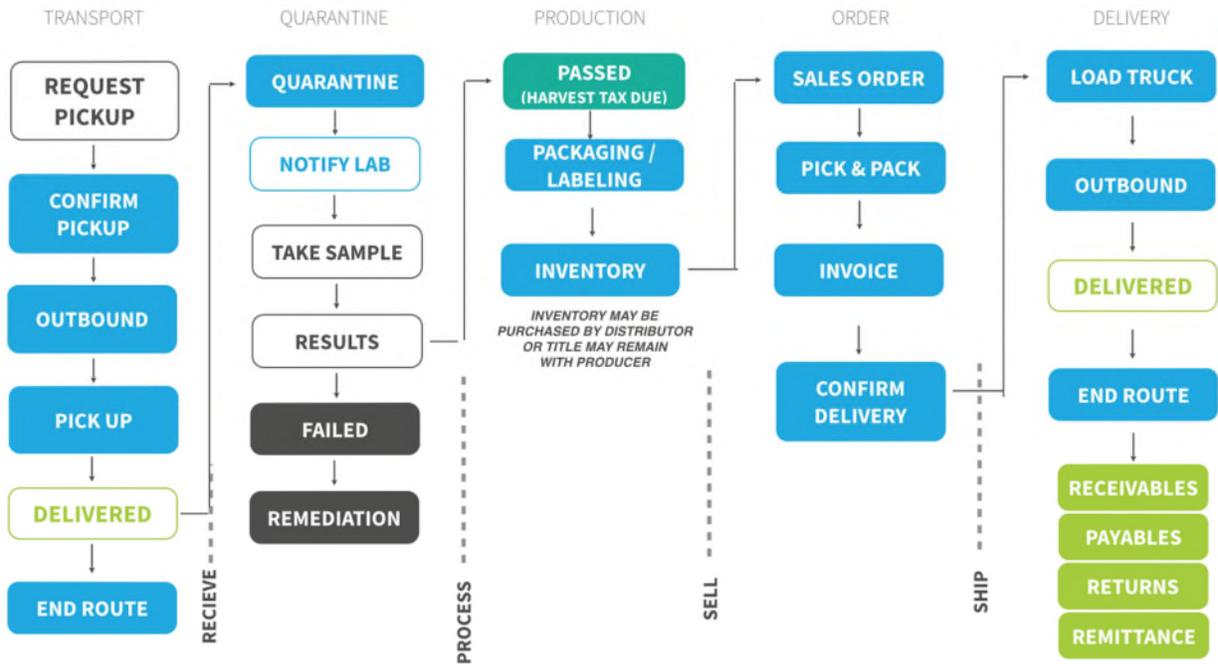
We maintain a Client Services Team with over six full-time personnel and growing. This team serves as the primary points of contact between licensed producer clients and the internal operational team. As that bridge, it is important that this team also be well versed on cannabis regulations. This team has direct access to our compliance officers for in-the-moment questions, maintains a database of responses to commonly asked questions, and receives regular compliance training.

Our Product Safety Manager is responsible for ensuring all product flowing through our distribution network undergoes mandatory state lab testing procedures before entering the commercial market. Additionally, a dedicated Track and Trace Administrator maintains a chain of custody on all products.

Our three-person Accounting Team is responsible for, among several duties, ensuring all cultivation and excise taxes are collected and remitted to the Department of Tax and Fee Administration and that all cannabis transactions are properly accounted for.

Compliance Technology Systems and Inspection of Pick-Up and Delivery Facilities: Our custom developed technology platform tracks and maintains a database of every movement of product flowing into or out of our distribution network, and internally between facilities. The system safeguards the company by limiting pick-ups and deliveries to only addresses of licensed facilities, pulling licensee data directly from the agencies' approved license databases. Our drivers, for example, can never be routed to a non-licensed premise as the system would recognize this as not matching an approved state licensed facility. Furthermore, the technology time-stamps each transaction and tracks the user who initiated the movement.

To illustrate the process flow, please find the illustration below:



Each step in the workflow diagram is accompanied by a series of physical processes and technology enabled procedures. Each vertical column represents a department or division within the organization’s warehouse and transportation operations.

The Company’s external regulatory counsel has launched a compliance platform called Simplifya, which provides three core compliance functions: a) documented standard operating procedures up-to-date with latest state and local regulations, b) learning management system for initiating regular or ad hoc training for specific employees on specific regulation tests most relevant to their position, and c) document storage for all compliance documentation. The Company is in the process of on boarding this new tool, which will become the basis for our companywide compliance and quality management system of record. Maintaining this system will be the responsibility of the incoming Compliance Manager.

Massachusetts

Massachusetts Regulatory Landscape.

Massachusetts became the eighteenth state to legalize medical marijuana when voters passed a ballot measure in 2012. Adult-use (recreational) marijuana is legal in Massachusetts as of December 15, 2016, following the passage of a ballot initiative in November of that year. The Cannabis Control Commission (the “Commission”), a regulatory body created in 2016, oversees both the Medical Use of Marijuana Program and the Adult Use of Marijuana Program. Until December 23, 2018 the Department of Public Health was responsible for the Medical Use of Marijuana Program, but through statutory mandate the Commission assumed regulatory control of the medical program.

Under the Medical Use of Marijuana Program, a Registered Marijuana Dispensary (“RMD”) is required to be vertically integrated, such that a single RMD license holder must cultivate, process, and dispense marijuana. For each RMD license, an RMD can carry out these three activities at up to two different locations. Some RMDs elect to do cultivation, processing, and retail operations all in one location. An RMD may also choose to have a retail dispensary in one location and grow marijuana at a remote cultivation location; in which case it may conduct the processing of the marijuana at either the retail dispensary location or the remote cultivation location. The remote cultivation location need not be in the same municipality or even the same county as the retail dispensary. RMDs may only wholesale purchase up to forty-five percent (45%), and may only wholesale sell up to forty-five percent (45%), of their annual inventory of marijuana and marijuana products from third-party RMDs (which percentage is calculated separately as to marijuana flower and marijuana infused products). RMDs with multiple licenses may designate a single cultivation and production facility to supply marijuana and marijuana products to their dispensary locations. Pursuant to the Commission’s regulations, no executive, member, or entity owned or controlled by such executive or member, may directly or indirectly control more than three (3) RMDs (the “**MA Control Limitation**”).

During the RMD application process, an RMD applicant must receive from the Commission a Provisional Certificate of Registration (“PCR”), a Final Certificate of Registration (“FCR”), and an Approval to Sell. The PCR is awarded by the Commission following the RMD applicant’s successful completion of the first three stages of the RMD application process (Application of Intent, Management and Operations Profile, and Siting Profile). An RMD applicant receives an FCR following its successful completion of Architectural Review and a series of facility and operations-related inspections. Upon receipt of an FCR, an RMD is permitted to begin cultivation operations. Subsequent to receipt of an FCR, an RMD must successfully complete further inspections from the Commission in order to receive Approval to Sell, after which time the RMD may begin sales to registered, qualifying patients. As of February 12, 2019, Massachusetts had forty-nine (49) medical retail dispensaries open for sales to over 59,000 registered and active patients across the state.

Under the Adult Use of Marijuana Program, vertical integration is not required, and therefore multiple license-types exist. The Marijuana Cultivator, Marijuana Product Manufacturer, Marijuana Retailer licenses cover the three main operational license types (cultivation, processing, and retail sales). Licenses are also available for Independent Testing Laboratories, Research Laboratories, Transporters,²³ Craft Marijuana Cooperatives, and Microbusinesses. All license-types are described generally as Marijuana Establishments. No individual or entity can be a "controlling person" or have "decision-making authority" over more than three licenses in a particular class of license. Controlling Person is defined as an officer, board member, or other individual who has a financial or voting interest of 10% or greater in a Marijuana Establishment. Decision-making authority is defined as having (a) actual control of more than 50% of the voting equity of the power to appoint more than 50% of the directors, (b) contract rights to control, or (c) a right to veto significant events.

Marijuana Establishment applications are received and reviewed by the Commission on a rolling basis; however, applications submitted by Registered Marijuana Dispensaries that applied for and received “Priority” status, as well as applicants that successfully applied for status as Economic Empowerment Priority applicants, are reviewed prior to applications submitted by other applicants. The Marijuana Establishment application process includes, among other things, questions regarding site location, ownership, and control, as well as significant operational questions and background check submissions. Prior to

²³ There are two Transporter license types: Third-Party Transporter and Existing Licensee Transporter. Both licenses allow for the transportation of product between third-parties; the distinction between the two license-types is that the Existing Licensee Transporter License is what would be obtained by an entity that already holds another Marijuana Establishment license, whereas the Third-Party Transporter license would be held by an entity that only holds such license type. A Transporter license is not necessary for a Marijuana Establishment (such as a Marijuana Cultivator, Marijuana Product Manufacturer, or Marijuana Retailer) to transport product to or from its own facility.

submission of an application for a marijuana establishment license, an applicant must have completed a properly-noticed community outreach meeting in the municipality where the applicant is proposing its marijuana establishment operations, and the applicant must also enter into a host community agreement with that municipality.

Once a Marijuana Establishment application is submitted to the Commission, the Commission reviews the application before marking such application as complete. During that review, the Commission may issue Requests for Information, at which point an applicant must supplement the information previously provided. Once the application is marked complete by the Commission, the Commission must grant or deny a Provisional License not later than 90 days following notification to the applicant that the application was considered complete. The Commission makes determinations on Provisional Licenses for marijuana establishments in public hearings.

After a Provisional License is awarded, the licensee must begin registering agents and submit Architectural Review for the provisionally-licensed facility, which must be approved prior to facility build-out.²⁴ After build-out, the licensee must formally request an inspection, and presuming such inspection does not uncover additional items to be completed, the licensee will be scheduled for another public hearing before the Commission to receive a Final License. After receiving a Final License, the Licensee must successfully complete another series of inspections to receive approval to commence operations. The series of inspections between receiving a Final License and receiving Commence Operations from the Commission includes, among other things, ensuring appropriate packaging and labeling; registering with the Department of Revenue for tax purposes; and receiving/entering adult-use product into Metrc²⁵ and complying with all Metrc requirements. Once the licensee receives the commence operations designation from the Commission, the licensee may begin sales to other marijuana establishments or to consumers (as the license type dictates).

Colorado

Colorado Regulatory Landscape

Current State of Law in Colorado. Colorado has both medical and adult-use marijuana programs. In 2000, voters passed Amendment 20 to the Colorado Constitution, a medical marijuana law creating a patient/caregiver system that permits physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and allows cultivation of a limited number of plants by patients and caregivers for medical use. In 2010, Colorado became the first state in the country to establish a commercial state and local licensing and regulatory structure for medical marijuana centers, cultivators, and manufacturers. Colorado voters subsequently passed adult-use marijuana legalization by voter initiative in 2012 with Amendment 64 of the Colorado Constitution, and the first adult-use marijuana businesses opened in 2014. The laws governing medical and adult-use marijuana businesses are codified in C.R.S. §12-43.3-101 *et. seq.*, C.R.S. §12-43.4-101 *et. seq.*, and rules and regulations adopted thereto (the “**Colorado Regulations**”).

The Marijuana Enforcement Division, a subdivision of the Colorado Department of Revenue (the “**Colorado Regulators**”), regulates and licenses both medical and adult-use marijuana businesses in the state along with applicable local regulatory authorities. Separate medical and adult-use licenses are issued for: cultivation, product manufacturing and extraction, retail sales, off-storage premises facilities, transportation, and testing. In addition, the state issues occupational licenses for owners and employees of marijuana businesses. There are no limits on the number of licenses issued statewide, but localities can prohibit or

²⁴ If the Marijuana Establishment facility is already substantially built-out, such as in the case of an RMD facility that is having an adult-use license applied to such facility, the architectural review process may be truncated or waived entirely.

²⁵ Metrc is the Commission required seed-to-sale tracking system for marijuana establishments. Licensees may also integrate a third-party seed-to-sale tracking software with Metrc as long as that third-party seed-to-sale tracking software is an approved vendor in Massachusetts by Metrc.

otherwise regulate the number of establishments within their jurisdiction. Vertical integration is required for medical cultivation and dispensing businesses but is not required or prohibited for medical products manufacturers or any adult-use business types. The Colorado Regulators have a rolling non-competitive application process and business operations require both a state and local license.

Compliance Program

The Company has placed a high priority on compliance. Compliance procedures are interwoven into all phases of company operations to include revenue, employee onboarding, training and auditing. The Company's compliance program has been implemented in both California and Oregon, and will be similarly implemented in Massachusetts and Colorado once its operations commence in each state, respectively. In Nevada, under the Company's royalty agreement with Acres, Acres is responsible for ensuring the Company's products comply with state law. An ongoing review of compliance requirements takes place and has resulted in the following policies and procedures which are summarized below:

Operational, Employee Training and Onboarding

Two on site employees work directly with the Compliance Manager to ensure that compliance procedures are followed within the organization. The Compliance Manager has overall responsibility for local operations and works with the operations team to ensure that compliance procedures are correctly applied and implemented. The Product Safety Manager is assigned to screen all incoming products for state compliant labelling and warnings. The Safety Manager also monitors the laboratory testing requirements and ensures that all product transferred into the Company facility meets the applicable compliance testing and safety standards.

All employees are required to participate in periodic compliance reviews to maintain a current knowledge of the regulations they must follow. In addition, time is allotted for employee training during the Company all hands meetings, and employees are trained in regulations that pertain to their state. After the training, a review period occurs where employees may familiarize themselves with the regulations covered in the training. As a means of emphasizing the importance of compliance to employees, each is then required to sit for a short exam that requires them to cite the relevant regulation in their answers. The resultant score is used to determine which employees if any, need remedial education on the subject matter.

Additional training highlights the importance of proper conduct and the regulatory knowledge expected of every employee. Compliance, personal integrity and personal responsibility are stressed as a means of measuring each individual's performance.

Inspection of Downstream Retail Facilities

The controlling regulations in both Oregon and California require that the sale of cannabis products can only be between licensees except for a retailer who can sell direct to a consumer. However, California and Oregon approach how to maintain compliance with this rule differently. In Oregon, all sales and transfers are entered into the Marijuana Enforcement Tracking Reporting Compliance system ("METRC"). Each current and valid licensee is assigned an account on METRC. METRC is monitored by the Oregon Liquor Control Commission (OLCC), the state agency appointed to oversee cannabis compliance. When the OLCC revokes a license or when a license expires, the licensee's METRC account immediately becomes inactive. Once a licensee's account is inactive, the licensee can no longer conduct cannabis sales or transfers in the state.

In California, compliance procedures have been in place since January 1, 2018, the beginning of the current licensing scheme in California, to ensure that all the Company's retail customers maintain a current state license. Before a product is ordered and delivered to a retailer, a Company representative requests a copy of the license and verifies the licensee is active through the Bureau of Cannabis Control portal. A copy of the license and expiration date is kept on file in the Company's sales software and continuously monitored.

Legislative Advocacy

The cannabis industry in the United States is complex. There are commonly 2 to 3 levels of regulatory oversight with some markets having more. It is important to understand how local county, state and even federal prohibition laws relate to each other to safely

and compliantly conduct business in legal markets. The complexity of each market is highly dependent on local political support as well as state lawmakers' initiatives that are tied to federal lawmakers attempting to remove cannabis as a Schedule 1 drug. It is imperative that the Company leads the conversation at every possible level of regulatory oversight to enable safe and compliant expansion. Navigating this regulatory maze is a strategic and competitive advantage and places the Company in a leadership position. Having regulators consult with the Company leadership in new markets, allows for best business practices to be implemented and written into law, maximizing value creation.

The Company has deployed a team of seasoned professionals, enlisted from highly regulated industries with decades of experience, to engage the complex, highly regulated cannabis industry. This team is also comprised of current and past public officials that are well versed in public policy and regulatory demands. This team is responsible for relationships at all regulatory levels, providing appointed and elected officials access to the Company's thought leadership, especially during the adoption and creation of new and expanding laws. The Company sees the effort in creating and maintaining these relationships as an important business advantage.