

## **TerrAscend Corp.**

### **Management Discussion & Analysis**

**Amounts in thousands of Canadian dollars, except for per share amounts  
September 30, 2018**

#### **Introduction**

*This Management's Discussion and Analysis ("MD&A") relates to the performance, financial condition and future prospects of TerrAscend Corp. ("TerrAscend", or the "Company") and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2017 and 2016 (the "Annual Financial Statements"), annual MD&A, and the unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2018 and 2017 (the "Quarterly Financial Statements"), including the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). References in this MD&A to TerrAscend or the Company include its subsidiaries, as the context requires. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. All amounts are presented in thousands of Canadian dollars unless otherwise specified. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of September 30, 2018 and for the nine months ended September 30, 2018. Readers are encouraged to read the Company's public information filings which can be accessed and viewed through a link to the Company's Canadian Securities Commissions filings via the System for Electronic Data Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).*

This MD&A was approved by the Board of Directors of TerrAscend on November 20, 2018, and reflects all material events up to that date.

Other than per share amounts, all dollar amounts in this MD&A are in thousands of Canadian dollars unless otherwise stated. All percentages are calculated using the rounded numbers as they appear in the tables.

#### **Forward-Looking Statements**

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management.

The forward-looking statements contained herein are based on certain key expectations and assumptions, relating to:

- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, and the use of net proceeds from Private Placements;
- the suitability of the production facility;
- expectations with respect to the expansion of the production facility;
- TerrAscend's expectations regarding its consolidated revenue, expenses and operations;
- TerrAscend's intention to develop its business and its operations;
- expectations with respect to future production costs and capacity;
- expectations regarding potential opportunities in the US cannabis market;
- the general economic, financial market, regulatory and political conditions in which the Company operates;
- consumer interest in the Company's products;
- the timely receipt of any required regulatory approvals, including approvals from Health Canada;
- competition;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; and
- the ability of the Company to conduct operations in a safe, efficient and effective manner.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Certain of the forward-looking statements and forward-looking information and other information contained in this MD&A concerning TerrAscend's industry and the markets in which it operates, including general expectations and market position, market opportunities and market share, is based on estimates prepared by TerrAscend using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which TerrAscend believes to be reasonable. While TerrAscend is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves risks and uncertainties that are subject to change based on various factors and TerrAscend has not independently verified such third-party information. See "Risk Factors" in this MD&A. Given these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements or information. Whether actual results, performance or achievements will conform to TerrAscend's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors.

### **Business Overview**

TerrAscend Corp. ("TerrAscend" or the "Company") was incorporated under the Ontario Business Corporations Act. on March 7, 2017 and has four wholly-owned subsidiaries: TerrAscend Canada Inc. (formerly "Solace Health Inc.", "TerrAscend Canada"), Solace Health Network Inc. (formerly "Terra Health Network Inc.", "SHN"), 2627685 Ontario Inc and Well & Good Inc. The Company also has a 50% interest in Solace RX Inc. ("SolaceRx"), 60% interest in Ascendant Laboratories Inc. ("Ascendant Lab") and 75% interest in Neta NJ LLC ("NNJ"). SolaceRx and Ascendant Lab have not commenced business activities. 2627685 Ontario Inc. and Well & Good are holding companies with no operating activities. Until such time as the Reorganization is completed (Note 20), neither Well & Good nor NNJ shall engage in the business of, or derive any revenue from, the cultivation, distribution or possession of cannabis in the United States.

The Company's registered and head office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

TerrAscend Canada is a Licensed Producer ("**LP**") of cannabis (under the Cannabis Act) and its current principal business activities are in development and include cultivation and sale of medical and adult use cannabis. SHN conducts additional activities, including physician and patient education and support programs. SolaceRx is a proposed drug preparation facility (the "**DPP**"). The numbered Company 2627685 Ontario Inc. and Well & Good Inc. act as holding companies for future partnerships and investments. Ascendant Laboratories is a science and innovation company dedicated to the advancement of cannabinoid expressing plant biology.

The market for cannabis (including medical cannabis) in Canada was regulated by the *Controlled Drugs and Substances Act* (Canada) (the "**CDSA**"), the *Access to Cannabis for Medical Purposes Regulations* (Canada) (the "**ACMPR**"), the *Narcotic Control Regulations* (the "**NCR**") and other applicable laws. Health Canada is the primary regulator of the industry as a whole. On October 17, 2018, the Cannabis Act went into effect which now governs both the medical and adult use regulated markets in Canada.

TerrAscend Canada applied to Health Canada to become a LP under the ACMPR and on July 10, 2017 was granted that license (the "**License**") for its 67,300 square foot Mississauga facility (the "**Facility**"). Phase I construction on approximately 18,000 square feet of the Facility has been completed and is in use for cultivation and processing of medicinal cannabis. The current licensed space includes: 2 Flower Rooms, a Mother/Vegetation room, a trimming/drying room, a packaging room, an order fulfillment room, a level 10 vault, and additional supporting areas such as mechanical and electrical rooms.

TerrAscend Canada was granted amendments to its License by Health Canada on February 5<sup>th</sup> and March 9<sup>th</sup>, 2018 for production of cannabis oil and sale of dried cannabis respectively. The Company commenced medical sales in April 2018 and adult use sale in September 2018.

TerrAscend Canada is currently in the process of building out the vacant 41,000 square foot area between the front offices and existing Phase 1 build of the property at the Facility. The buildout is divided into three separate areas:

1. The proposed DPP, which will be licensed under the Ontario College of Pharmacists when completed. (~6,500 Sq Ft)
2. An expansion of Cultivation and Support Facilities which will be licensed under the Cannabis Act when completed. (~22,000 Sq Ft)

3. Good Manufacturing Practices (GMP) Post Cultivation Processing space which will be licensed under the Cannabis Act when completed. (~12,000 Sq Ft)

The construction of the DPP began in February of 2018 and once completed, the DPP will have 16 GMP compounding stations and will allow the Company to produce medicinal compounds for distribution to health care institutions and practitioners and generate a revenue stream that is completely separate from the Canadian cannabis market.

The expansion of the cultivation area is currently in progress. Cultivation will commence upon the completion of the construction and granting of the permit by the City of Mississauga, and in addition obtaining approval from Health Canada. The additional space will allow for the cultivation of an estimated 1,500 to 2,000 kilograms of dried cannabis annually.

The GMP processing area is currently under construction and once completed will provide the Company with processing and packaging areas that can be used to produce and package alternative formats of dried cannabis products and derivative products such as oils.

### **Significant Events**

In August 2018, the Company secured supply agreements with the provinces of Ontario (25 SKUs), British Columbia (22 SKUs), Nova Scotia (15 SKUs) and Prince Edward Island (4 SKUs), to provide a variety of premium branded cannabis products for the adult-use cannabis market, that commenced October 17, 2018

On August 27, 2018, TerrAscend appointed Adam Kozak as Chief Financial Officer.

On September 20, 2018, SHN entered into an agreement with MCI Medical Clinics Inc. (“MCI”) to provide medical cannabis services. MCI is one of the largest primary medical care groups in Canada with twenty-six clinics located across the country with over two million registered patients. Under the terms of the agreement, SHN will become the exclusive partner for MCI, providing MCI patients with access to expertise, services and information, as well as ongoing clinical and reimbursement support.

On September 26, 2018, TerrAscend entered an agreement with MDM Insurance Services Inc. (“MDM”) to establish a program for medical cannabis coverage and a framework for research on cannabis and medication utilization. Under the terms of the agreement, MDM and the Company, agree to develop a Case Management and Education Services Program through SHN. The collaboration will develop suitable programs for group benefit beneficiaries using or considering the use of medical cannabis. The agreement will also provide for the establishment and implementation of a research framework to further understand the impact of medical cannabis on medication utilization.

### **Outlook**

TerrAscend’s wholly owned subsidiary TerrAscend Canada is a licensed medical cannabis company. The Company has a growth plan in place to ramp up production, processing and distribution of medicinal and adult use cannabis.

The location of the Facility allows the Company to offer same-day, third-party processing and distribution services to patients of other LP’s that are located outside of the Greater Toronto Area and out-of-Province. Such third-party distribution services are subject to approval by Health Canada, and to the Licensed Producer obtaining a license to sell its product from the Facility.

In addition to medical and adult-use cannabis cultivation, processing and distribution, the Company is also focused on developing diversified revenue streams from non-cannabis sources. Through a 50%-owned joint venture arrangement with Solace Rx, TerrAscend has entered into a joint venture agreement to construct and license a DPP facility for non-cannabis drug formulations, subject to compliance with all regulatory and licensing requirements. The DPP will be in the business of the reconstitution, dilution, preparation and/or combination of non-cannabis drug preparations for health care practitioners and institutions. The DPP will be operated by TerrAscend’s joint venture partner, an experienced compounding pharmacist and pharmacy operator-.

## SELECTED FINANCIAL INFORMATION

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including revenues, loss from operations and other information for the periods presented, which were prepared in accordance with IFRS and should be read in conjunction with the corresponding unaudited interim condensed consolidated financial statements and related notes.

	December 31, 2016	December 31, 2017	September 30, 2018
	\$	\$	\$
Total revenue	—	—	1,795
Net gain (loss)	(867)	(7,086)	(10,379)
Net loss attributable to controlling interest	—	—	(10,308)
Net gain (loss) per share	(0.09)	(0.19)	(0.11)
Cash and cash equivalents	3,333	51,817	15,121
Working capital	1,680	52,000	40,662
Non-current assets	401	15,369	24,700
Total assets	3,867	69,062	69,374
Current liabilities	1,786	1,693	4,012
Long-term liabilities	—	—	—
Total shareholders' equity	2,081	67,369	65,362

## **SUMMARY OF QUARTERLY RESULTS**

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including revenues, loss from operations and other information for the periods presented, which were prepared in accordance with IFRS and should be read in conjunction with the corresponding unaudited interim condensed consolidated financial statements and related notes.

	Q1 2017 \$	Q2 2017 \$	Q3 2017 \$	Q4 2017 \$	Q1 2018 \$	Q2 2018 \$	Q3 2018 \$
<b>Revenue</b>	—	—	—	—	—	9	1,786
Cost of goods sold	—	—	—	—	—	7	1,706
Impairment of inventory	—	—	—	—	—	623	1,081
Production salaries and wages	—	—	—	—	226	224	93
Production amortization and depreciation	—	—	—	—	81	96	103
Production supplies and expenses	—	—	—	—	105	84	267
Gross profit before gain on fair value of biological assets	—	—	—	—	(412)	(1,025)	(1,464)
Unrealized gain on changes in fair value of biological assets	—	—	—	—	577	99	917
Realized loss on changes in fair value of biological assets	—	—	—	—	—	—	(69)
<b>Gross margin</b>	—	—	—	—	<b>165</b>	<b>(926)</b>	<b>(616)</b>
<b>Expenses:</b>							
Share-based payments (recovery)	—	2,705	50	(298)	998	978	2,090
General and administrative expense (recovery)	128	305	782	1,266	940	2,047	2,811
Consulting & professional fees	551	104	305	641	394	776	1,727
Research & development	—	—	—	—	—	31	70
Selling expenses	—	—	—	—	171	547	452
Amortization and depreciation	—	—	84	160	88	107	149
Loss on disposal of property and equipment	—	—	—	222	—	—	—
Shareholder relations	—	36	101	16	72	54	39
Finance (income) expense	321	406	164	(927)	(101)	(234)	(100)
Unrealized (gain) loss on investments	—	—	—	—	—	—	(5,079)
Unrealized foreign exchange (gain) loss	—	—	—	—	—	—	168
Other income	—	(8)	(6)	(23)	(50)	(34)	(109)
<b>Total operating expenses</b>	<b>1,000</b>	<b>3,548</b>	<b>1,481</b>	<b>1,057</b>	<b>2,512</b>	<b>4,272</b>	<b>2,218</b>
<b>Net loss and comprehensive loss</b>	<b>1,000</b>	<b>3,548</b>	<b>1,481</b>	<b>1,057</b>	<b>(2,347)</b>	<b>(5,198)</b>	<b>(2,834)</b>
<b>Less: Net loss attributable to non-controlling interest</b>	—	—	—	—	—	—	71
<b>Net loss attributable to controlling interest</b>	<b>1,000</b>	<b>3,548</b>	<b>1,481</b>	<b>1,057</b>	<b>(2,347)</b>	<b>(5,198)</b>	<b>(2,763)</b>
Net loss per share – basic	<b>(0.03)</b>	<b>(0.12)</b>	<b>(0.04)</b>	<b>(0.02)</b>	<b>(0.02)</b>	<b>(0.05)</b>	<b>(0.03)</b>

### Three Months Ended September 30, 2018 vs. Three Months Ended September 30, 2017

#### Revenue

The Company commenced medical sales and bulk sales to other LP's in April 2018 and adult use sales in September 2018. For the three months ended September 30, 2018, revenue totaled \$1,786 as compared to \$nil for the same period last year.

#### Cost of Sales

Every reporting period, the Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest and recognizes a gain or loss on the transformation of biological asset. Upon harvest, the fair value less costs to sell at that point is reclassified from biological asset to inventory and this amount is recognized as realized loss on change in fair value of biological asset upon sale of finished goods.

The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are in the scope of IAS 16 – Property, Plant and Equipment, but only have a useful life of less than one year.

Any costs related to the production and cultivation of biological assets prior to harvest are treated as periodic expense and are included in the consolidated statement of income (loss) for the related period.

The fair value changes of the biological assets, cost of goods sold, impairments, and production costs that make up the total cost of sales, for the three months ended September 30, 2018 and three months ended September 30, 2017, is presented in the table below:

Three months ended September 30,	2018	2017
	\$	\$
<b>Cost of goods sold</b>	1,706	—
<b>Impairment of inventory</b>	1,081	—
<b>Production costs</b>	463	—
<b>Unrealized loss (gain) on changes in fair value of biological assets</b>	(917)	—
<b>Realized loss on changes in fair value of biological assets</b>	69	—
<b>Cost of Sales</b>	2,402	—

Cost of sales for the three months ended September 30, 2018 were \$2,402 compared to the prior year same period cost of sales of \$nil. The Company commenced medical sales and bulk sales to other LP's in April 2018 and adult use sales in September 2018. This increase in cost of sales is as a result of the commencement of sales and due to various costs of cultivation. In addition, during the three months ended September 30, 2018, the carrying value of inventory exceeded the estimated net realizable value, resulting in an impairment of \$1,081.

Production costs and cost of goods sold were offset by unrealized fair value gains on the transformation of biological assets. Fair value gains/ losses on transformation are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, average selling prices, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a negative impact on expected gains.

Gain on fair value of biological assets during the three months ended September 30, 2018 was \$917 compared to \$nil for the same period last year.

### ***Net Income (Loss)***

The Company incurred a net loss of \$2,834 or \$0.03 per share for the three months ended September 30, 2018, compared with a net loss of \$1,481 or \$0.04 per share for the same period last year. The Company incurred a net loss attributable to controlling interest of \$2,763 for the three months ended September 30, 2018, compared with a net loss \$1,481 for the same period last year. The Company continued to ramp up its operations in the third quarter of 2018 after conclusion of supply agreements with British Columbia, Ontario, Prince Edward Island and Nova Scotia boards.

### ***Share-based Payments***

Share-based payments were \$2,090 for the three months ended September 30, 2018 compared to \$50 for the same period last year. The increase is primarily explained by lower number of options granted in the third quarter of 2017 (448,749 stock options) as compared to the third quarter of 2018 (2,110,000 stock options). In addition, \$15 and \$72 have been allocated to production costs and selling expenses respectively and \$16 capitalized to inventory in the third quarter 2018 while \$nil was allocated to production, selling or inventory in the same period of 2017.

### ***General and Administrative Expense***

General & Administrative (“G&A”) expenses of \$2,811 for the three months ended September 30, 2018 increased by \$2,029 compared to \$782 for the same period last year. The increase in G&A was primarily due to an increase in office expense of \$271, an increase in insurance of \$131, an increase in salaries and wages of \$1,069, an increase in advertising and promotion of \$463. The Company continued to increase headcount in the quarter after receiving its license to sell dried flower on March 9<sup>th</sup>. Various other expenses such as: rent, permits and licenses and travel increased by \$95.

### ***Consulting & Professional Fees Expense***

Consulting and professional fees of \$1,727 for the three months ended September 30, 2018 increased by \$1,422 compared to \$305 for the same period last year. The increase mainly refers to the legal and consulting fees associated with the plan of arrangement announced on October 9, 2018.

### ***Selling Expense***

Selling expense of \$452 for the three months ended September 30, 2018 increased by \$452 compared to \$nil for the same period last year. The selling expense consists of salaries for the sales and marketing team, which had not been hired in the previous year’s quarter.

### ***Amortization and Depreciation Expense***

Amortization and depreciation expense of \$149 for the three months ended September 30, 2018 increased by \$65 compared to \$84 for the same period last year. The actual increase in amortization and depreciation for the current quarter was \$252; however, \$103 was reclassified as production amortization and depreciation expense.

### ***Shareholder Relations***

Shareholder relations expense of \$39 for the three months ended September 30, 2018 decreased by \$62 compared to \$101 for the same period last year. The expense related to services rendered by investor relation management agents and our transfer agent.

### ***Finance (income) expense***

For the three months ended September 30, 2018 finance income totaled \$100 while for the same period of 2017 the Company reported \$164 of finance expense. The finance income in 2018 is mainly due to interest income. The finance expense in 2017 is associated with the interest and accretion on the convertible debenture.

### *Unrealized (gain) loss on investments*

Unrealized gain on investments for the three months ended September 30, 2018 was \$5,079. Gain on investments is due to revaluation of investment in Fire & Flower Inc. shares and warrants.

### *Foreign exchange (gain) loss*

Unrealized foreign exchange loss amounted to \$168 in the third quarter of 2018 is related to the translation of the Company's US subsidiary NNJ.

### *Other income*

For the three months ended September 30, 2018, other income totaled \$109 as compared to \$6 for the three months ended September 30, 2017. Other income was mainly related to \$32 of educational fees received by the Company for educating patients of third-party LP's for the purchase of medical cannabis, \$72 of storage fees and \$5 of rental fees.  
**Nine Months Ended September 30, 2018 vs. Nine Months Ended September 30, 2017**

Nine months ended September 30,	2018	2017
	\$	\$
<b>Revenue</b>	1,795	—
Cost of goods sold	1,713	—
Impairment of inventory	1,704	—
Production salaries and wages	543	—
Production amortization and depreciation	280	—
Production supplies and expenses	456	—
Gross profit before gain on fair value of biological assets	(2,901)	—
Unrealized gain on changes in fair value of biological assets	1,593	—
Realized loss on changes in fair value of biological assets	(69)	—
<b>Gross margin</b>	(1,377)	—
<b>Expenses:</b>		
Share-based payments (recovery)	4,066	2,755
General and administrative expense (recovery)	5,798	1,217
Consulting & professional fees	2,897	960
Research & development	101	—
Selling expenses	1,170	—
Amortization and depreciation	344	84
Shareholder relations	165	138
Finance (income) expense	(435)	891
Unrealized (gain) loss on investments	(5,079)	—
Unrealized foreign exchange (gain) loss	168	—
Other income	(193)	(14)
<b>Total operating expenses</b>	<b>9,002</b>	<b>6,030</b>
<b>Net loss and comprehensive loss</b>	(10,379)	(6,030)
Less: Net loss attributable to non-controlling interest	71	—
Net loss attributable to controlling interest	(10,308)	(6,030)
Net loss per share – basic	<b>(0.11)</b>	<b>(0.20)</b>

## **Revenue**

The Company commenced medical sales and bulk sales to other LP's in April 2018 and adult use sales in September 2018. For the nine months ended September 30, 2018, revenue totaled \$1,795 as compared to \$nil for the same period last year.

## **Cost of Sales**

The fair value changes of the biological assets, inventory expensed, fair value recovery and impairments, and production costs that make up the total cost of sales, for the nine months ended September 30, 2018 and nine months ended September 30, 2017, is presented in the table below:

Nine months ended September 30,	2018	2017
	\$	\$
<b>Cost of goods sold</b>	1,713	—
<b>Impairment of inventory</b>	1,704	—
<b>Production costs</b>	1,279	—
<b>Unrealized loss (gain) on changes in fair value of biological assets</b>	(1,593)	—
<b>Realized loss on changes in fair value of biological assets</b>	69	—
<b>Cost of Sales</b>	3,172	—

Cost of sales for the nine months ended September 30, 2018 were \$3,172 representing an increase of \$3,172 compared to the prior year same period cost of sales of \$nil. The Company commenced medical sales and bulk sales to other LP's in April 2018 and adult use sales in September 2018. This increase in cost of sales is as a result of the commencement of sales and due to various costs of cultivation. In addition, during the nine months ended September 30, 2018, the carrying value of inventory exceeded the estimated net realizable value, resulting in an impairment of \$1,704.

Production costs and cost of finished inventory harvest sold were offset by fair value gains on the transformation of biological assets. Fair value gains are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, average selling prices, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a negative impact on expected gains.

Gain on fair value of biological assets during the nine months ended September 30, 2018 was \$1,593 compared to \$nil for the same period last year. The increase in fair value gain was primarily due to the first-time valuation of biological assets growing at the Mississauga Facility.

## **Net Income (Loss)**

The Company incurred a net loss of \$10,379 or \$0.11 per share for the nine months ended September 30, 2018, compared with a net loss of \$6,030 or \$0.20 per share for the same period last year. The Company incurred a net loss attributable to controlling interest of \$10,308 for the nine months ended September 30, 2018, compared with a net loss of \$6,030 for the same period last year. The Company continued to ramp up its operations in the third quarter of 2018 after receiving its license to produce cannabis oils and the license to sell dried cannabis and conclusion of supply agreements with British Columbia, Ontario, Prince Edward Island and Nova Scotia boards.

## **Share-based Payments**

Share-based payments were \$4,066 for the nine months ended September 30, 2018 compared to \$2,755 for the same period last year. The increase is primarily explained by greater number of options granted during the nine months ended September 30, 2018 (4,740,000 stock options) as compared to the nine months ended September 30, 2017 (3,118,749 stock options). In addition, \$189 and \$181 have been allocated to production costs and selling expenses

respectively and \$43 capitalized to inventory during the nine months ended September 30, 2018 while \$nil was allocated to production, selling or inventory in the same period of 2017.

#### ***General and Administrative Expense***

G&A expenses of \$5,798 for the nine months ended September 30, 2018 increased by \$4,581 compared to recovery of \$1,217 for the same period last year. The increase in G&A was primarily due to an increase in office expense of \$500, an increase in travel of \$206, an increase in salaries and wages of \$1,788, an increase in advertising and promotion of \$1,648, an increase in insurance of \$364. Various other expenses such as: rent, utilities, permits and licenses, vehicle expenses increased by \$76.

#### ***Consulting & Professional Fees Expense***

Consulting and professional fees of \$2,897 for the nine months ended September 30, 2018 increased by \$1,937 compared to \$960 for the same period last year. The increase mainly refers to the due diligence fees associated with investments and joint venture formation in April-June 2018 and preparation of the plan of arrangement announced on October 9, 2018, while in the same period of 2017 the Company was just commencing its operations.

#### ***Selling Expense***

Selling expense of \$1,170 for the nine months ended September 30, 2018 increased by \$1,170 compared to \$nil for the same period last year. The selling expense consists of salaries for the sales and marketing team, which had not been hired in the previous year's period.

#### ***Amortization and Depreciation Expense***

Amortization and depreciation expense of \$344 for the nine months ended September 30, 2018 increased by \$260 compared to \$84 for the same period last year. The actual increase in amortization and depreciation for the current quarter was \$624; however, \$280 was reclassified as production amortization and depreciation expense.

#### ***Shareholder Relations Expense***

Shareholder relations expense of \$165 for the nine months ended September 30, 2018 increased by \$27 compared to \$138 for the same period last year. The expense related to services rendered by investor relation management agents and our transfer agent.

#### ***Finance (income) expense***

For the nine months ended September 30, 2018 finance income totaled \$435 while for the same period of 2017 the Company reported \$891 of finance expense. The finance income in 2018 is mainly due to interest income from term deposits and note receivable. The finance expense in 2017 is associated with the interest and accretion on the convertible debenture.

#### ***Unrealized (gain) loss on investments***

Unrealized gain on investments for the nine months ended September 30, 2018 was \$5,079. Gain on investments is due to revaluation of investment in Fire & Flower Inc. shares and warrants.

#### ***Foreign exchange (gain) loss***

Unrealized foreign exchange loss amounted to \$168 during the nine months ended September 30, 2018 is related to the translation of the Company's US subsidiary NNJ .

#### ***Other income***

For the nine months ended September 30, 2018, other income totaled \$193 as compared to \$14 for the nine months ended September 30, 2017. Other income was related to \$92 of educational fees received by the Company for educating patients of third-party LP's for the purchase of medical cannabis, \$87 of storage fee for storing inventory

on behalf of other LP's and \$14 of rental income which pertained to the space used for solar panels on the Company's facility.

### **Liquidity and Capital Resources**

As at September 30, 2018, TerrAscend had cash of \$15,121 and a working capital surplus of \$40,662.

The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through issuance of shares.

### ***Operating Activities***

For the nine months ended September 30, 2018, the Company's cash outflows from operating activities were \$26,597 (nine months ended September 30, 2017 – \$3,397). The principal use of operating cash flow was to ramp up the operations after receiving the license to produce cannabis oils and the license to sell dried cannabis and conclusion of supply agreements with provincial boards.

### ***Financing activities***

During the nine months ended September 30, 2018, 899,225 warrants were exercised for \$1.75 per unit for total gross proceeds of \$1,573 and 852,764 stock options were exercised ranging in price from \$0.85 to \$3.20 for gross proceeds of \$774.

In the comparative period of last year, the cash provided by financing activities mainly resulted from private placement proceeds of \$5,654 and proceeds from convertible debentures \$8,985.

### ***Investing activities***

Cash used in investing activities during the nine months ended September 30, 2018 totaled \$13,576 and related primarily to the construction of the second, third and fourth phases of the Mississauga facility and leasehold improvements on the leased facility (\$8,713), investments in Fire & Flower Inc. shares and warrants (\$2,500), note receivable from Think AHLLOT (\$1,538), implementation of ERP system (\$741) and purchase of other intangible assets (\$84).

In comparison, the cash used in investing activities during the nine months ended September 30, 2017 amounted to \$13,507 was due to purchase of land and building and start of construction of Mississauga facility.

### **Financial Instruments**

The Company has classified its cash as fair value through profit and loss, receivables as loans and receivables, and accounts payable and accrued liabilities, due to related parties and convertible debentures as other financial liabilities.

The carrying values of cash, receivables, note receivable, and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

### **Fair value hierarchy**

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

### **Financial risk factors**

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and note receivable. The Company's cash and cash equivalents is held at a major Canadian bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at September 30, 2018, the Company had cash and receivables balance of \$21,139 (December 31, 2017 - \$52,229) to settle current liabilities of \$4,012 (December 31, 2017 - \$1,693). As such, liquidity risk for the Company should be considered low. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Interest rate risk

The Company is not subject to any significant interest rate risk from its liabilities. All other financial liabilities are non-interest-bearing instruments.

### **Commitments**

TerrAscend does not have any commitments other than as disclosed in note 19 of the condensed interim consolidated financial statements.

### **Subsequent Events**

Subsequent to September 30, 2018, the Company granted 210,000 options to contractors and 300,000 options to employees of the Company. The options have a weighted average exercise price of \$10.26.

Subsequent to September 30, 2018, 2,273,913 warrants were exercised at an exercise price ranging from \$0.46 to \$1.75 for gross proceeds of \$1,175.

Subsequent to September 30, 2018, 211,667 unvested options were forfeited.

On October 8, 2018, the Company entered into a plan of arrangement with Canopy Growth Corp. ("Canopy Growth"), Canopy Rivers Corp. ("Canopy Rivers") and JW Opportunities Master Fund ("JW") in order to satisfy stock exchange regulations that restrict Canopy Growth and Canopy Rivers from having an investment in companies pursuing operations in the US. The plan of arrangement subject to shareholder approval on November 27, 2018, will result in the following restructuring of the Company's capital:

- each of Canopy Growth and Canopy Rivers will exchange their existing warrants of the Company for Common Shares with a value equal to the difference between the five day volume weighted average trading price of the Common Shares as of October 5, 2018, and the warrant exercise price ("Cashless Warrant Exercise");
- each of Canopy Growth and Canopy Rivers will exchange all of their Common Shares for a new class of unlisted shares exchangeable into Common Shares ("Exchangeable Shares") that will be non-voting and non-participating and will not be exchanged into Common Shares until (a) the applicable Cannabis Investment Restrictions are lifted or cannabis becomes legal under US federal law and (b) any necessary stock exchange approvals are received, at which point the Exchangeable Shares will become convertible into Common Shares on a one-for-one basis;

- JW will exchange their Common Shares for a new class of unlisted proportionate voting shares (“Proportionate Voting Shares”) on the basis of one Proportionate Voting Share for each 1,000 Common Shares held, which Proportionate Voting Shares will carry 1,000 votes per share, be entitled to participate in dividends and in the distribution of proceeds on a wind-up of the Company on a \$1,000-to-\$1.00 basis relative to the Common Shares and be exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share;
- the outstanding warrants to acquire Common Shares held by JW will be amended such that they will each become exercisable for 0.001 of a Proportionate Voting Share instead of one Common Share.

On October 9, 2018, the Company appointed Jeffrey J. Puglisi as Chief Corporate Officer overseeing US Strategy.

On October 15, 2018, TerrAscend Canada entered into a multi-year offtake agreement with PharmHouse Inc. ("PharmHouse"), a joint venture between Canopy Rivers and the principals and operators of a leading North American greenhouse produce company.

On October 18, 2018, the parent company incorporated a wholly owned subsidiary, TerrAscend Medical Holding Inc., in the province of Ontario.

Effective October 22, 2018 the Company began trading on OTCQX under the ticker symbol TRSSF.

On October 26, 2018, 2627685 Ontario Inc. incorporated a wholly owned subsidiary, 2151924 Alberta Ltd., in the province of Alberta.

## **Accounting Changes**

### **New standards, amendments and interpretations not yet adopted**

The following new standard has been issued but has not been adopted in preparing these condensed interim consolidated financial statements. Management is currently assessing the impact of this standard.

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. The Company is currently assessing the impact from this standard.

### **Critical accounting estimates**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management has applied significant estimates and assumptions related to the following:

i) *Biological assets and inventory*

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Management determines net realizable value which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

ii) *Stock 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, the vesting period of the option and the risk-free interest rate are used.

iii) *Warrants*

In calculating the fair value of the warrants issued, the Company includes key estimates such as the volatility of the Company's stock price, the value of the Common Share, and the risk-free interest rate.

iv) *Depreciation and amortization of property, plant and equipment and intangible assets*

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

v) *Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgements prove to be inaccurate, management's continued use of the going concern assumptions would be inappropriate.

vi) *Impairment of intangible assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the nine months ended September 30, 2018, management has determined that there were no indicators of impairment for its intangible assets.

vii) *Joint operations*

Judgement was required in determining whether the Company's investment in SolaceRx is a joint operation. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, related to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The Company recognizes only its assets, liabilities and share of the profits or losses of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Statements of Financial Position, Consolidated Statements of Loss, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Changes in Shareholders Equity and Consolidated Statements of Cash Flows.

Management has assessed that its investment in SolaceRx is a joint operation.

viii) *Asset acquisition*

In the acquisition of Ascendant Lab on June 8, 2018 judgement was required to determine if the acquisition represented either a business combination or an asset purchase. Management concluded that Ascendant Lab did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs.

Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill recognized on the transaction and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements.

## **Significant accounting policies**

### Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost method. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

### Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period.

The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are in the scope of IAS 16 – Property, Plant and Equipment, but only have a useful life of less than one year.

Any costs related to the production of biological assets are treated as periodic expense and are included in the consolidated statement of income (loss) for the related period.

### Revenue Recognition

The Company has adopted IFRS 15 – Revenue from Contracts with Customers for the nine months ended September 30, 2018.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenue upon delivery of goods to customers, since at this time performance obligations are satisfied.

### Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following terms:

Building and Improvements	30	Years
Irrigation & Lighting System	20	Years
Security System	5	Years
Office Furniture & Equipment	3-5	Years

As asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the items and are recognized in the statement of loss and comprehensive loss.

Assets in process are transferred to building and improvements when available for use and depreciation of the assets commences at that point.

### Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets are acquired at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each period end and any changes in estimates are accounted for prospectively.

Amortization is calculated on a straight-line basis over the following terms:

Software	3	years
Patient List	5	years
Intellectual Property	10	years
Website costs	5	years

Website costs are not being amortized as it is not yet ready for use. Amortization will commence when the website is operational.

### IFRS 9 - Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

### *Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

### *Financial assets at fair value through comprehensive income*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

### *Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

### *Impairment*

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with

defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

#### **Summary of the Company's classification and measurements of financial assets and liabilities**

	IFRS 9		IAS 39	
	Classification	Measurement	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value	Loans and receivables	Fair Value
Receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Note receivable	FVTPL	Fair value	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value	Held for trading	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Deferred revenue	Amortized cost	Amortized cost	Other liabilities	Amortized cost

#### Share capital

##### *Common shares*

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity.

##### *Equity units*

Proceeds received on the issuance of units, comprised of common shares and warrants are allocated to common shares and warrants based on the relative fair value method.

#### Share-based compensation

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

Upon exercise of stock options and warrants any historical fair value in the warrants and share-based payment reserve are allocated to share capital. Upon cancellation or forfeitures of stock options and warrants any historical fair value in the warrants and share-based payment reserve are adjusted to the consolidated statements of loss and comprehensive loss. Upon expiry of stock options and warrants, any historical fair value in the warrants and share-based payment reserve are allocated to deficit.

## Outstanding Share Data

As at September 30, 2018, TerrAscend had 96,103,187 common shares outstanding.

As at the date of this MD&A, fully diluted share capital outstanding was as follows:

	# Outstanding	Weighted average exercise price \$
Common shares	98,377,100	N/A
Warrants	49,102,045	1.14
Options	7,594,314	3.64
Fully diluted shares outstanding	155,073,459	

## Risk Factors

The following section describes specific and general risks that could affect the Company. These risks and uncertainties are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company's operations could be materially adversely affected. The risk factors described below should be carefully considered by readers.

An investment in securities of the Company should only be made by persons who can afford a significant or total loss of their investment.

### *Reliance on Licenses*

The Company's ability to grow, store and sell medical cannabis and cannabis oil in Canada is dependent on TerrAscend Canada maintaining the License for both oil and dried cannabis production and the sale of dried cannabis with Health Canada. Failure to comply with the requirements of the License or any failure to maintain the License would have a material adverse impact on the business, financial condition and operating results of the Company.

The License expires on July 10, 2020. There can be no guarantees that Health Canada will extend or renew the License or, if they were extended or renewed, that the License would be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the License or should it renew the License on different terms, the business, financial condition and results of the operations of the company would be materially adversely affected.

In addition, the Company and its subsidiaries, as applicable, will apply for, as the need arises, all necessary licenses and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company or its subsidiaries to obtain, sustain or renew any such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

### *Obtaining a DPP License*

In February 2018, the Company's subsidiary, Solace Rx began construction of a proposed DPP location (the "DPP License") which will apply for a license from the Ontario College of Pharmacists. The DPP will allow for the reconstitution, dilution preparation and/or combination of non-cannabis drug formulations for health care practitioners and institutions. Solace Rx has not yet received the DPP License and there is no assurance this license will be granted, or if granted, when it will be granted. Furthermore, the timing and success of Solace Rx at the various steps in the licensing process is beyond its control and the sole discretion thereof lies with the Ontario College of Pharmacists. Should the Ontario College of Pharmacists not grant the DPP License, the business, financial condition and operating results of the Company could be materially adversely affected and the completion of the DPP may be halted or delayed.

### ***Expansion of Facilities***

Phase II construction for the expansion of growing and distribution activities, and the development of the DPP is currently underway at the Facility. There is no guarantee that Health Canada and the Ontario College of Pharmacists will approve the contemplated expansions of the Facility in a timely fashion, nor is there any guarantee that the expansion will be completed in its currently proposed form, if at all. The failure of the Company to successfully execute its expansion strategy (including receiving the expected Health Canada and Ontario College of Pharmacists approvals in a timely fashion) could adversely affect the business, financial condition and results of operations of the Company and may result in the Company not meeting anticipated or future demand when it arises.

The expansions of the Facility could be adversely affected by a variety of factors, including: delays in obtaining, or conditions imposed by, regulatory approvals; plant design errors; environmental pollution issues; non-performance by third party contractors; increases in materials or labour costs; construction performance falling below expected levels of output or efficiency; breakdown, aging or failure of equipment or processes; contractor or operator errors; labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and major incidents and/or catastrophic events, such as fires, explosions, earthquakes or storms.

### ***Reliance on a Single Production Facility***

The Facility is currently the Company's only licensed facility under the Cannabis Act and the License is specific to the Facility. Adverse changes or developments affecting the Facility, including but not limited to a breach of security, could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada or the Ontario College of Pharmacists also have an impact on the Company's ability to continue operating under the License, the prospect of renewing the License or of obtaining the DPP License.

The Facility continues to operate with routine maintenance, however the building does have components that require replacement or repair. The Company will bear many of the costs of maintenance and upkeep at the Facility. The Company's operations and financial performance may be adversely affected if it is unable to keep up with maintenance requirements.

Certain contemplated site expansions and renovations may require Health Canada or Ontario College of Pharmacists approval in order to continue. There is no guarantee that any contemplated expansion and/or renovation will be approved, which could adversely affect the business, financial condition and results of operations of the Company.

### ***Regulatory Risks***

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada, the Ontario College of Pharmacists and other applicable regulatory bodies are implementing that effect the business of the company. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of governmental compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

### ***Changes in Laws, Regulations and Guidelines***

Several recommendations made by the Task Force reflected in the Cannabis Control Act could materially and adversely affect the business, financial condition and results of operations of the Company. These recommendations include, but are not limited to, permitting home cultivation, potentially easing barriers to entry into a Canadian adult use cannabis market and restrictions on advertising and branding. Their advice was considered by the Government of Canada as a new framework for adult use cannabis is developed, and it remains possible that such developments could significantly and adversely affect the business, financial condition and results of operations of the Company.

While the production of cannabis will be under the regulatory oversight of the Government of Canada, the distribution of adult use cannabis will be the responsibility of the provincial and territorial governments. On December 12, 2017, the Government of Ontario announced the passage of the Cannabis Act, which included the creation of a new provincial retailer, overseen by the AGCO, for the distribution of adult use cannabis through stand-alone stores and an online order service. The impact of changes in legislative regimes, and of any new legislation passed in other provinces, on the medical cannabis industry and the Company's business plans and operations is uncertain. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult use purposes will create the growth opportunities that the Company currently anticipates.

On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the August 2013 memorandum authored by then Deputy Attorney General James Cole (the "**Cole Memorandum**") indicating that the U.S. Department of Justice would not prioritize the prosecution of cannabis-related violations of U.S. federal law in jurisdictions that had enacted laws legalizing cannabis in some form and that had also implemented strong and effective regulatory and enforcement systems. With the Cole Memorandum rescinded, U.S. federal prosecutors can exercise their discretion in determining whether to prosecute cannabis-related violations of U.S. federal law. While the Company does not engage in any U.S. cannabis-related activities, the market price of the Company's common shares may be affected by the Company's proposed entry into the U.S. market, regulatory changes and developments that affect the cannabis industry generally.

On June 19, 2018 Canada's Senate voted to pass Bill C-45.

### ***Environmental and Employee Health and Safety Regulations***

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

### ***Product Recalls***

The Company's products may be subject to recall or return for a variety of reasons, including product defects such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection therewith. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the

Company's operations by Health Canada and other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### ***Product Liability Claims***

As a manufacturer of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacturing and sale of cannabis and other products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company.

### ***History of Net Losses***

The Company commenced sales in April 2018 and historically has had negative cash flow from operating activities. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Continued losses may have the following consequences:

- increasing the Company's vulnerability to general adverse economic and industry conditions;
- limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry.

### ***Production Capacity and Management of Growth***

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

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

The Company has a limited operating history and, accordingly, potential investors will have a limited basis on which to evaluate its ability to achieve its business objectives. The future success of the Company is dependent on management's ability to implement its strategy and there is no certainty that anticipated outcomes and sustainable revenue streams will be achieved and there is no certainty that the Company will successfully produce commercial medical cannabis, establish a market for and sell its product, maintain the License or obtain other necessary licenses and/or approvals.

The Company faces risks frequently encountered by early-stage companies. In particular, its future growth and prospects will depend on its ability to expand its operation and gain additional revenue streams while at the same time maintaining effective cost controls. Any failure to expand is likely to have a material adverse effect on the Company's business, financial condition and results. As such, there is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

### ***Early Stage of the Medical Cannabis Industry***

Competitive conditions, consumer preferences, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the Cannabis Act also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf. This could potentially significantly reduce the market for the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

### ***Competition***

The Cannabis Act and the introduction of an adult use model for cannabis production and distribution will likely impact the cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

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

The government has only issued to date a limited number of licenses under the Cannabis Act to produce and sell medical cannabis. According to Health Canada, as of November 15, 2018, there are currently 132 LP's under the Cannabis Act. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The Company also faces competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid license under the Cannabis Act.

If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and adult use cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

### ***Inherent Risks Associated with the Agricultural Business***

The Company's business involves the growing of medical cannabis, an agricultural product. Such business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although such growing is completed indoors under climate-controlled conditions, and while all growing conditions are carefully monitored with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

### ***Vulnerability to Rising Energy Costs***

The Company's medical cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

### ***Client Acquisitions***

The Company's success depends on its ability to attract and retain clients. There are many factors which could impact the Company's ability to attract and retain clients, including but not limited to the Company's ability to continually produce desirable and effective product, the successful implementation of a client-acquisition plan and the continued growth in the aggregate number of patients selecting medical cannabis as a treatment option. The Company's failure to acquire and retain clients would have a material adverse effect on the Company's business, operating results and financial condition.

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

The ability of the Company to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the cost of the expansion of the Facility contemplated by the Company may be significantly greater than anticipated by the Company's management and/or may cost more than the funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its expansion plan. This could have a material adverse effect on the financial condition and results of operations of the Company.

### ***Transportation Risks***

The Company business model contemplates offering same-day, third-party processing and distribution services to patients of other LP's that are located outside of the Greater Toronto Area and out-of-Province. As such, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by The Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably. Due to the nature of the Company's products, security of the product during transportation to and from the Facility is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the License or the prospect of renewing the License or obtaining additional licenses and/or approvals.

### ***Research and Development and Product Obsolescence***

The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render The Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third-party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete.

The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

### ***Privacy and Cyber Security***

A security breach at the Facility could expose The Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products. In addition, The Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions.

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage

and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the Personal Information Protection and Electronics Documents Act (Canada) ("**PIPEDA**"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

### ***Intellectual Property***

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights, and the protection thereof, are significant aspects of the Company's future success. The Company has no patented technology or trademarked business methods at this time nor has it registered any patents. In Canada and the United States, the Company has filed 23 trademark applications for brand and product names. Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, the Company is not assured that competitors will not develop similar technology, business methods or that the Company will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada or the United States. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningful impact on the Company's ability to successfully grow the business.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

### ***Insurance Coverage and Uninsured Risks***

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### ***Litigation***

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

### ***Reliance on and Retention of Qualified Personnel***

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, “**Key Personnel**”). Moreover, the Company’s future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of a Key Person, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on The Company’s ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

Further, as a Licensed Producer, each Key Person may be subject to a security clearance by Health Canada. Under the Cannabis Act, a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company’s existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by a Key Person to maintain or renew his or her security clearance may result in a material adverse effect on the Company’s business, financial condition and results of operations. In addition, if a Key Person leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance required by the Cannabis Act in a timely manner, or at all, it could have a material adverse effect on the Company’s business, financial condition and results of operations.

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

Certain of the directors and officers of the Company are also directors and officers of other companies or are engaged and will continue to be engaged in activities that may put them in conflict with the business strategy of the Company. Consequently, there exists the possibility for such directors and officers to be in a position of conflict.

In particular, the Company may also become involved in other transactions which conflict with the interests of its directors and officers, who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. All decisions to be made by directors and officers of the Company are required to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the Company. In addition, the directors and officers are required to declare their interests in, and such directors are required to refrain from voting on, any matter in which they may have a material conflict of interest.

The Company’s Chairman of the Board, Jason Wild, who is active and has other interests in the Canadian cannabis industry, has indirect and direct control or direction over approximately 36.6% of the outstanding Common Shares through JW Asset Management, LLC. and may exercise a significant degree of control over the business, future transactions and the composition of the Board and management.

### ***Unfavorable Publicity or Consumer Perception***

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis distributed to such consumers. Consumer perception of the Company’s products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company’s products and the business, results of operations, financial condition of the Company. In particular, adverse publicity reports or other media attention regarding the safety, efficacy and

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

Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

#### ***Reputational Risk to Third Parties***

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

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

The Common Shares are listed on the Canadian Securities Exchange, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

#### ***Share Price Volatility***

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

#### ***Risks Related to Dilution***

The Company may issue additional Common Shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

#### ***Access to Capital and Funding***

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

The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

### ***Cannabis Operations in the United States***

Investors should note that there are significant legal restrictions and regulations that govern the cannabis industry in the US. Cannabis remains a Schedule I drug under the United States Controlled Substances Act, making it illegal under federal law in the US to cultivate, distribute or possess cannabis in the US. Furthermore, financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the US may form the basis for prosecution under applicable US federal money laundering legislation.

While the approach to enforcement of such laws by the federal government in the US has trended toward non-enforcement against individuals and businesses that comply with medical or adult-use cannabis programs in states where such programs are legal, strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Following any investment made by the Company in operations in the US, enforcement of federal laws in the US will be a significant risk to the business of the Company and any proceedings brought against the Company thereunder may adversely affect the Company's operations and financial performance.

**November 20, 2018**

*“Michael Nashat”*

President and CEO