

iAnthus Capital Holdings, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended June 30, 2019 and 2018

Company Overview

iAnthus Capital Holdings, Inc. (the "Company", or "ICH", or "iAnthus") is one of the largest Multi-State Operators ("MSOs") in the United States, providing investors with diversified exposure to the regulated cannabis industry. The Company develops, owns, and operates, what the Company believes to be, the best-in-class licensed cannabis cultivation, processing, and dispensary facilities, and the Company offers innovative branded cannabis and CBD products in the United States. Through its subsidiaries, the Company currently owns and/or operates 26 dispensaries and 13 cultivation/processing facilities throughout the Eastern and Western regions of the United States and distributes cannabis and CBD products to over 110 dispensaries and 1,100 retail stores, respectively. Under the Company's existing licenses, interests and contractual arrangements, the Company has the capacity to own and/or operate up to 68 dispensaries and up to 15 cultivation/processing facilities, and manufacture and distribute our cannabis products in 11 states with an aggregate population of approximately 121 million.

The Company's multi-state operations encompass the full spectrum of medical and adult-use cannabis enterprises, including cultivation, processing, product development, wholesale-distribution, and retail. The Company's product offerings include flower (smokable flower and pre-rolls), concentrates (vaporizer cartridges, wax products, tinctures, topicals, etc.), cannabis infused edibles, as well as a full suite of CBD products. The Company is an innovative leader in the burgeoning regulated cannabis industry in the United States and is committed to creating a distinctive customer retail experience at its branded stores nationally and a portfolio of branded cannabis products recognized both in the United States and around the world.

Incorporated in British Columbia, Canada in 2014, the Company became the first licensed multi-state cannabis operator in the United States to publicly trade on the Canadian Securities Exchange (the "CSE") in 2016. Since its inception, the Company has accelerated the growth of its business through key strategic acquisitions. For example, on February 5, 2019, the Company acquired the U.S. operations of MPX Bioceutical Corporation ("MPX"). The acquisition of MPX (the "MPX Acquisition") expanded the Company's operations from six to 11 states, added a robust portfolio of MPX-branded products, enhanced its management team, and significantly increased its revenues.

In addition, on June 28, 2019, the Company acquired the assets and liabilities of CBD For Life, LLC ("CBD For Life"), a top-ranked, national CBD brand. CBD For Life's products are sold directly to consumers online at www.cbdforlife.us as well as in over 1,100 retail locations across the United States, with a dedicated sales channel working with national retailers to on-board new locations weekly. CBD For Life's roster of national retailers include Urban Outfitters, Paper Source, Of a Kind, Olympia Sports, and Weis Markets, with others soon to be announced. Since announcing the Urban Outfitters relationship in mid-April 2019, the retailer has expanded the lineup of CBD For Life products it carries and the number of retail locations in which it offers them.

Competitive strengths

National footprint with presence in key markets. The Company maintains its footprint in 11 states and has organized its operations into two regions: Eastern and Western. The Eastern region includes highly populous states with attractive competitive dynamics, including Florida, Massachusetts, Maryland, New Jersey, and New York. The Western region includes states with large adult-use cannabis markets including California, Colorado, and Nevada, along with medical cannabis markets in Arizona and New Mexico. Within each region, the Company has added strong regional leadership to drive operational efficiencies and financial performance, and further the Company's business strategy.

Ability to replicate processes and best practices. iAnthus believes that one of the most important competitive advantages a company can have is a strong team of both management and employees, who in turn are building processes that allow for scalability and long-term operational success. The Company has built a team that combines experience across cannabis, retail, marketing, and operations. The iAnthus team has implemented a number of best practices, Six Sigma processes and initiatives by objective philosophies that will help to streamline operations. iAnthus has implemented these practices, processes, and initiatives across all of its local markets, and believes that it can replicate these strategies within any new markets that it enters. In addition, as announced on May 4, 2019, the Company intends to rebrand its current dispensaries and future dispensaries under a single, unified retail brand concept, Be., beginning later this year. The first flagship Be. store is under construction in Brooklyn, and the Company anticipates a grand opening by the end of the year. New flagship stores in Miami, Las Vegas, and Atlantic City will follow and the Company's existing stores will be prioritized and gradually rebranded to Be. stores. iAnthus believes that its planned single retail brand concept and product brand rollouts will enable the Company to implement best practices in sales and marketing across our operations.

Company Overview (cont.)

Product development and brand building. The Company has developed a high quality and innovative line of processed cannabis products while continuing to cultivate high-grade biomass. The Company's MPX-branded products are distributed in over 90 retail locations in Arizona, Maryland, and Nevada and have received industry recognition by High Times Magazine and Leafly. Additionally, the Company distributes bulk flower, trim, and distillate as raw materials to its wholesale customers across its footprint.



Build strong brand recognition with global appeal and broad distribution. In addition to the Company's proposed single, unified retail brand, Be., iAnthus has built, and will continue to build, a portfolio of branded products via in-house development, acquisition, and licensing deals.



In addition to the Company's inhouse branded products, iAnthus has also entered into agreements to manufacture and/or distribute third party brands. In April, the Company entered into a licensing agreement with Blissiva, a women-owned Maryland based company specializing in medical cannabis products specifically formulated for women. Pursuant to this licensing agreement, iAnthus, through its license holders, will manufacture, market, and sell a variety of Blissiva products in Maryland. The licensing agreement also provides iAnthus, through its license holders, the exclusive right to launch Blissiva in the Company's ten other existing states and across the U.S.

Identification, execution, and integration of strategic acquisitions. Since the Company's inception, iAnthus has acquired a total of 19 cannabis related businesses, including historical acquisitions completed by MPX. The Company's strategic acquisitions have enabled iAnthus to expand its operations, add additional dispensary and processing/cultivation facilities, increase its employee base, add to its portfolio of branded products and access one of the fastest growing segments of the consumer products industry, CBD, which according to industry experts, is projected to generate \$16 billion in U.S. retail sales by 2025. iAnthus has a dedicated, highly experienced in-house team that sources, evaluates, and executes its strategic acquisitions, working in conjunction with the Company's operations, finance, accounting, and legal teams to ensure a coordinated effort and a successful synergistic integration.

Experienced and proven senior management team. Members of the Company's senior management team possess expertise in finance and capital markets, regulations and strategy, operations and project management, and marketing. The Company's senior management team includes individuals with a unique blend of experience in the cannabis, consumer packaged goods, healthcare, and technology industries. This team has proven its ability to grow and scale companies and is equipped with expertise from other industries transferrable to cannabis.

Growth strategy and strategic priorities

Expand retail footprint within existing dispensary license portfolio. iAnthus currently has 26 dispensaries open and operating, and the Company's licenses permit it to own and/or operate a total of 68 dispensaries. The Company's dispensary licenses are located in key markets throughout the United States, including New York City (Brooklyn and Staten Island), Boston, Washington D.C. Metro Area (Bethesda), Tampa / St Petersburg Area, Phoenix, Miami / Ft Lauderdale, Orlando, Daytona, and Baltimore.



Increase cultivation and processing capacity to enable more product. iAnthus has 15 cultivation and processing licenses in 10 states, with approximately 248,000 square feet of space (including approximately 178,300 of indoor square footage and 69,700 of outdoor square footage) fully built-out and an additional 373,200 of square feet under construction. iAnthus has the capacity to increase its cultivation and processing capacity to approximately 817,000 square feet. Upon full capacity build-out of its cultivation facilities, iAnthus expects to increase its annual cultivation yield from 30,000 pounds currently to 155,000 pounds of biomass.

Company Overview (cont.)

Increase patient and customer counts per location. iAnthus focuses its marketing and sales strategies on attracting new and existing patients and customers to its dispensary locations and its online ordering sites via medical outreach, industry associations and websites, social media, and a variety of other grassroots initiatives. As the Company's brands become more visible, and patients and consumers have positive experiences, iAnthus believes that more patients and customers will be attracted to its dispensary locations and online ordering sites.

Acquire attractive targets to enhance the Company's footprint, product offerings and/or operations. The Company believes that strategic acquisitions are an important part of its ongoing growth strategy. iAnthus expects to continue to make selective acquisitions that, among other things, increase revenue, build its geographic footprint, add new branded products to its portfolio, and allow the Company to expand its capabilities and/or help improve operating efficiencies in existing markets.

Secure additional operating licenses throughout the United States via application processes. As more states legalize medical and/or adult-use cannabis, or expand their current cannabis regulations, new or additional growing, processing, and/or dispensary licenses may become available and the Company may be required to win new licenses. The Company's management team has a history of successful license application submissions and has won licenses in highly competitive states. In December 2018, through MPX, the Company won licenses to operate four retail dispensaries in Nevada.

Recent Developments

- On July 18, 2019, the City of Worcester License Commission voted to issue the Company's subsidiary, Mayflower Medicinals, Inc., a Retail Marijuana License to operate an adult-use dispensary. Worcester is the second largest city in Massachusetts, with a metropolitan area population of approximately 923,000. This Retail Marijuana License will allow the Company to operate a 2,837 square foot facility;
- The Company closed its acquisition of CBD For Life, a top-ranked, national CBD brand in the U.S. On July 11, 2019, iAnthus announced the expansion of its CBD For Life brand presence through a partnership with Dillard's, Inc. The Company's CBD-infused wellness, self-care, and beauty products are currently available throughout Dillard's 265 department stores spanning 29 states;
- During the quarter, the Company opened two dispensaries in the popular tourist destinations of Daytona, FL and Orlando, FL. Subsequent to quarter end, the Company opened its 4,000 square foot dispensary in North Miami, FL serving a population of approximately 2.7 million people, bringing the Company's total dispensary count in Florida to six;
- On May 4, 2019, the Company announced the unveiling of its national retail brand, Be. The Be. unveiling video can be found <https://www.ianthus.com/investors>;
- On May 2, 2019, the Company closed on a \$25 million private placement of convertible note units;
- The Company announced several key senior additions to our operating, marketing, and legal teams including individuals with deep experience in major international brands, including Coca Cola, Nike, and Monster Energy; and,
- In April 2019, the Company entered into a licensing agreement with Blissiva, an infused product brand specializing in producing and distributing medical cannabis products specifically formulated for women.

Operational and Financial Highlights

Operational Highlights

- During the quarter, the Company produced approximately 4,600 pounds of dried and cured cannabis (flower and trim) and approximately 700 pounds of fresh frozen cannabis;
- As of June 30, 2019, the Company had a total of 26 dispensaries open and expects to have approximately 40 open by year end;
- As of June 30, 2019, 248,000 square feet of space (including approximately 178,300 of indoor square footage and 69,700 of outdoor square footage) has been fully built-out and an additional 373,200 square feet is under construction; and
- Wholesale sales hit record sales across numerous markets.

Financial Position

- As at June 30, 2019, the Company held cash of \$30,517; and
- During the quarter, the Company raised gross proceeds of \$25 million through the issuance of convertible note units.

Cautionary Note Regarding Forward-Looking Statements

This management's discussion and analysis ("MD&A") contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or be achieved. Statements such as those about expected number of users of medical marijuana, the Company's ability to become a leader in the field of medical marijuana and the Company's ability to achieve profitability without further equity financing, or at all, are all forward looking statements.

Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors" in the AIF and in the Company's 2018 Annual Report. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

This management's discussion and analysis ("MD&A") is supplemental to, and should be read in conjunction with, the Annual Information Form filed on April 12, 2019 (the "AIF") on www.sedar.com, and the Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018, and the notes thereto. The AIF contains a description of the regulatory framework applicable to the Company as of the date of the AIF.

Cannabis Regulations in the United States

Cannabis

In the United States, the cultivation, manufacturing, importation, distribution, use, and possession of cannabis is illegal under U.S. federal law. However, medical and adult-use cannabis has been legalized and regulated by individual states. As of the date of this MD&A, 33 states plus the District of Columbia and certain U.S. territories recognize, in one form or another, the medical use of cannabis, while 11 of those states plus the District of Columbia and certain U.S. territories recognize, in one form or another, the full adult-use of cannabis. Notwithstanding the regulatory environment with respect to cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the U.S. Controlled Substances Act (the "CSA") and, as such, violates U.S. federal law. As a result, cannabis businesses in the United States are subject to inconsistent state and federal legislation, regulation, and enforcement.

Under former President Barack Obama, in an effort to provide guidance to U.S. federal law enforcement regarding the inconsistent regulation of cannabis at the U.S. federal and state levels, the U.S. Department of Justice (the "DOJ") released a memorandum on August 29, 2013 entitled "Guidance Regarding Marijuana Enforcement" from former Deputy Attorney General James M. Cole (the "Cole Memorandum"). The Cole Memorandum acknowledged that, although cannabis is a Schedule I controlled substance under the CSA, the U.S. Attorneys in states that have legalized cannabis in some form should prioritize the use of the U.S. federal government's limited prosecutorial resources by focusing enforcement actions on the following eight areas of concern (the "Cole Priorities"):

- Preventing the distribution of cannabis to minors;
- Preventing revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of cannabis from states where it is legal under state law in some form to states where it is not legal;
- Preventing legal cannabis activity from being used as a pretext for trafficking other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of cannabis;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with cannabis use;
- Preventing the growing of cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Preventing possession or use of cannabis on U.S. federal property.

In January 2018, under the administration of President Donald Trump, former U.S. Attorney General Jeff Sessions rescinded the Cole Memorandum. While this did not create a change in U.S. federal law, as the Cole Memorandum was not itself law, the rescission added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is legal and regulated. Former Attorney General Sessions, concurrent with the rescission of the Cole Memorandum, also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the U.S. federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that cannabis is a Schedule I controlled substance under the CSA and states that it is a "dangerous drug and that marijuana activity is a serious crime," the memorandum does not otherwise provide that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether to prosecute cannabis-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that permitted under the Cole Memorandum. While certain U.S. Attorneys have publicly affirmed their commitment to proceeding in a manner contemplated under the Cole Memorandum, or otherwise affirmed that their views of U.S. federal enforcement priorities have not changed as a result of the rescission of the Cole Memorandum, others have publicly supported the rescission of the Cole Memorandum.

At a U.S. Senate appropriations hearing on April 10, 2019, the current U.S. Attorney General, William Barr, stated that he personally "would still favor one uniform federal rule against marijuana," but if "there's not sufficient consensus to obtain that, then the way to go is to permit a more federal approach so states can make their own decisions within the framework of a federal law so we're not just ignoring the enforcement of federal law." When asked to provide any guidance in the meantime, Attorney General Barr stated that "I've generally left it up to the U.S. Attorneys in each state to determine what the best approach is." He also stated that the DOJ is currently reviewing the recently reintroduced Strengthening the Tenth Amendment Through Entrusting States Act ("STATES Act"), which would shield individuals and businesses complying with state cannabis laws from federal intervention.

Other federal legislation provides, or seeks to provide, protection to persons acting in violation of U.S. federal law but in compliance with state cannabis laws. For example, what is now known as the Joyce Amendment (previously known as the Leahy Amendment, the Rohrabacher-Farr Amendment, and the Rohrabacher-Blumenauer Amendment) has been included in annual spending bills passed by Congress since 2014. The Joyce Amendment restricts the DOJ from using federal funds to interfere with states implementing laws that authorize the use, distribution, possession, or cultivation of medical cannabis.

U.S. courts have construed these appropriations bills to prevent the U.S. federal government from prosecuting individuals or businesses engaged in cannabis-related activities to the extent operating in compliance with state medical cannabis laws. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should Congress at any time choose to appropriate funds to fully prosecute individuals or businesses acting in violation of the CSA, such individuals or businesses could be prosecuted for violations of U.S. federal law even to the extent operating in compliance with applicable state medical cannabis laws.

Cannabis Regulations in the United States (cont.)

If Congress declines to include the Joyce Amendment in future fiscal year appropriations bills or fails to pass necessary budget legislation causing a government shutdown, the U.S. federal government will have the authority to spend federal funds to prosecute individuals and businesses acting contrary to the CSA for violations of U.S. federal law. Further, the appropriations protections only apply to individuals or businesses operating in compliance with a state's medical cannabis laws and provide no protection against individuals or businesses operating in compliance with a state's adult-use cannabis laws. However, on June 20, 2019, the U.S. House of Representatives passed the Blumenauer-Norton-McClintock Amendment, which would expand the protections afforded by the Joyce amendment to individuals and businesses operating in compliance with applicable state adult-use cannabis laws. The U.S. Senate has yet to take up the Blumenauer-Norton-McClintock Amendment for consideration.

Additionally, there are a number of marijuana reform bills that have been introduced in the U.S. Congress that would amend federal law regarding the legal status and permissibility of medical and adult-use cannabis, including the STATES Act, which would create an exemption in the CSA to allow states to determine their own cannabis policies without fear of federal reprisal. It is uncertain which federal marijuana reform bills, if any, will ultimately be signed into law.

Businesses in the regulated cannabis industry, including the Company, are subject to a variety of laws and regulations in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the "USA PATRIOT Act") and the rules and regulations thereunder, and any related or similar rules, regulations, or guidelines, issued, administered, or enforced by governmental authorities in the United States. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be charged with money laundering, aiding and abetting, or conspiracy.

Despite these laws, the Financial Crimes Enforcement Network ("FinCEN"), a bureau within the U.S. Department of the Treasury ("U.S. Treasury"), issued a memorandum on February 14, 2014 (the "FinCEN Memorandum"), which provides instructions to banks and other financial institutions seeking to provide services to cannabis-related businesses. The FinCEN Memorandum explicitly references the Cole Priorities and states that, in some circumstances, it is permissible for banks and other financial institutions to provide services to cannabis-related businesses without risking prosecution for violation of U.S. federal money laundering laws. Under these guidelines, financial institutions are subject to a requirement to submit a "suspicious activity report" ("SAR") in certain circumstances as required by federal money laundering laws. These cannabis related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. The FinCEN Memorandum refers to supplementary guidance in the Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. However, as discussed above, the Cole Memorandum was rescinded, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, the rescission of the Cole Memorandum did not affect the status of the FinCEN Memorandum and, to date, the U.S. Treasury has not given any indication that it intends to rescind the FinCEN Memorandum. While the FinCEN Memorandum was originally intended to work in tandem with the Cole Memorandum, the FinCEN Memorandum appears to remain in effect as standalone guidance. Although the FinCEN Memorandum remains intact, indicating that the U.S. Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the Trump administration will continue to follow the guidelines set forth under the FinCEN Memorandum. In March 2019, the U.S. House of Representatives Financial Services Committee passed the Secure and Fair Enforcement Banking Act (the "SAFE Banking Act"), and the U.S. Senate held a hearing on the SAFE Banking Act in July 2019. The SAFE Banking Act creates protections for financial institutions that provide banking services to legitimate cannabis-related businesses, but it is uncertain whether it will ultimately be signed into law.

There also can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. In addition, local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it difficult or impossible to operate cannabis industry business in certain jurisdictions.

Hemp

On December 20, 2018, the U.S. Agriculture Improvement Act of 2018 (the "2018 Farm Bill") was signed into law. Prior to its enactment, the U.S. federal government did not distinguish between cannabis and hemp and the entire plant species *Cannabis sativa* L., subject to narrow exceptions applicable to specific portions of the plant, was scheduled as a controlled substance under the CSA. As a result, the cultivation of hemp for any purpose in the United States without a Schedule I registration with the U.S. Drug Enforcement Agency ("DEA") was, unless exempted by Section 7606 of the Agricultural Act of 2014 (the "2014 Farm Bill"), federally illegal. The 2018 Farm Bill removes hemp (which is defined as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis") and its derivatives, extracts, and cannabinoids, including cannabidiol ("CBD") derived from hemp, from the definition of marijuana in the CSA, thereby removing hemp and its derivatives from DEA purview as a controlled substances. The 2018 Farm Bill also amended the Agricultural Marketing Act of 1946 to allow for commercial production of hemp in the United States under the purview of the United States Department of Agriculture (the "USDA") in coordination with state departments of agriculture that elect to have primary regulatory authority over hemp production in their respective jurisdictions. Pursuant to the 2018 Farm Bill, states, U.S. territories, and tribal governments can adopt their own regulatory plans for hemp production, even if more restrictive than federal regulations, so long as they meet minimum federal standards and are approved by the USDA. Hemp production in states and tribal territories that do not choose to submit their own plans and that do not prohibit hemp production will be governed by USDA regulation. The USDA is now promulgating rules for implementation of the new federally authorized program. Until the 2018 Farm Bill is fully implemented, which is expected upon final USDA rulemaking later this year, the limited industrial hemp cultivation and research provisions contained in the 2014 Farm Bill continue to govern.

Cannabis Regulations in the United States (cont.)

The 2018 Farm Bill is clear that the 2014 Farm Bill will remain the primary U.S. federal law governing domestic hemp production for at least the 2019 growing season and will be repealed one year after the USDA establishes regulations governing hemp production in states without their own USDA-approved plans. Under both the 2014 Farm Bill and the 2018 Farm Bill, states have authority to adopt their own regulatory regimes or prohibit hemp production altogether. Accordingly, variance in hemp regulation across jurisdictions is likely to persist. Compliance with state hemp law, if any, is required under both the 2014 Farm Bill and 2018 Farm Bill.

As a result of the 2018 Farm Bill, federal law now provides that CBD derived from hemp is not a controlled substance under the CSA; however, CBD derived from hemp could still be considered a controlled substance under applicable state law. States take varying approaches to regulating the production and sale of hemp and hemp-derived CBD. While some states explicitly authorize and regulate the production and sale of CBD or otherwise provide legal protection for authorized individuals and businesses to engage in commercial hemp activities, other states maintain outdated drug laws that do not distinguish hemp or hemp-derived CBD from marijuana (or "cannabis" as used herein), resulting in hemp being classified as a controlled substance under certain state laws. In these states, sale of CBD, notwithstanding its origin, is either restricted to state medical or adult-use cannabis program licensees or remains unlawful. Additionally, a number of states prohibit the sale of consumable CBD products based on the position of the U.S. Food and Drug Administration (the "FDA") set forth in the Federal Food, Drug & Cosmetic Act (the "FFDCA") that it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived.

The 2018 Farm Bill preserves the authority and jurisdiction of the FDA under the FFDCA to regulate the manufacture, marketing, and sale of food, drugs, dietary supplements, and cosmetics, including products that contain hemp extracts and derivatives, such as CBD. As a producer and marketer of hemp-derived products, the Company is required to comply with FDA regulations applicable to the manufacturing and marketing of certain products, including dietary supplements, food, and cosmetics. Although the FDA is considering ways to best address this issue, the agency has not deemed CBD or other individual cannabinoids permissible for use in dietary supplements, as dietary ingredients, or as safe for use in food. The FDA has consistently taken the position that CBD is prohibited from being marketed as a dietary supplement or added to food because substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD. To date, the FDA has issued warning letters to companies unlawfully marketing CBD products, but has not taken any enforcement action in the courts asserting its position. In many of these cases, the manufacturer made unsubstantiated claims that products containing CBD are able to treat serious medical conditions (e.g., cancer, Alzheimer's disease, opioid withdrawal, and anxiety, among others) without obtaining drug approvals. Some of these letters were co-signed with the U.S. Federal Trade Commission ("FTC") and cited the companies for making claims about the efficacy of CBD that were not substantiated by competent and reliable scientific evidence.

The FDA has stated that it recognizes the potential opportunities and significant interest in drug and other consumer products containing CBD, is committed to evaluating the agency's regulatory policies related to CBD, and has established a high-level internal working group to explore potential pathways for various types of CBD products to be lawfully marketed. The FDA has authority to issue regulation that would allow these naturally-occurring hemp compounds to be added to a food or dietary supplement. The FDA held a public hearing in May 2019 to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling and sale of products containing cannabis or cannabis-derived compounds and has indicated that it plans to report its progress by early fall 2019. The rules, regulations, and enforcement in this area continue to evolve and develop. Until the FDA formally adopts regulations authorizing the production and sale of CBD products as food and/or dietary supplements, there is a risk that the FDA could take enforcement action against the Company. Failure to comply with FDA requirements may result in, among other things, warning letters, injunctions, product withdrawals, recalls, seizures, fines and criminal prosecutions. The Company is closely following FDA developments with respect to CBD. The Company intends to monitor its compliance with applicable United States laws relating to hemp as they are enacted and evolve, including the FDA's regulations of CBD, and to evaluate and implement appropriate compliance measures on an ongoing basis.

Application of Cannabis Regulations in the United States

Violations of U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, disgorgement of profits, seizure of property or products, cessation of business activities, or divestiture. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. See "Risk Factors - Risks Specifically Related to the United States Regulatory System". The Company's business activities, and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

Summary of Quarterly Results

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Sales revenues	\$ 19,200	\$ 9,620	\$ 1,986	939
Net loss	(9,290)	(18,265)	(15,926)	(10,021)
Loss per share - basic and diluted	(0.06)	(0.15)	(0.25)	(0.15)
Total assets	810,998	797,561	168,392	137,272
Total non-current liabilities	147,293	127,994	48,820	31,655

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Sales revenues	\$ 19,200	\$ 9,620	\$ 1,986	\$ 939	\$ 256	\$ 225	\$ -	-
Net loss	(9,290)	(18,265)	(15,926)	(10,021)	(35,435)	(645)	(7,079)	(2,209)
Loss per share - basic and diluted	(0.06)	(0.15)	(0.25)	(0.15)	(0.61)	(0.01)	(0.25)	(0.08)

Sales revenues have increased quarter-over-quarter as a result of the Company's strategic acquisitions such as the MPX Acquisition which expanded the Company's footprint on the West Coast, and the expansion of the Company's wholesale revenue program and additional retail revenue with new dispensary openings in Massachusetts, Florida and New York. The Company expects sales revenues to continue to increase in future periods as its wholesale program continues to expand and new dispensaries are opened in Nevada, Florida, New York, New Jersey and Massachusetts.

As a general trend over the previous eight quarters, net losses have increased. In the quarters with significant movements in the fair value of the Company's derivative instruments, there have been large swings in the net loss figure as a result of non-cash valuation adjustments. This is due to the volatility in the Company's stock price in Q2 2019. Net loss has decreased as a result of higher sales revenues in addition to a \$22,781 non-cash gain on the change in fair value of derivative instruments, as compared to \$3,210 during Q1 2019. The Company expects the revaluation of derivatives to continue to impact the net loss, with volatile periods leading to greater swings.

Total assets have increased over the prior quarter as a result of continued build out of our operations across the U.S. and the Company's acquisition of CBD For Life. Total assets are expected to continue to increase as the Company's dispensary network is expanded and cultivation and processing facilities are completed. Total non-current liabilities have increased as the Company closed its \$25,000 private placement convertible debenture financing in Q2 2019. The Company expects non-current liabilities to gradually increase as the balances are accreted up to the face value of the debt instruments.

Discussion of Operations

Sales Revenues and Gross Profit

The Eastern region includes the Company's operations in Florida, Maryland, Massachusetts, New York, New Jersey, Vermont, and its CBD business. The Western region includes the Company's operations in Arizona, California, Colorado, New Mexico and Nevada.

Sales revenues and gross profit for three and six months ended June 30, 2019 and 2018 are highlighted in the charts below:

	For the three months ended June 30, 2019		
	Eastern Region	Western Region	Total
Sales revenues	\$ 10,153	\$ 9,047	\$ 19,200
Cost of goods sold	(2,995)	(7,008)	(10,003)
Gross profit before fair value adjustment on biological assets	\$ 7,158	\$ 2,039	\$ 9,197
Fair value adjustment on sale of inventory	(8,196)	(699)	(8,895)
Fair value adjustment on biological assets	10,574	569	11,143
Gross Profit	\$ 9,536	\$ 1,909	\$ 11,445

	For the six months ended June 30, 2019		
	Eastern Region	Western Region	Total
Sales revenues	\$ 14,340	\$ 14,480	\$ 28,820
Cost of goods sold	(4,807)	(13,078)	(17,885)
Gross profit before fair value adjustment on biological assets	\$ 9,533	\$ 1,402	\$ 10,935
Fair value adjustment on sale of inventory	(8,638)	(1,455)	(10,093)
Fair value adjustment on biological assets	14,539	1,623	16,162
Gross Profit	\$ 15,434	\$ 1,570	\$ 17,004

Discussion of Operations (cont.)

Sales Revenues and Gross Profit (cont.)

	For the three months ended June 30, 2018		
	Eastern Region	Western Region	Total
Sales revenues	\$ 256	\$ -	\$ 256
Cost of goods sold	(46)	-	(46)
Gross profit before fair value adjustment on biological assets	\$ 210	\$ -	\$ 210
Fair value adjustment on sale of inventory	(76)	-	(76)
Fair value adjustment on biological assets	1,278	-	1,278
Gross Profit	\$ 1,412	\$ -	\$ 1,412

	For the six months ended June 30, 2018		
	Eastern Region	Western Region	Total
Sales revenues	\$ 481	\$ -	\$ 481
Cost of goods sold	(79)	-	(79)
Gross profit before fair value adjustment on biological assets	\$ 402	\$ -	\$ 402
Fair value adjustment on sale of inventory	(83)	-	(83)
Fair value adjustment on biological assets	3,886	-	3,886
Gross Profit	\$ 4,205	\$ -	\$ 4,205

Eastern Region

As of June 30, 2019, the Eastern region maintains licenses to operate up to a total of 53 dispensaries and seven cultivation/processing facilities. Two dispensaries were opened in Q1 2019 and two additional dispensaries were opened in Daytona, FL and Orlando, FL in Q2 2019. Subsequent to quarter end, three more dispensaries were opened in North Miami, FL, Gainesville, FL, and Lakeland, FL.

As a result of the expansion of the Company's dispensary and wholesale operations within the Eastern region, sales have increased 143% from Q1 2019 to Q2 2019, from \$4,187 in Q1 2019 to \$10,153 in Q2 2019. The increase in sales revenues was primarily due to continued growth in sales volumes at existing dispensaries across the region, led by an increase from new wholesale contracts in Massachusetts. Additional factors contributing to the growth include the opening of new dispensaries in Daytona, FL and Orlando, FL, and new product offerings. The Company expects sales revenues to continue to significantly increase in the future as a result of the organic growth at existing dispensaries, the opening of additional dispensaries in Florida, New York, Massachusetts and New Jersey, and new revenue streams generated from the Company's newly acquired CBD business, CBD For Life.

Discussion of Operations (cont.)

Sales Revenues and Gross Profit (cont.)

Eastern Region (cont.)

The Company continues to build economies of scale in the Eastern region. Consequently, the Eastern region's cost of goods sold has increased at a slower pace than its sales revenues and margins have improved in Q2 2019 in comparison to Q1 2019, at 71% versus 57%.

Due to increased sales revenues, fair value adjustments on the sale of inventory have also increased in the period, with fair value adjustments of \$8,196 and \$8,638 for the three and six months ended June 30, 2019, respectively, as compared to \$76 and \$83 for the same periods in 2018. The Eastern region had four operational cultivation and processing facilities during Q2 2019, from which 2,706 and 5,025 pounds of plant material were harvested for the three and six months ended June 30, 2019, respectively. Due to the increased cultivation activity quarter-over-quarter, fair value adjustments on biological assets have continued to increase. During the quarter, the Company made a voluntary change in accounting policy to separately disclose the realized fair value amounts from biological assets included in the cost of inventory sold. Refer to Note 18 of the condensed interim consolidated financial statements for further details.

Western Region

As of June 30, 2019, the Western region holds licenses to operate up to eight dispensaries and four cultivation and processing facilities. Prior to the MPX Acquisition on February 5, 2019, the Company did not consolidate operations in the Western region. Therefore, no comparative financial disclosures of the Western region exist prior to this date.

Due to the February 5, 2019 acquisition date, the Company's consolidation of the Western region includes only two months of profits and losses post-acquisition in Q1 2019. Q2 2019 is the first quarter that the Company was able to fully consolidate three months of activity from the Western region leading to proportionate increases in sales revenues, costs of goods sold and fair value adjustments quarter-over-quarter. Revenues are expected to grow in the Western region as additional dispensaries come online in Nevada and the Company increases its market share through expansion of its wholesale program.

Cost of goods sold in Q1 2019 and Q2 2019 include the impact of the fair value adjustment on inventory from the purchase price allocation of the MPX Acquisition. At June 30, 2019, this adjustment is reflected on the condensed interim consolidated statement of loss and comprehensive loss of the Company and will have no further impact on the Company's results. Accordingly, the Company anticipates margins will improve in future quarters.

For the three and six months ended June 30, 2019, 1,871 and 2,707 pounds of plant material were harvested, respectively, from the cultivation facilities in the Western region. The fair value adjustments on sale of inventory and fair value adjustments on biological assets are higher in Q2 2019 compared to Q1 2019, as a result of only two months of MPX consolidated results in Q1 2019 as described above.

Operating Expenses

Depreciation and Amortization

Depreciation and amortization expenses have increased from \$2,637 in Q1 2019 to \$5,915 in Q2 2019. Assets acquired in the MPX Acquisition significantly increased the depreciable asset base of the Company in Q1 2019. Subsequently, in Q2 2019, ongoing expansion of the Company's cultivation and processing facilities and build out of dispensaries led to further increases in depreciation and amortization expense. The assets acquired in the MPX Acquisition include real estate, equipment and other tangible and intangible assets and intellectual property. As a result, compared to \$1,128 for the six months ended June 30, 2018, depreciation and amortization expenses have also increased as of June 30, 2019 to \$8,552.

General and Administrative

General and administrative expense have increased from \$4,064 in Q1 2019 to \$5,653 in Q2 2019 and from \$2,662 to \$9,717 for the six months ended June 30, 2018 and 2019, respectively. The increase is primarily due to the MPX Acquisition as well as costs associated with the expansion of the Company's operational footprint across the Eastern region, including rent expenses, utility fees, IT expenses, security expenses and other selling costs. The Company expects to continue to invest in these areas to support aggressive expansion plans and to support the increasing complexity of the cannabis industry.

Salaries, Employee Benefits and Share-based Compensation

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Salaries and employee benefits	\$ 8,107	\$ 3,000	\$ 14,206	\$ 4,485
Share-based compensation	9,586	2,250	11,233	4,005
TOTAL	\$ 17,693	\$ 5,250	\$ 25,439	\$ 8,490

Discussion of Operations (cont.)

Operating Expenses (cont.)

Salaries, Employee Benefits and Share-based Compensation (cont.)

Salaries and employee benefits grew from \$6,099 in Q1 2019 to \$8,107 in Q2 2019 primarily due to the MPX Acquisition which increased the Company's headcount to more than 700 employees. In addition, due to the continued expansion of the Company's skilled labour force including additional senior personnel in marketing, IT, infrastructure, and legal, share-based compensation has similarly increased from \$1,646 in Q1 2019 to \$9,586 in Q2 2019. It is anticipated that compensation expenses related to recruiting and hiring top talent will continue to increase as the Company grows.

Professional Fees

Professional fees for the six months ended June 30, 2019 have increased to \$8,476 from \$4,836 in the same period of 2018, as well as from \$3,547 in Q1 2019 to \$4,929 in Q2 2019. The increase is a direct result of the Company's expanded footprint which has required the expertise of external lawyers, accountants, auditors, valuers and tax specialists to ensure compliance with local and state regulatory bodies and to integrate operations under the Company's management, along with fees associated with being a publicly traded company. Professional fees are expected to increase as the Company continues to grow in size and complexity.

Acquisition-related costs

Acquisition-related costs decreased from \$5,173 in Q1 2019 to \$1,058 in Q2 2019. The decline in acquisition-related costs quarter-over-quarter is related to the specific acquisition activity that occurred in each quarter. In Q1 2019, the MPX Acquisition was significantly more complex and required additional legal, consulting, and advisory fees as compared to Q2 which includes the acquisition of CBD For Life, a much smaller and less complex transaction. Acquisition-related costs are deemed to be specific to these transactions and are non-recurring. Similar costs were \$Nil for the three months ended June 30, 2018 as there was no acquisition activity during this period.

Other Items

Interest and Accretion Expense

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest expense	\$ 3,470	\$ 1,287	\$ 5,816	\$ 2,148
Accretion expense	4,606	10,391	6,121	13,262
TOTAL	\$ 8,076	\$ 11,678	\$ 11,937	\$ 15,410

The Company issued new debt and assumed debt via the MPX Acquisition since Q1 2018, as follows:

- High yield notes in May 2018;
- Original issue discount loan ("OID Loan") in February 2019 through the MPX Acquisition and fully redeemed in Q2 2019;
- Stavola Trust note in February 2019 through the MPX Acquisition;
- Debentures issued in March 2019 ("March 2019 Debentures"); and
- Debentures issued in May 2019 ("May 2019 Debentures").

Interest expense and accretion expense increased from Q1 2019 to Q2 2019 as a result of a full three months of expense, compared to two months, for the Stavola Trust note, the accretion expense recorded as a result of the redemption of the OID Loan, and the issuance of the May 2019 Debentures. Accretion expense was higher in Q2 2018 as compared to Q2 2019 due to the Company's early repayment in Q2 2018 of the debentures issued in January 2018. This early repayment resulted in the recognition of the full accretion expense in the quarter of repayment rather than over the full term of the debentures.

Change in fair value on financial instruments

The change in fair value on financial instruments increased to a gain of \$22,781 for the three months ended June 30, 2019, compared to a loss of \$15,296 in June 30, 2018. The change in fair value on financial instruments is the result of the revaluations on the derivative component of compound financial instruments each reporting period. The primary cause of the gain in Q2 2019 was the fluctuations in the Company's share price, a key input used in the Black-Scholes model used in the revaluation of the derivative instruments.

Liquidity and Capital Resource Management

Capital Raises

March 2019 Debentures

On March 18, 2019, the Company completed a private placement of \$35,000 of unsecured convertible debentures and corresponding warrants of 2,177,291 to purchase common shares of the Company. The March 2019 Debentures mature on March 15, 2023 and accrue interest at a rate of 8.0% annually. They are convertible at \$5.92 per common share, which would convert into an aggregate of 5,912,160 common shares of the Company. At any time, following July 16, 2019, the Company may force the conversion of the March 2019 Debentures into common shares if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

May 2019 Debentures

On May 2, 2019, the Company completed a private placement of \$25,000 of unsecured convertible debentures and corresponding warrants of 1,555,207 to purchase common shares of the Company. The May 2019 Debentures mature on March 15, 2023 and accrue interest at a rate of 8.0% annually. They are convertible at \$5.92 per common share, which would convert into an aggregate of 4,222,971 common shares of the Company. At any time, following September 1, 2019, the Company may force the conversion of the May 2019 Debentures into common shares if the daily volume weighted trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

Liquidity

Financing requirements have fluctuated from period to period because the Company and the majority of its subsidiaries have historically been in the development stage. Management consistently monitors its cash flows and assesses the liquidity necessary to fund both operations and development. The Company's ability to continue in the normal course of operations is dependent on its ability to raise capital sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the six months ended June 30, 2019, the Company reported a net loss of \$27,555, operating cash outflows of \$27,737, and an accumulated deficit of \$111,365 at June 30, 2019. These material circumstances cast substantial doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern.

The Company has historically had, and continues to have, access to equity and debt financing from the public and prospectus-exempt (private placement) markets, including:

- In January 2018, the Company closed a non-brokered private placement of debentures for gross proceeds of \$20,000, which was fully repaid on May 16, 2018 including accrued interest of \$978;
- In May 2018, the Company received a \$40,000 investment from Gotham Green Partners, in the form of high-yield senior secured notes and Class A Shares. The Company concurrently issued \$10,000 aggregate number of units whereby each unit is comprised of one Class A share of the Company at \$2.57 per share and a warrant to purchase one share of the Company at \$3.86 per share;
- In October 2018, the Company closed a bought deal offering of 5,188,800 common shares of the Company at CAD\$6.65 per common share for aggregate gross proceeds of CAD\$34,506 (equivalent \$26,558);
- In March 2019, the Company completed a private placement of \$35,000 of unsecured convertible debentures, which mature on March 15, 2023 and accrue interest of 8%. This placement is convertible at \$5.92 per common share which would convert into an aggregate of 5,912,160 common shares of the Company; and
- In May 2019, the Company completed a private placement of \$25,000 of unsecured convertible debentures, which mature on March 15, 2023 and accrue interest of 8%. This placement is convertible at \$5.92 per common share which would convert into an aggregate of 4,222,971 common shares of the Company.

The Company expects that it will continue to have access to capital and will have the ability to raise such capital privately or publicly, however, there are no guarantees that such capital would be available.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry with caution to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private capital available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and/or applicants in the United States. There can be no assurance that additional capital, if raised privately, will be available to the Company when needed or on terms that are acceptable. The Company's potential inability to raise capital to fund capital expenditures or acquisitions may cast substantial doubt on its ability to grow and may have a material adverse effect on future profitability.

The Company has complied with all covenants as at June 30, 2019.

Working Capital

For the period ending June 30, 2019, the Company had working capital of \$37,634, compared to working capital of \$33,684 as at December 31, 2018. The significant balance of current liabilities comprises \$12,174 in derivative liabilities relating to warrants issued in connection with the Company's high yield notes and warrants assumed by the Company as part of the MPX Acquisition, and \$10,800 of the debt relating to the Stavola Trust note assumed as part of the MPX Acquisition. Conversely, current assets increased as a result of higher inventory and biological asset balances due to the increased cultivation and processing operational footprint from the MPX Acquisition. Inventory balances have also increased as a result of the acquisition of CBD For Life.

Liquidity and Capital Resource Management (cont.)

Cash Flows

Cash was \$30,517 at June 30, 2019, compared to \$15,295 at December 31, 2018. The increase in cash was largely due to the funds raised through financing activities, offset by the cash outflows from investing and operating activities.

Cash Flow from Operating Activities

Cash used in operating activities during the six months ended June 30, 2019, was \$27,737 compared to \$11,124 for the six months ended June 30, 2018. Higher spending was a result of increased operating activity in Q2 2019 compared to Q2 2018 due to the MPX Acquisition in the first quarter and the build out of existing operations. Cash outflows from operating activities were primarily related to general and administrative expenses, salaries and employee benefits, and professional fees.

Cash Flow from Investing Activities

Cash used in investing activities during the quarter was \$29,111 compared to \$13,516 in Q1 2019.

During the six months ended June 30, 2019, the Company made the following significant investing related cash outflows:

- \$24,773 - purchase of property, plant, and equipment; and
- \$5,327 - one-time acquisition-related costs relating specifically to the MPX Acquisition and the acquisition of CBD For Life.

During the six months ended June 30, 2019, the Company had the following cash flows from investing activities:

- \$4,058 - cash obtained from the acquisition of subsidiaries due to the MPX Acquisition; and
- \$2,164 - cash paid as consideration in the acquisition of CBD For Life.

Cash Flow from Financing Activities

Cash generated from financing activities for the six months ended June 30, 2019 was \$66,798 compared to \$43,930 during the same period in 2018. Significant sources of financing during the six months ended June 30, 2019, include:

- \$60,000 - private placement of debentures issued by the Company in March 2019 and May 2019;
- \$9,302 - exercise of warrants from previous rounds of financing and outstanding warrants; and
- \$4,172 - exercise of stock options.

This was offset by outflows of financing, including:

- \$5,681 - interest paid on outstanding debt.

Contractual Obligations

The following table presents the Company's significant contractual obligations as at June 30, 2019:

USD DENOMINATED	<1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Payables and accrued liabilities	\$ 15,375	\$ -	\$ -	\$ -	15,375
Long-term debt	21,529	49,543	68,951	1,059	141,082
Leases	4,146	3,942	7,430	43,044	58,562
Service Contracts	169	29	5	-	203
Consultants and advisors	644	-	-	-	644
Construction contracts	1,634	-	-	-	1,634
TOTAL USD DENOMINATED	\$ 43,497	\$ 53,514	\$ 76,386	\$ 44,103	217,500
CAD DENOMINATED					
Payables and accrued liabilities	\$ 902	\$ -	\$ -	\$ -	902
TOTAL CAD DENOMINATED	\$ 902	\$ -	\$ -	\$ -	902

Long-term debt consists of convertible debentures, a high yield note, a note payable to a director and officer of the Company, Elizabeth Stavola, and an outstanding mortgage. The Company's contractual obligations include consultants, advisors, construction contracts and leases for the Company's offices, dispensaries, cultivation and processing facilities, vehicles, and computer software throughout the Eastern and Western regions of the U.S., and in Canada. As part of the Company's business plan to expand its footprint and develop its operations, further capital expenditures that have yet to be committed will be required to fund growth initiatives. In both the Eastern and Western regions, the Company expects continued buildouts at its various cultivation/processing facilities, as well as its upcoming dispensaries.

Liquidity and Capital Resource Management (cont.)

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements at June 30, 2019.

Share Capital

The following table presents the Company's share capital information as at August 26, 2019.

	Number Outstanding
Common Shares issued and outstanding	156,114,139
Class A Common Shares issued and outstanding	15,528,928
Options to purchase Common Shares	16,289,165
Options to purchase Class A Common Shares	2,215,500
Warrants	36,103,265
MPX dilutive instruments ⁽¹⁾	407,876
Convertible Debentures	10,135,130
HY Notes	12,970,169
Fully diluted shares outstanding	249,764,172

(1) Prior to the MPX Acquisition, MPX had instruments outstanding that were potentially dilutive and as a result of the MPX Acquisition, the Company assumed certain of these instruments.

Additional Information

Critical Accounting Estimates and Judgements

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense.

The critical accounting estimates and judgements are disclosed in full in the Company's 2018 Annual Report.

Changes in Accounting Policies

The Company has implemented the following IFRS standards effective for reporting periods commencing January 1, 2019. These standards have been discussed in greater detail within Note 18 in the notes to the condensed interim consolidated financial statements.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

The Company has made a voluntary change in accounting policy in relation to its treatment of biological assets and inventory under IAS 41; in order to separately disclose the realized fair value amounts of biological assets in the cost of inventory sold. The accounting policy change and impact thereof has been discussed in greater detail within Note 18 in the notes to the condensed interim consolidated financial statements.

Financial Instruments

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

The financial instruments and related risk management strategies are disclosed in full in the Company's 2018 Annual Report. The instruments and risk management strategies remain unchanged for the current quarter.

Transactions with Related Parties

Due from related parties as at December 31, 2017	\$	348
Repayments made to related parties		50
Foreign exchange loss on due from related parties balance		(7)
Due from related parties as at December 31, 2018	\$	391
Related party due from balance acquired		(9,533)
Payments to and on behalf of related parties		647
Repayments made to related parties		31
Repayments made from related parties		(532)
Due to related parties as at June 30, 2019	\$	(8,996)

Additional Information (cont.)

Transactions with Related Parties (cont.)

As at June 30, 2019, the Company had a loan due from an officer and director of the Company, Hadley Ford, with a balance of \$391 (December 31, 2018 - \$391). The total loan facility is up to CAD\$500 (equivalent \$391) and the loan accrues 2.5% interest due upon the maturity of the loan. The loan is repayable on demand and is expected to be repaid within the next 12 months. Accrued interest on the loan as at June 30, 2019, was CAD\$24 (equivalent \$18) (December 31, 2018 - CAD\$18 or equivalent \$13). The related party balance is presented in the other current assets line on the condensed interim consolidated statement of financial position.

As part of the MPX Acquisition, the Company acquired the following significant related party balances:

- Related party receivables of \$664 are due from companies owned by a director and officer of the Company, Elizabeth Stavola. The balance was \$778 as at June 30, 2019 (December 31, 2018 - \$Nil). The related party balances are presented in the other current assets line on the condensed interim consolidated statement of financial position.
- Related party term loan of \$10,800, is due to a trust whose beneficiary is a director and officer of the Company, Elizabeth Stavola. Accrued interest on the loan as at June 30, 2019, was \$226 (December 31, 2018 - \$Nil). The related party balance is included in current liabilities on the condensed interim consolidated statement of financial position. Refer to Note 12 for further details on the Stavola Trust note.

The CBD For Life acquisition is a related party transaction due to Elizabeth Stavola being an officer and director of the Company and an officer and significant shareholder of CBD For Life. The Company engaged an independent third-party investment firm to provide a fairness opinion to the members of the Board of Directors who are non-related parties and the fairness opinion concluded that the consideration to be paid by iAnthus for the acquisition is fair, from a financial point of view, to the Company. The consideration included the following amounts paid to individuals that are classified as related parties of the Company:

- \$126 cash was paid and 118,850 common shares (with a fair value of \$389) were issued to Bridget Beggans, an individual related through a familial relationship to a director and officer of the Company, Elizabeth Stavola;
- \$1,540 was paid to a trust whose beneficiary is a director and officer of the Company, Elizabeth Stavola;
- 6,469 common shares (with a fair value of \$21) were issued to Julie Winter and James Stavola Jr. that are related through a familial relationship to a director and officer of the Company, Elizabeth Stavola;
- 36,969 common shares (with a fair value of \$121) were issued to a director of the Company, Robert Galvin; and
- As part of the transaction, the Company also acquired a related party receivable of \$478 and related party payable of \$497 with CBD For Life. The balances for the receivable and payable were \$478 and \$497, respectively, as at June 30, 2019 (December 31, 2018 - \$Nil).

Regulatory Environment: Issues with U.S. Cannabis-Related Assets

Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”) provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor, and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended, and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation. As a result of the Company’s investments in certain United States entities as set forth herein, the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

Operation

As at June 30, 2019, the Company currently operates in the United States as more specifically described below.

	Licensed Entity	Type of Investment ⁽¹⁾	Permitted Number of Facilities
Massachusetts ⁽¹⁾	Mayflower Medicinals, Inc. (“Mayflower”) Cannatech Medicinals, Inc. (“Cannatech”) ⁽²⁾	Ownership (100%) ⁽²⁾	3 medical marijuana dispensaries ⁽²⁾ 3 adult-use stores 3 adult-use cultivation 3 medical cultivation/processing 3 adult-use processing
Vermont ⁽¹⁾	FWR Inc. d/b/a Grassroots Vermont (“GRVT”) ⁽³⁾	Ownership (100%) ⁽³⁾	2 dispensaries 1 cultivation 1 processing
New Mexico ⁽¹⁾	Reynold Greenleaf & Associates LLC (“RGA”)	Ownership (24.6%)	Nil ⁽⁶⁾
Colorado ⁽¹⁾	Organix, LLC (“Organix”)	See Note 5	1 dispensary 1 cultivation
New York ⁽¹⁾	Citiva Medical, LLC (“Citiva”)	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
Florida ⁽¹⁾	McCrorry’s Sunny Hill Nursery, LLC (“McCrorry’s”)	Ownership (100%) ⁽⁴⁾	35 dispensaries 1 cultivation 1 processing
Arizona ⁽¹⁾	ABACA, LLC (“ABACA”) Soothing Options, Inc. (“Soothing Options”) Healing Center Wellness Center, LLC (“THCWC”) Health for Life, Inc. (“HFL”)	Ownership (100%) ⁽⁷⁾	4 dispensaries 3 cultivation 3 processing
California ⁽¹⁾	See Note 8	See Note 8	See Note 8
Maryland ⁽¹⁾	LMS Wellness, Benefit LLC d/b/a H4L White Marsh (“LMS”) GreenMart of Maryland, LLC d/b/a H4L Baltimore (“GMMD”) Rosebud Organics, Inc. (“Rosebud”) Budding Rose, Inc. d/b/a H4L Bethesda (“Budding Rose”)	See Note 9	3 dispensaries 1 processing
Nevada ⁽¹⁾	GreenMart of Nevada NLV, LLC (“GMNV”)	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
New Jersey ⁽¹⁾	MPX New Jersey, LLC (“MPX NJ”)	See Note 10	3 dispensaries ⁽¹¹⁾ 1 cultivation 1 processing
United States ⁽¹²⁾	iA CBD, LLC (“iA CBD”)	Ownership (100%)	See Note 12

(1) For further details on the Company’s operations in the United States, see the section entitled “Regulatory Environment: Issues with U.S. Cannabis-Related Assets”.

(2) Following the MPX Acquisition, the Company owns 100% of Mayflower and, through its wholly owned subsidiary CGX Life Sciences, Inc. (“CGX”), 100% of two separate management entities with service and management agreements with a second license holder, Cannatech, a non-profit corporation. In Massachusetts, an entity is permitted to control and operate up to three vertically-integrated medical licenses, which include medical cultivation, product manufacturing, and retail dispensing, up to three adult-use retail licenses, up to three adult-use product manufacturing licenses, and up to three adult-use cultivation licenses with a maximum total cultivation “canopy” of up to 100,000 square feet. The Massachusetts regulations also allow medical and adult-use operations to co-locate in the same facility. The Company currently holds two vertically-integrated medical licenses, one adult-use cultivation license, one adult-use product manufacturing license, and one adult-use retail license, and also provides management services for a third vertically-integrated medical license.

(3) The Company owns 100% of Pakalolo, LLC, the sole member of GRVT, a not-for-profit corporation, as well as 100% of Grassroots Vermont Management Services, LLC (“GVMS”), which has entered into a management service agreement with GRVT.

(4) The Company owns 100% of GHIA Management, Inc (“GHIA”), which holds an exclusive 40-year management agreement to operate the medical cannabis business associated with the Medical Marijuana Treatment Center (“MMTC”) license issued to McCrorry’s, together with an option to purchase McCrorry’s. The agreement permits GHIA to recognize all revenue and expenses associated with the licensed entity.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

- (5) On December 5, 2016, the Company acquired certain assets of Organix, the owner and operator of a Colorado medical and adult-use cannabis operation with a cultivation facility in Denver, Colorado and a fully-integrated medical and adult-use dispensary located in Breckenridge, CO. The assets acquired include all real estate holdings of Organix's affiliate, DB Land Holdings, Inc. ("DB"), consisting of a 12,000 square foot cultivation facility in Denver as well as all equipment and other tangible and intangible assets and all intellectual property of Organix including its brands. These assets are held by the Company's subsidiaries, Scarlet Globemallow, LLC ("Scarlet") and Bergamot Properties, LLC ("Bergamot"). Applicable regulations in Colorado require licensed operators and a portion of their shareholders to be residents of Colorado and accordingly, iAnthus, as a publicly listed company, is unable at this time to acquire a direct license under Colorado's cannabis regulatory program. As such, the Company cannot consolidate the results of Organix at this time.
- (6) RGA currently manages two cultivation operations in Albuquerque, NM totaling approximately 38,000 square feet and six dispensary locations, five in Albuquerque, NM and one in Grants, NM.
- (7) The Company's wholly owned subsidiary, S8 Management, LLC ("S8 Management"), has entered into management agreements with Soothing Options, THCWC, and HFL. The Company's wholly owned subsidiary, Tower Management Holdings, LLC ("Tower Management"), has entered into a management agreement with ABACA.
- (8) The Company does not currently have a license to operate a cannabis business in California. However, the Company has entered into an intellectual property licensing agreement to permit the Company's brands to be manufactured and distributed in California.
- (9) The Company's wholly owned subsidiary, S8 Management, has entered into management services agreements with three dispensaries, LMS, Budding Rose, GMMD, and one processing facility, Rosebud. The Company's wholly owned subsidiary, CGX, holds options to acquire these dispensary and processing licenses in the future.
- (10) The Company is in negotiations to enter into a financing, leasing, licensing, and services agreement with MPX NJ, an entity controlled by a member the Company's senior management team and Board of Directors, subject to regulatory approval by the New Jersey Department of Health ("NJ DOH").
- (11) One medical dispensary is permitted under the current rules in New Jersey as a matter of right, with the possibility of operating two more dispensaries with approval from the New Jersey Department of Health ("NJ DOH") or the Cannabis Regulatory Commission, as applicable. Under New Jersey law, the license holder must obtain such approval prior to January 1, 2021.
- (12) On June 27, 2019, the Company, through its wholly owned subsidiary, iA CBD, acquired substantially all of the property and assets of CBD For Life. As a result of its acquisition of CBD For Life, iA CBD is engaged in the formulation, manufacture, creation, and sale of products infused with CBD. The CBD used to manufacture these products is exclusively derived from hemp. The Company intends for all its hemp-derived products to be produced and sold in accordance with the 2014 Farm Bill and the 2018 Farm Bill, as applicable at the time and location of operation, and for such products to constitute hemp under the 2018 Farm Bill. Because iA CBD is not engaged in any marijuana-related practices or activities, including the cultivation, possession, or distribution of marijuana, iA CBD is not required to make additional disclosures pursuant to Staff Notice 51-352.

Compliance with Applicable State Law in the United States

As of the date of this MD&A, the Company believes that each of its licensed operating entities (a) holds all applicable licenses to cultivate, manufacture, possess, and/or distribute cannabis in its respective state, and (b) is in good standing and in compliance with its respective state's cannabis regulatory program. The Company ensures that its operating entities are in compliance with state cannabis regulatory programs by utilizing some or all of the following in the Company's various state operations: (1) each operating entity is licensed pursuant to applicable state law to cultivate, manufacture, possess, and/or distribute cannabis in such state; (2) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (3) random internal audits of the operating entity's business activities are conducted by the applicable state regulator and such operating entity to ensure compliance with applicable state law; (4) employees are provided with employee handbooks that outline internal standard operating procedures in connection with the cultivation, manufacturing, possession, and distribution of cannabis to ensure that all cannabis inventory and proceeds from the sale of such cannabis are properly accounted for and tracked; (5) scanners are used to confirm each customer's legal age with the validity of each customer's driver's license; (6) each room that contains cannabis inventory and/or proceeds from the sale of such inventory is stored is monitored by video surveillance; and (7) software is used to track cannabis inventory from seed to sale. The Company's U.S. legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

The Company's Balance Sheet and Operating Statement Exposure to U.S. Cannabis Related Activities

The following table reflects certain assets and liabilities on the Company's consolidated statement of financial position that pertain to our U.S. cannabis activity, as of June 30, 2019:

Balance Sheet Line Item	Percentage which relates to Investments/Holdings with U.S. cannabis- related activities
Receivables and prepaid assets	83%
Inventory and biological assets	100%
Other current assets	52%
Investments and investments in associates	100%
Property, plant and equipment	98%
Intangible assets and goodwill	100%
Other assets	66%
Payables and accrued liabilities	77%
Interest payable	0%
Derivative liabilities	0%
Other current liabilities	42%
Other liabilities	100%
Long-term debt	2%
Deferred tax liabilities	100%
Income Statement Line Item	Percentage which relates to Investments/Holdings with U.S. cannabis- related activities
Gross profit	100%
Operating expenses	43%
Other items	15%

Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that supports its annual financial statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Enforcement of U.S. Federal Laws

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

Change to government policy or public opinion may also result in a significant influence on the regulation of the cannabis industry in Canada, the United States, or elsewhere. A negative shift in the public's perception of medical or adult-use cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation, or enforcement. Such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's business strategy in the states in which the Company currently operates or in the Company's ability to expand its business into new states, may have a material adverse effect on the Company's business, financial condition, and results of operations. See "Risk Factors" section of this MD&A.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. Any enforcement action against the Company or any of its licensed operating facilities could have a material adverse effect on (1) the Company's reputation, (2) the Company's ability to conduct business, (3) the Company's holdings (directly or indirectly) of medical or adult-use cannabis licenses in the United States, (4) the listing or quoting of the Company's securities on various stock exchanges, (5) the Company's financial position, (6) the Company's operating results, profitability, or liquidity, or (7) the market price of the Company's publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or their final resolution because the time and resources that may be necessary depend on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors" section of this MD&A. The Company's business activities, and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

Arizona

As a result of the MPX Acquisition on February 5, 2019, the Company acquired 100% of CGX, which is the sole owner and member of S8 Management, S8 Rental Services, LLC ("S8 Rental"), S8 Industries, LLC ("S8 Industries"), and Tower Management. S8 Management has management agreements in place with Soothing Options, THCWC, and HFL. S8 Rental and S8 Industries provide financing, leasing, and other logistical support to Soothing Options, THCWC, and HFL. Tower Management has a management agreement in place with ABACA.

HFL is a cannabis dispensary and cultivation facility located in Mesa, AZ, operating under the "Health for Life" brand. Soothing Options is a cannabis dispensary and cultivation and production/manufacturing facility located in Mesa, AZ, operating under the "Health for Life" brand. THCWC is a cannabis dispensary located in Mesa, AZ. ABACA is a cannabis dispensary and cultivation and production/manufacturing facility located in Phoenix, AZ, operating under the name "The Holistic Center AZ Medical Cannabis Dispensary". ABACA holds a dispensary license with the approval to cultivate medical cannabis at an offsite location in Arizona.

For the purposes of Staff Notice 51-352, the Company's investments in Soothing Options, THCWC, HFL, and ABACA are classified as "direct" involvement in the United States cannabis cultivation or distribution industry because S8 Management and Tower are wholly owned subsidiaries of the Company. The Company's investment in S8 Rental and S8 Industries are classified as "ancillary" involvement in the United States cannabis industry.

The Company is advised by legal counsel regarding compliance with Arizona's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Arizona's cannabis regulatory program. The Company only engages in transactions with Arizona cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Arizona in compliance with Arizona's cannabis regulatory program. To the extent required by Arizona's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Arizona cannabis businesses. The Company, HFL, Soothing Options, THCWC LLC, S8 Management, and ABACA are in compliance with Arizona's cannabis regulatory program. With respect to S8 Rental and S8 Industries, the Company is not aware of any non-compliance of Arizona's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of Arizona are summarized below:

In 1996, Arizona passed Proposition 200, the Drug Medicalization, Prevention, and Control Act of 1996 ("Proposition 200"), allowing doctors to prescribe medical cannabis to treat diseases or relieve pain in seriously or terminally ill patients. In order for a patient to use medical cannabis, a doctor had to provide scientific evidence to prove cannabis' usefulness along with a second doctor's opinion to the Arizona Department of Health Services (the "ADHS"). However, the language in Proposition 200 required a doctor to "prescribe" medical cannabis, creating a conflict with U.S. federal law. For a doctor to prescribe medication, the substances must first undergo Federal Drug Administration trials and doctors must specify the exact dosage and consumption methods to be used. This rendered Proposition 200 federally illegal. Accordingly, a medical cannabis program never materialized thereunder.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

In 2010, Arizona voters passed Proposition 203, which was known as the Arizona Marijuana Initiative. The Arizona legislature thereafter enacted the Arizona Medical Marijuana Act ("AMMA"), decriminalizing the medical use of cannabis. The AMMA appointed the Arizona Department of Health Services ("ADHS") as a regulator for the program and authorized ADHS to promulgate, adopt, and enforce regulations implementing the AMMA. The ADHS established the Arizona Department of Health Services – Medical Marijuana Program ("MMJ Program"), which sets for the rules and regulations regarding medical cannabis in the State of Arizona.

Medical Marijuana Dispensary Registration Certificates ("Certificates"), medical cannabis licenses under the AMMA, are vertically integrated and authorize Certificate holders to cultivate and dispense medical cannabis to patients. All Certificate holders must be not-for-profit entities. Once an applicant has been issued a Certificate, it is allowed to establish one physical retail medical dispensary location, one cultivation location which is co-located at the dispensary's retail site (subject to local zoning laws), and one additional off-site cultivation location, which can be located anywhere within the State of Arizona. None of these sites can be operational until the Certificate holder receives an approval to operate from ADHS for the applicable site. A Certificate holder is required to file an application to renew with the ADHS on an annual basis, which must include audited annual financial statements. While a Certificate may not be sold, transferred or otherwise conveyed, Certificate holders typically contract with third parties to provide various services related to the ongoing operation, maintenance, and governance of its dispensary and/or cultivation facility so long as such contracts do not violate the requirements of the AMMA or the MMJ Program. ADHS determines when to allocate additional Certificates.

California

The Company, through its wholly-owned subsidiary CGX, has an agreement with Case Farms Collective, a cannabis processing facility in Southern California doing business under the trade name "Oil Haus." Case Farms Collective operates 22,000 square feet of extraction, post-processing, and packaging space in Long Beach, CA. Under the terms the agreement, Case Farms Collective will provide full scale cannabis processing services to CGX, with all concentrate products manufactured to CGX's proprietary specifications and guidelines to ensure the continued consistency of CGX concentrate products. Case Farms has licenses to cultivate, manufacture, process, and distribute cannabis products.

For the purposes of Staff Notice 51-352, the Company's activities in California are classified as "indirect" involvement in the United States cannabis cultivation or distribution industry.

The Company is advised by U.S. legal counsel regarding compliance with California's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with California's cannabis regulatory program. The Company only engages in transactions with California cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in California in compliance with California's cannabis regulatory program. To the extent required by California's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such California cannabis businesses. The Company is in compliance with California's cannabis regulatory program. The Company is not aware of any non-compliance of Case Farms Collective with California's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with an "indirect" involvement in the United States cannabis cultivation, manufacturing, or distribution industry.

The applicable regulations in the State of California are summarized below:

In 1996, California legalized medical cannabis through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). The CUA legalized the use, possession, and cultivation of medical cannabis by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which cannabis provides relief. In 2003, Senate Bill 420 was signed into law, establishing an optional identification card system for medical cannabis patients.

In September 2015, the California legislature passed three bills, collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"), that establishes a licensing and regulatory framework for medical cannabis businesses in California. The MCRSA created multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors.

In November 2016, voters in California passed Proposition 64, the "Adult-use of Marijuana Act" ("AUMA") creating an adult-use cannabis program for individuals 21 years of age or older. The AUMA and the MCRSA conflicted in certain respects. In June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult-use licensing of cannabis businesses in the State of California. MAUCRSA went into effect on January 1, 2018.

Pursuant to MAUCRSA, three agencies were established for the purposes of regulating and licensing California cannabis operators (collectively, the "Licensing Agencies"): (1) CalCannabis, a division of the California Department of Food and Agriculture, which regulates and issues cultivators licenses ("CalCannabis"); (2) Manufactured Cannabis Safety Branch, a division of the California Department of Public Health, which regulates and issues manufacturing licenses (the "MCSB"); and (3) the Bureau of Cannabis Control, a division of the California Department of Consumer Affairs, which regulates and issues licenses to cannabis distributors, testing laboratories, retailers, and microbusinesses (the "BCC"). Other departments and agencies of the State of California have regulatory oversight over cannabis businesses, but the Licensing Agencies are the primary cannabis regulatory authorities in California. The Licensing Agencies may issue Retailer Licenses, Cultivation Licenses, and Distribution Licenses.

In order to legally operate a medical or adult-use cannabis business in California, the operator must have both a state license designated as a medical license, adult-use license or both, issued by one or more Licensing Agencies, as well as a corresponding local license, issued by the local city or county governmental authority where the cannabis business is located.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Under MAUCRSA, local governmental authorities have the authority and discretion to determine the number of licenses they will issue to cannabis operators and/or to ban cannabis cultivation, manufacturing, or sales within their jurisdiction outright.

The Licensing Agencies began issuing temporary licenses in January 2018. Unlike some other states, California does not limit the number of state licenses that a single entity may hold, with certain limited exceptions. Similarly, vertical integration across multiple license types is permitted under MAUCRSA, except that an operator that holds a testing laboratory license may not hold any other type of license.

California state and local licenses must be renewed annually. Each year, licensees are required to submit a renewal application pursuant to guidelines published by the BCC, CalCannabis, and the MCSB, as applicable, as well as any local, city, or county governmental authority where the cannabis business is located. There is no limit on the number of times a license may be renewed.

New York

On February 1, 2018, the Company acquired 100% of Citiva. The license held by Citiva allows for one cultivation and processing facility and up to four dispensaries. The acquisition provides the Company with exposure to one of the nation's largest markets, with a state-wide population of approximately 20 million people in a state where only 10 licenses have been granted.

The Company's flagship dispensary in Brooklyn opened on December 31, 2018. With its first dispensary open in the state, the Company believes that this dispensary will add incremental revenues to its New York operations in 2019. The dispensary is expected to be one of only three dispensaries operating in Brooklyn, a borough of approximately 2.6 million residents. To supply the dispensary with product ahead of completion of the Company's Warwick, NY cultivation facility, Citiva entered into two wholesale purchase agreements with other Registered Organizations (as defined below) in New York, including for the supply of a range of vaporizers, capsules, and tinctures. The Company is seeking to expand its wholesale relationships to ensure a diverse product offering.

Following December 31, 2018, the Company completed construction of its second dispensary location in Wappingers Falls, NY, which opened on February 14, 2019. Further, the Company executed a lease agreement for a dispensary in Staten Island, which is expected to open in the fourth quarter of 2019. The Company continues to educate physicians in New York State on Citiva's product offerings and to create brand awareness through its medical outreach program.

For the purposes of Staff Notice 51-352, the Company's investment in Citiva is classified as "direct" involvement in the United States cannabis cultivation or distribution industry because Citiva is a wholly owned subsidiary of the Company.

The Company is advised by legal counsel regarding compliance with New York's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New York's cannabis regulatory program. The Company only engages in transactions with New York cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in New York in compliance with New York's cannabis regulatory program. To the extent required by New York's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New York cannabis businesses. The Company and Citiva are in compliance with New York's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of New York are summarized below.

In July 2014, Governor Andrew M. Cuomo and the New York State Legislature enacted the Compassionate Care Act (the "CCA") to provide a comprehensive, safe and effective medical cannabis program. The CCA and the regulations promulgated thereunder allow for the acquisition, possession, manufacturing, sale, delivery, transportation, distribution, and dispensing of cannabis for medical purposes by certain registered organizations in the State of New York (each, a "Registered Organization"). The New York State Department of Health (the "NY DOH") supervises New York's medical cannabis regulatory program and has currently issued registrations to only ten Registered Organizations.

Each RO holds a vertically integrated license that allows for one manufacturing (cultivation and processing) facility and up to four dispensaries for medical cannabis products. The CCA permits a limited number of product offerings, and smoking of cannabis flower is prohibited as is incorporating medical cannabis into food products unless approved by the commissioner of the NY DOH. New York is a vertically integrated system; however, it does allow Registered Organizations to wholesale manufactured product to one another. Registered Organizations may only manufacture and dispense medical cannabis to qualified patients and designated caregivers.

Registrations under New York's medical cannabis program must be renewed every two years. An application to renew any registration must be filed with the NY DOH not more than six months nor less than four months prior to the expiration thereof.

Florida

On January 17, 2018, the Company acquired substantially all of the assets of GrowHealthy Holdings, LLC ("GHH") and certain related subsidiaries. The Company had previously acquired approximately six percent of GHH in a preferred share purchase in October 2017. Those shares were redeemed by GHH as part of the Company's asset purchase in January 2018.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

GHH's subsidiary and strategic partner, McCrory's (doing business as, and collectively with GHHIA, "GrowHealthy"), holds one of 22 Medical Marijuana Treatment Center ("MMTC") licenses issued by the Florida Department of Health ("FL DOH"), under which GrowHealthy is permitted to cultivate, process, and dispense medical cannabis under Florida's medical marijuana law.

Through the January 2018 transaction, the Company also acquired GHHIA, which holds an exclusive 40-year management contract, which renews automatically every five years thereafter, to provide management services associated with GrowHealthy's business in connection with the MMTC license issued to McCrory's, along with an option to acquire 100% of McCrory's for a nominal consideration, pending approval by the FL DOH. The license held by McCrory's allows for one cultivation and manufacturing facility and up to 35 dispensaries in Florida, which has a current population of approximately 21 million residents.

GrowHealthy continues to expand its cultivation and production capacity through the construction and improvement of outdoor greenhouses and indoor grow rooms at its Lake Wales cultivation facility, which will add approximately 285,000 square feet of additional cultivation space. GrowHealthy opened its flagship dispensary in West Palm Beach, FL in December, 2018 and another in Brandon, FL in January, 2019. A third dispensary was opened in March, 2019 in Lake Worth, FL, and the fourth and fifth locations were added in Orlando, FL and Daytona Beach, FL in June, 2019, respectively. The sixth location was added in North Miami, FL in August, 2019, bringing the total number of GrowHealthy dispensaries opened in Florida to six. To date, GrowHealthy has executed 20 dispensary leases and is expected to open the remaining 14 dispensaries by the end of the first quarter of 2020. GrowHealthy continues to expand its delivery program through the addition of delivery vehicles. It is expected that each new dispensary will house an additional delivery vehicle.

For the purposes of Staff Notice 51-352, the Company's investment in GrowHealthy is classified as "direct" involvement in the United States cannabis cultivation or distribution industry because GHHIA is a wholly-owned subsidiary of the Company.

The Company is advised by legal counsel regarding compliance with Florida's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Florida's cannabis regulatory program. The Company only engages in transactions with Florida cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Florida in compliance with Florida's cannabis regulatory program. To the extent required by Florida's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Florida cannabis businesses. The Company, GHH, GHHIA, and GrowHealthy are in compliance with Florida's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of Florida are summarized below:

On July 1, 2014, the Florida Legislature enacted the Compassionate Use Act (the "CUA") to create an exemption from Florida criminal statutes for the cultivation, processing, dispensing, and use of medical marijuana. Originally, the CUA was limited in scope, creating an application process for the creation of five geographically dispersed dispensing organizations, which would be vertically licensed to cultivate, process, and dispense low-THC cannabis for medically approved uses (each, a "Dispensing Organization"). The original 28 applicants for Dispensing Organization licenses were competitively reviewed, resulting in the selection of five licensees. Each legislative session and special session thereafter, as well as a citizen led Florida constitutional amendment approved by state-wide vote in November, 2016, expanded and modified the original CUA, resulting in a total of 22 MMTC vertical licenses at the present time, now legislatively approved to dispense "Low-THC cannabis" and "Medical Marijuana" derivative products in Florida, including smokable flower.

Duly licensed MMTCs are each entitled to open up to 35 dispensaries, and for each new 100,000 qualified patients added to the state regulated data base, an additional five dispensaries per MMTC are added to the statutory cap. Unless re-enacted, the caps are currently set to expire April 1, 2020. As of July 1, 2019, there are only 141 approved dispensary locations in Florida.

Patients and caregivers must be 21 years of age or older and residents of Florida and must be approved by trained qualified physicians. Once registered within the state regulated data base, such patients and caregivers become "Qualified Patients", entitled to a patient ID card. Once qualified, patients and caregivers can directly purchase derivative products and smokable flower from any licensed MMTC. As of July 1, 2019, there are 237,729 Qualified Patients in Florida, and for every 100,000 qualified patients added, an additional four vertically integrated MMTC licenses may be issued.

The Office of Medical Marijuana Use of the FL DOH, is authorized to promulgate regulations implementing Florida's medical cannabis program, along with the Florida Department of Agriculture and Consumer Services to promulgate regulations concerning edible products, as governed by state law.

Each licensed MMTC must receive authorization from the FL DOH at each stage of the production process (i.e., cultivation, processing, dispensing, and for each dispensary), as well as authorizations and inspections concerning edible products by the Florida Department of Agriculture and Consumer Services. Each licensee is held to the representations made in its original July, 2014 application. An MMTC must obtain approval from the FL DOH in the form of a variance before operating in a manner inconsistent with the representations in the application.

Florida's medical cannabis law further provides that the FL DOH shall renew the licensure of a MMTC every two years if the licensee meets the requirements of the law and pays the biennial renewal fee.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Massachusetts

The Company formed Mayflower as a Massachusetts non-profit corporation and submitted applications in August, 2015 for Registered Marijuana Dispensary ("RMD") Certificates of Registration. In August, 2016, Mayflower received two RMD Provisional Certificates of Registration. In 2017, the Company acquired an 80% controlling interest in Pilgrim Rock Management, LLC ("Pilgrim"), the affiliated management company that provides intellectual property licensing, professional, and management services, real estate and equipment leasing, and certain other services to Mayflower. The Company acquired the remaining 20% of Pilgrim in April 2018, which gave the Company a 100% ownership of Pilgrim.

In December 2017, Mayflower completed construction of its Holliston, MA cultivation and product manufacturing facility and received a Final Certificate of Registration ("FCR") from the Massachusetts Department of Public Health ("DPH"). In January, 2018, Mayflower began medical marijuana operations in Holliston, MA. The first harvest took place on April 20, 2018, and Mayflower's first medical marijuana dispensary, located in Boston, opened on July 19, 2018. On June 25, 2018, Mayflower launched its medical marijuana delivery program, which now serves the municipalities of Arlington, Ashland, Boston, Brookline, Cambridge, Chelsea, East Boston, Everett, Holliston, Malden, Medford, Milford, Milton, Quincy, Revere, Sherborn, Somerville, and Watertown.

On July 31, 2018 and in accordance with the amended medical regulations, Mayflower was converted into a Massachusetts for-profit corporation, which is now 100% owned by the Company.

The Company anticipates that it will ultimately operate out of three or four locations for medical marijuana operations: the Holliston cultivation and product manufacturing facility totalling 36,000 square feet, and two or three retail dispensing locations depending upon whether the Company opens its third RMD retail location under its management agreement with Cannatech, another Massachusetts RMD license holder. The Holliston facility will be dedicated to cultivating and manufacturing cannabis infused products and cannabis concentrates including edibles, vaporizers, tinctures, and topicals. Mayflower is in process of obtaining approval from the Massachusetts Cannabis Control Commission (the "Commission") to move the location of its second retail RMD from Gloucester, MA to Lowell, MA. The Company has secured a binding interest to lease the second retail RMD facility in Lowell.

Existing medical marijuana operators and economic empowerment applicants are eligible for Priority Applicant status that enables their adult-use applications to be reviewed before the applications of non-Priority applicants. With RMD Priority applicant status, Mayflower began submitting applications for adult-use licenses in 2018. Mayflower currently holds Provisional Licenses from the Commission to cultivate and manufacture adult-use marijuana and marijuana products at its existing cultivation and product manufacturing facility in Holliston, MA and a Provisional License to sell adult-use marijuana and marijuana products at its retail dispensary in Worcester, MA, which is the second most populous city in New England after Boston. In the next several weeks, Mayflower also expects to receive the local approvals necessary to submit applications to the Commission for adult-use retailer licenses at its current locations in Boston, MA and Lowell, MA.

As a result of the MPX Acquisition on February 5, 2019, the Company acquired 100% of CGX, which is the sole owner and member of Fall River Development Company, LLC ("FRDC") and IMT, LLC ("IMT"). FRDC and IMT have certain service and management agreements in place with Cannatech, a not-for-profit RMD license holder with a cultivation and product manufacturing facility and a separate retail dispensing facility, both located in Fall River, MA. Both Fall River facilities are provisionally licensed as RMD facilities. Cannatech is in the process of preparing to submit adult-use Cultivator and Product Manufacturer License applications for the Fall River cultivation and product manufacturing facility.

The Company anticipates that Mayflower and Cannatech will ultimately operate out of a total of five locations for its adult-use marijuana operations in Massachusetts: three retail locations and two cultivation and product manufacturing facilities.

For the purposes of Staff Notice 51-352, the Company's investments in Mayflower and Cannatech are classified as "direct" involvement in the United States cannabis cultivation or distribution industry, because Mayflower, Pilgrim Rock, FRDC, and IMT are wholly owned subsidiaries of the Company.

The Company is advised by legal counsel regarding compliance with Massachusetts' cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Massachusetts' cannabis regulatory program. The Company only engages in transactions with Massachusetts cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Massachusetts in compliance with Massachusetts' cannabis regulatory program. To the extent required by Massachusetts' cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Massachusetts cannabis businesses. The Company, Mayflower, Pilgrim Rock, Cannatech, FRDC, and IMT are in compliance with Massachusetts' cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the Commonwealth of Massachusetts are summarized below.

In November 2012, Massachusetts voters passed Ballot Question 3, establishing the Medical Use of Marijuana Program ("Medical Program") for patients with debilitating medical conditions. The DPH initially regulated the Medical Program, and medical RMDs were required to be vertically-integrated, Massachusetts Ch. 180 non-profit corporations that cultivated, manufactured, and dispensed medical marijuana and marijuana products. No person or entity may directly or indirectly control more than three RMD licenses.

In November 2016, Massachusetts voters passed Ballot Question 4, legalizing adult-use marijuana for individuals 21 years of age and older. The Commission promulgated adult-use marijuana regulations and began accepting applications in April, 2018 for a variety of adult-use marijuana establishment licenses, including cultivator, retailer, product manufacturer, craft cooperative, testing lab, research facility, transporter, and microbusiness (collectively, the "Marijuana Establishment Licenses").

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

No person or entity may control more than three Marijuana Establishment licenses in any particular class. Adult-use license applicants must enter into host community agreements with the host municipality in which the facility is located (each, a "Host Community Agreement") and conduct a community outreach meeting. Existing medical marijuana operators and economic empowerment applicants are eligible for Priority Applicant status that enables their adult-use applications to be reviewed before the applications of non-priority applicants. Where operations include both medical and adult-use operations, license holders must provide a plan for separating medical use operations from adult-use operations. All licensees must renew their license annually.

In December, 2018 and in accordance with state law, the Medical Program was transferred from the DPH to the Commission, which now regulates both the medical and the adult-use marijuana programs. The Commission recently released draft amendments to both sets of regulations, and the Company is reviewing the proposed amendments with local counsel to ensure compliance once the amended regulations are officially adopted.

Vermont

In 2017, the Company acquired 100% of Pakalolo, LLC, ("Pakalolo"), the sole member of GRVT, a not-for-profit medical cannabis license holder in Vermont. As a not-for-profit corporation, GRVT does not have equity owners. Ms. Alexandra Ford serves as one of the three board members that oversee GRVT. Ms. Ford is the sister of Hadley Ford, a director and officer of the Company. Pakalolo, as the sole member of GRVT, has the right to elect the board of directors of GRVT. GRVT intends to effect a conversion into a for-profit corporation in accordance with Vermont law, following which the Company expects to own 100% of GRVT. On January 1, 2018, the Company's wholly-owned subsidiary, Grassroots Vermont Management Services, LLC ("GVMS"), executed a management services agreement with GRVT, pursuant to which GVMS provides GRVT management services, financing, intellectual property licensing, real estate, equipment leasing, and certain other services.

GRVT currently maintains one location in Brandon, VT where cannabis is dispensed, cultivated, and processed. GRVT is seeking to open a second location in the greater Burlington, VT area, subject to required state and local approvals.

For the purposes of Staff Notice 51-352, the Company's investment in GRVT is classified as "direct" involvement in the United States cannabis cultivation or distribution industry because Pakalolo is a wholly owned subsidiary of the Company.

The Company is advised by legal counsel regarding compliance with Vermont's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Vermont's cannabis regulatory program. The Company only engages in transactions with Vermont cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Vermont in compliance with Vermont's cannabis regulatory program. To the extent required by Vermont's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Vermont cannabis businesses. The Company, Pakalolo, and GRVT are in compliance with Vermont's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of Vermont are summarized below.

On May 19, 2004, Vermont legalized medical marijuana through the passage of Senate Bill 76, which authorized state-registered patients suffering from cancer, HIV, AIDS, and/or multiple sclerosis to grow up to three marijuana plants and possess up to two ounces of marijuana for medical purposes. In June, 2007, the passage of Senate Bill 7 expanded the number of qualifying conditions for which individuals could register as patients. In 2011, Vermont authorized the establishment of up to four state-licensed medical marijuana distribution facilities through the passage of Senate Bill 17. On June 8, 2017, Governor Phil Scott signed Bill S. 16 authorizing the operation of an additional dispensary in Vermont and allowing each existing dispensary to open one additional location. The Vermont Department of Public Safety ("DPS") regulates Vermont's medicinal marijuana regulatory program.

On January 22, 2018, Governor Phil Scott signed Vermont's recreational cannabis bill into law, the first recreational cannabis law to be passed by a state legislature. This law took effect on July 1, 2018 and allows adults 21 years of age and older to possess up to one ounce of cannabis and possess up to two plants. There is no current regulatory system in place permitting the commercial sale of recreational cannabis.

No person is permitted to operate as a registered medical marijuana dispensary without a DPS-issued limited operating registration certificate and appropriate registry identification cards. A dispensary may not dispense cannabis before issuance of an active operating registration certificate, among other requirements. Limited operating registration certificates issued by the DPS to a dispensary are non-transferable. After a dispensary has been issued a limited operating registration certificate, the dispensary must obtain an active operating registration certificate and begin dispensing cannabis within six months. A waiver allowing an additional three months may be granted by the DPS upon receipt of a written justification for delay. A dispensary that does not commence dispensing within the required timeframe forfeits any and all fees that have been submitted. If a dispensary fails to commence dispensing within the required timeframe, the DPS may reopen the application process for a replacement dispensary.

Up to five registered dispensaries may be authorized by the DPS until such time as the number of registered patients in Vermont reaches 7,000. Currently, there are five registered dispensaries in Vermont including GRVT, and as of May 7, 2019, there were 5,209 patients enrolled with the Vermont Marijuana Registry. Each licensed dispensary may have up to two locations, where cannabis may be dispensed to registered patients, and one additional location, where cannabis is cultivated or processed.

The operations of a dispensary are subject to regulations promulgated by the DPS. On an annual basis, a dispensary may seek to renew its registration certificate. Upon this renewal request, the DPS determines whether to renew a dispensary's registration certificate for operation within 10 business days after submission of a completed DPS-approved form with all required documentation and the required fee.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Past enforcement actions and failure to provide all updated information are grounds for denial by the DPS for registration renewal. The DPS may also revoke a dispensary's registration certificate for failure to comply with the applicable regulations.

Colorado

On December 5, 2016, the Company, through its wholly-owned subsidiary, Scarlet, acquired certain assets of Organix, the owner and operator of a Colorado medical and adult-use cannabis operation with a cultivation facility in Denver, CO and a medical and adult-use dispensary located in Breckenridge, CO. The assets acquired include all real estate holdings of Organix's affiliate, DB, consisting of a 12,000 square foot cultivation facility in Denver, CO as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands (collectively, the "Organix Assets"). The real estate assets are owned by Bergamot, which is a wholly-owned subsidiary of Scarlet.

In a related transaction, Bellflower, LLC ("Bellflower") agreed to acquire all cannabis inventory and licenses to cultivate, manufacture, and sell cannabis-based products from Organix (the "Bellflower Transaction"). The Company holds no ownership interest in Bellflower and accordingly, Bellflower is an arm's length party to the Company. The Company, through Scarlet and Bergamot, provides a broad range of real estate, financing, intellectual property licensing, and professional services to Organix and has provided the same to Bellflower since the completion of the Bellflower Transaction. Scarlet and Bergamot were formed to provide long term contractual services to Bellflower and potentially other licensed cannabis operators in Colorado. Scarlet has acquired substantially all of the Organix Assets and serves as a branding, marketing, financing, equipment leasing, and professional services company to Bellflower. Bergamot acquired and now holds all the applicable real estate and master leasehold interests associated with Organix's operations and serves as a lessor of real property to Bellflower.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiaries, Scarlet and Bergamot, are classified as "ancillary" involvement in the United States cannabis industry for the purpose of Staff Notice 51-352. With respect to Scarlet and Bergamot, the Company is not aware of non-compliance with Colorado's cannabis regulatory program.

New Mexico

On April 2, 2014, RGA was formed for the primary purpose of serving as (1) a branding, marketing and consulting company to license and/or sublicense certain technology and product names to medical cannabis license holders in New Mexico; (2) a holding company for acquiring, leasing, and/or managing real estate, fixtures, and equipment; and (3) an entity that enters into financial transactions to support the operations of medical cannabis license holders in New Mexico. RGA currently manages two cultivation operations in Albuquerque, NM totaling approximately 38,000 square feet and six dispensary locations, five of which are located in Albuquerque, NM and one of which is located in Grants, NM. Working with the Company, RGA is currently instituting an expansion of its cultivating facilities and dispensaries, as well as developing a production strategy to provide value-added cannabis-infused products for its license holders and others in New Mexico. The Company has a 24.6% equity interest in RGA.

For the purposes of Staff Notice 51-352, the Company's investment in RGA is classified as "ancillary" involvement in the United States cannabis cultivation or distribution industry. With respect to RGA, the Company is not aware of non-compliance with New Mexico's cannabis regulatory program.

Maryland

Through its wholly owned subsidiary, S8 Management, the Company, operates three medical cannabis dispensaries in Maryland, LMS, Budding Rose, and GMMD, and one medical cannabis processor, Rosebud (collectively, the "Maryland Facilities"), pursuant to management agreements. The management agreements have an initial term of 20 years with up to two renewal terms of 20 years each. The Maryland Facilities hold licenses issued by the Natalie M. LaPrade Maryland Medical Cannabis Commission ("MMCC").

Through its wholly owned subsidiary, CGX, the Company, holds options to purchase each of the Maryland Facilities (the "Options"). The Options expire at various times in 2020. An amendment to Maryland cannabis law effective July 1, 2019 prohibits the transfer of the ownership of a grower, processor, or dispensary until the applicable facility has operated for at least three years. A change in ownership of a dispensary or processor license, including through exercise of an option, is subject to the approval of the MMCC.

For the purposes of Staff Notice 51-352, the Company's investment in the Maryland Facilities are classified as "direct" involvement in the United States cannabis cultivation or distribution industry because S8 Management is a wholly owned subsidiary of the Company.

The Company is advised by legal counsel regarding compliance with Maryland's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Maryland's cannabis regulatory program. The Company only engages in transactions with Maryland cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Maryland in compliance with Maryland's cannabis regulatory program. To the extent required by Maryland's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Maryland cannabis businesses. The Company and the Maryland Facilities are in compliance with Maryland's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

The applicable regulations in the State of Maryland are summarized below:

In 2013, Governor Martin O'Malley signed Maryland House Bill 1101 into law, establishing Maryland's medical cannabis program and the MMCC, which is charged with enforcing Maryland's medical cannabis laws and regulations. The MMCC grants medical cannabis grower, processor, and dispensary licenses. A licensee may own or control (i.e., manage) one grower, one processor, and, effective July 1, 2019, up to four dispensaries. The applicant must first seek pre-approval from the MMCC in order to be granted a license. Licenses for medical cannabis processors and dispensaries are issued for an initial term of six years and may be renewed for terms of 4 years, subject to the approval of the MMCC. Therefore, the Company's ability to maintain the management agreements for the term and renewal terms provided herein will depend upon the licensees' ability to renew its licenses.

Maryland law regarding management agreements is uncertain and in flux. The MMCC's current regulations are silent with respect to management agreements. On February 21, 2018, the MMCC issued Bulletin 2018-003 via its website, which required licensees to submit a copy of any proposed management agreement to the MMCC for review. The Company is advised by MPX's then counsel that the management agreements for the Maryland Facilities were timely submitted to the MMCC and that the MMCC has neither approved nor disapproved of the agreements. MPX therefore took the position that the management agreements were valid and enforceable.

On December 11, 2018, the MMCC issued Bulletin 2018-012 via its website in which the MMCC noted a proliferation of management agreements and expressed its concern that management agreements may, depending upon their precise wording, constitute a transfer of interest requiring the MMCC's approval. The Bulletin repeated the requirement set forth in the Bulletin 2018-003 that licensees must submit management agreements to the MMCC for approval. The MMCC's Policy Committee has published proposed regulations again via its website intended to clarify its position on management agreements. On January 8, 2019, the MMCC's Policy Committee held a public meeting to discuss the proposed regulations and heard public comment. Neither the MMCC's Policy Committee nor the MMCC has taken any further action concerning management agreements. Given the uncertainty of the regulatory environment, the Company can provide no assurances that the management agreements between S8 Management and each of the Maryland Facilities will continue to be valid and enforceable.

Nevada

As a result of the MPX Acquisition on February 5, 2019, the Company, through its wholly owned subsidiary CGX, acquired 99% of the membership units of GMNV, a licensed cultivation and production facility located in North Las Vegas, NV (the "NLV Facility"). The change in control of GMNV must be approved by the Nevada Department of Taxation ("NV DOT"), which is currently reviewing the Company's application. Approval by the NV DOT will also result in the Company acquiring the remaining one percent of membership units of GMNV, and the Company will then own 100% of GMNV.

GMNV, currently has two Nevada medical cannabis establishment registration certificates (each, a "Medical Marijuana License"), one for cultivation and one for product manufacturing, each of which occurs at the NLV Facility. GMNV also currently has two Nevada adult-use licenses ("Adult-Use Licenses"), one for cultivation and one for product manufacturing, each of which also occurs at the same NLV Facility. GMNV was awarded four conditional adult-use licenses for dispensaries ("Marijuana Retail Stores"), in December, 2018 and is currently seeking to perfect those licenses at the state and local level. Additionally, GMNV is in the process of perfecting a distributor license, which is required to transport adult-use cannabis from its cultivation and product manufacturing facilities to its dispensaries/Marijuana Retail Stores.

For the purposes of Staff Notice 51-352, the Company's investment in GMNV is classified as "direct" involvement in the United States cannabis cultivation or distribution industry because the Company has a controlling interest in GMNV.

The Company is advised by legal counsel regarding compliance with Nevada's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Nevada's cannabis regulatory program. The Company only engages in transactions with Nevada cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Nevada in compliance with Nevada's cannabis regulatory program. To the extent required by Nevada's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Nevada cannabis businesses. The Company and GMNV are in compliance with Nevada's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable Nevada regulations are summarized below.

Nevada has two parallel regulatory schemes for legal use of cannabis products, one for medical cannabis and the other for adult-use cannabis. Both are now administered by the NV DOT.

The Nevada Constitution was amended in 2000 to legalize the medical use of cannabis. State-certified medical cannabis establishments, including dispensaries, became operational in 2015. The Nevada medical marijuana program requires each medical cannabis establishment to register with the NV DOT and apply for a Medical Marijuana License.

The Regulation and Taxation of Marijuana Act was proposed by an initiative petition and approved during the 2016 general election (the "RTMA"). The RTMA allows individuals over 21 years of age to purchase and possess limited amounts of cannabis and cannabis products. Prior to November 15, 2018, the NV DOT only accepted applications for Nevada Adult-Use Licenses from individuals or businesses that held a Medical Marijuana License. Following November 16, 2018, the NV DOT began soliciting applications for potential cannabis establishments. Going forward, the NV DOT will determine on an annual basis whether a sufficient number of cannabis establishments exist. If the NV DOT determines that additional cannabis establishments are required, the NV DOT will issue a request for applications to operate a cannabis establishment by posting notifications online and at the NV DOT's office and other state offices.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

The medical and adult-use marijuana licenses issues in Nevada are: Cultivation Facility Licenses, Marijuana Product Manufacturing Facility Licenses, Medical Marijuana Dispensary Licenses (for the retail sales of medical marijuana) or Retail Marijuana Store Licenses (for retail sales of adult-use marijuana), and Independent Testing Laboratory Licenses. Additionally, Distributor Licenses, which pertain only to adult-use marijuana, permit licensees to transport cannabis from a cannabis establishment to another cannabis establishment. All licenses must be renewed yearly.

In addition to obtaining a Nevada license, each Nevada marijuana establishment must obtain a business licenses from the local jurisdiction in which it is situated. A provisional or conditional licensee may not engage in cannabis business operations until it has received all necessary local approvals and a final registration certificate from the NV DOT. No single entity may own more than one license in a local jurisdiction or more than 10% of the allocable licenses in one local jurisdiction, whichever is greater.

In 2019, Governor Steve Sisolak signed Assembly Bill 533 ("AB 533") into law. This omnibus legislation addresses many aspects of Nevada's cannabis industry, including creating the Cannabis Compliance Board and Cannabis Advisory Commission. These changes are generally set to take effect on July 1, 2020. The Company is reviewing the proposed legislation with local counsel to ensure compliance once the legislation is officially adopted.

New Jersey

MPX NJ received initial approval from the NJ DOH in December, 2018 to proceed under the Alternative Treatment Center ("ATC") medical cannabis permitting process to commence operations at an Atlantic County, NJ cultivation facility and an Atlantic City, NJ dispensary facility. In 2019, as a result of the MPX Acquisition, the Company acquired a 4% beneficial interest in MPX NJ. The Company is currently in negotiations with MPX NJ and expects to enter into a broad services agreement to provide exclusive financing, leasing, licensing, and professional services to MPX NJ, which is subject to NJ DOH approval. The NJ DOH's approval of MPX NJ for licensure as an ATC has been appealed by several unsuccessful applicants and one existing ATC permit holder. Those appeals are presently pending in the Superior Court of New Jersey, Appellate Division.

For the purposes of Staff Notice 51-352, the Company's investment in MPX NJ is classified as "direct" involvement in the United States cannabis cultivation or distribution industry.

The Company is advised by legal counsel regarding compliance with New Jersey's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New Jersey's cannabis regulatory program. The Company only engages in transactions with New Jersey cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in New Jersey in compliance with New Jersey's cannabis regulatory program. To the extent required by New Jersey's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New Jersey cannabis businesses. The Company and MPX NJ are in compliance with New Jersey's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of New Jersey are summarized below:

On July 2, 2019, Governor Phil Murphy signed the Jake Honig Compassionate Use Medical Cannabis Act ("Honig Act") into law, which significantly amended and expanded the existing New Jersey Compassionate Use Medical Marijuana Act ("CUMMA") enacted in January, 2010. Like CUMMA, the Honig Act provides protection from arrest, prosecution, property forfeiture, and criminal and other penalties for those patients who use cannabis to alleviate suffering from certain medical conditions, as well as their health care practitioners, designated caregivers, and those who are authorized to produce, process, and dispense cannabis for medical purposes.

The Honig Act ultimately transfers all responsibility for oversight, regulation, administration, and enforcement of New Jersey's medical cannabis program from the NJ DOH to the new five-member Cannabis Regulatory Commission (the "CRC"). However, medical cannabis oversight will remain under the NJ DOH until such time as the members of the CRC are appointed and the CRC first organizes.

The Honig Act establishes three distinct permit types in connection with the production and dispensing of medical cannabis: Medical Cannabis Cultivators, Medical Cannabis Manufacturers, and Medical Cannabis Dispensaries. Any such permit will be valid for one year and be renewable annually.

The CRC will be required to issue a request for new permit applications within 90 days of the Honig Act's effective date and to make a determination on any permit application within 90 days after the date of submission.

For a period of 18 months after the Honig Act's effective date, an entity will be permitted to hold only one permit of any type subject to the exceptions set forth below. After 18 months, an entity will be authorized to concurrently hold Medical Cannabis Cultivator, Medical Cannabis Manufacturer, and Medical Cannabis Dispensary permits.

However, the Honig Act provides that the CRC must issue three new ATC permits that are not subject to these restrictions. These three ATCs will be deemed to concurrently hold Medical Cannabis Cultivator, Medical Cannabis Manufacturer, and Medical Cannabis Dispensary permits immediately upon approval, regardless of the general 18-month restriction on vertical integration. These three ATCs will also be authorized to establish one satellite dispensary location each, provided that each such ATC applies for the satellite dispensary within 18 months after the Honig Act's effective date. These three ATC permits are to be distributed with one located in each of the northern, central, and southern regions of New Jersey.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Additionally, ATCs that were issued a permit prior to the Honig Act's effective date, ATCs that were issued a permit after the Honig Act's effective date but pursuant to an application submitted prior to such effective date, and up to four ATCs issued permits after the Honig Act's effective date but pursuant to a request for applications published in the New Jersey Register prior to such effective date will not be subject to such restrictions on vertical integration and will also be deemed to concurrently hold Medical Cannabis Cultivator, Medical Cannabis Manufacturer, and Medical Cannabis Dispensary permits.

Similarly, no new satellite dispensaries will be approved aside from any new satellite dispensary expressly authorized under the Honig Act, any satellite dispensary authorized for a clinical registrant, and grandfathered satellite dispensaries, including those of any ATC issued a permit prior to the Honig Act's effective date and any ATC issued a permit after the Honig Act's effective date pursuant to an application submitted prior to such effective date. Any such ATC shall be authorized to hold up to two satellite dispensary permits, including any satellite dispensary permit approved prior to the Honig Act's effective date or approved pursuant to an application submitted prior thereto. Any satellite dispensary approved pursuant to an application submitted within the first 18 months after the Honig Act's effective date are also permitted.

The CRC will be required to specify by regulation the number of new permits of each type that it will authorize in the first year following the Honig Act's effective date, and thereafter periodically evaluate whether the current number of permits is sufficient to meet the needs of qualifying patients and issue requests for new applications if necessary.

Pursuant to its mandate under the Honig Act and until its authority transfers to the CRC, the NJ DOH grants vertically integrated and endorsement-specific permits authorizing the cultivation, processing, and dispensing of medical cannabis by ATCs through its Division of Medicinal Marijuana. To obtain an ATC permit, an application must be filed with the NJ DOH.

iA CBD

On June 27, 2019, the Company, through its wholly owned subsidiary, iA CBD, acquired substantially all of the property and assets of CBD For Life. As a result of its acquisition of CBD For Life, iA CBD is engaged in the formulation, manufacture, creation, and sale of products infused with CBD. The CBD used to manufacture these products is exclusively derived from hemp. The Company intends for all its hemp-derived products to be produced and sold in accordance with the 2014 Farm Bill and the 2018 Farm Bill, as applicable at the time and location of operation, and for such products to constitute hemp under the 2018 Farm Bill.

Risk Factors

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in the AIF, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers.

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

- The Company's business activities, and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.
- There is uncertainty surrounding the policies of President Donald Trump and the Trump administration and their ability to influence policies in opposition to the cannabis industry as a whole.
- The U.S. federal government's approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.
- The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations in the United States and Canada.
- The Company's investments in the United States may be subject to heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States.
- U.S. border officers could deny entry into the United States to non-U.S. citizens who are employees of or investors in companies with cannabis operations in the United States or Canada.
- Laws, regulations, and the policies with respect to the enforcement of such laws and regulations affecting the U.S. cannabis industry are constantly changing, which could detrimentally affect the Company's cultivation, production, and dispensary operations.
- The Company relies on third-party suppliers, manufacturers, and contractors.
- The Company may not be able to continue executing the Company's merger and acquisition strategy successfully.
- The Company competes for market share with other companies, which may have longer operating histories, more financial resources, and more manufacturing and marketing experience than the Company has.
- The Company's U.S. tax classification could have a material adverse effect on the Company's financial condition and results of operations.
- The Company may incur significant tax liabilities under section 280E of the U.S. Tax Code.
- The Company relies on the operators of the Company's subsidiaries to execute their business plans and operations.
- The Company may invest in securities of private companies and may hold a minority interest in such companies, which may limit the Company's ability to sell or otherwise transfer those securities and direct management decisions of such companies.
- The market price of the Common Shares is volatile and may not accurately reflect the long-term value of the Company.
- There is no assurance that an investment in the Common Shares will earn any positive return.

Risk Factors (cont.)

- The Company experienced negative cash flow from operating activities.
- The Company's auditors have issued a going concern qualification with respect to the Company's financial statements.
- The Company is a holding company and the majority of the Company's assets are the capital stock of the Company's subsidiaries.
- The Company believes that it has, and will seek to maintain, adequate insurance coverage in respect of risks customarily insured by other companies in the Company's industry; however, insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions that may not be sufficient to cover potential liabilities faced by the Company.
- The Company's cannabis cultivation operations are subject to risks inherent in an agricultural business.
- The Company's cannabis cultivation operations are vulnerable to rising energy costs and dependent upon key inputs.
- The Company is dependent on the popularity of consumer acceptance of cannabis.
- The Company will likely need additional capital to sustain the Company's operations and will likely need to seek further financing, which the Company may not be able to obtain on acceptable terms, or at all. If the Company fails to raise additional capital, as needed, the Company's ability to implement its business model and strategy could be limited.
- The Company, and its subsidiaries, have limited operating history and therefore the Company is subject to many of the risks common to early-stage enterprises.
- The Company depends on key personnel to operate its business, and if the Company is unable to retain, attract, and integrate qualified personnel, the Company's ability to develop and successfully grow the Company's business could be harmed.
- The cannabis industry is highly regulated and the Company may not always succeed in complying fully with applicable regulatory requirements in all jurisdictions where the Company carries on business.
- The Company may have difficulty accessing the service of banks, which may make it difficult for the Company to operate.
- The Company competes for market share with illicit cannabis businesses and other persons engaging in illicit cannabis-related activities, and each such business or other person likely is not adhering to the same laws, regulations, rules, and other restrictions that are applicable to the Company.
- Servicing the Company's debt will require a significant amount of cash, and the Company may not have sufficient cash flow from the Company's business to pay the Company's substantial debt.
- Certain events or developments in the cannabis industry more generally may affect the Company's business.
- Cannabis pricing and supply regulation may adversely affect the Company's business.
- High tax rates on cannabis and compliance costs may adversely affect the Company's business.
- Litigation, complaints, enforcement actions, and governmental inquiries could have a material adverse effect on the Company's business, financial condition, and results of operations.
- The Company may be subject to product liability claims and product recalls.
- If the Company is not able to comply with all safety, security, health, and environmental regulations applicable to its operations and industry, the Company may be held liable for any breaches thereof.
- Third parties with whom the Company does business may perceive themselves as being exposed to reputational risk because of their relationship with the Company due to the Company's cannabis-related business activities, and may, as a result, refuse to do business with the Company.
- The Company is subject to regulatory limits on advertising and marketing activities, which limitations may have a material adverse effect on the Company's business.
- The Company may become subject to liability arising from any fraudulent or illegal activity by the Company's employees, independent contractors, and consultants.
- Some of the Company's lines of business rely on the Company's third-party service providers to host and deliver services and data, and any interruptions or delays in these hosted services, security or privacy breaches, or failures in data collection could expose the Company to liability and harm the Company's business and reputation.
- The Company may experience breaches of security at the Company's facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.
- The Company may be subject to risks related to the protection and enforcement of the Company's intellectual property rights, and third parties may enforce their intellectual property rights against the Company.
- Conflicts of interest may arise between the Company and the Company's directors and officers.
- There is a limited market for the Common Shares.
- The requirements of being a public company may strain the Company's resources, result in more litigation, and divert the attention of the Company's management.
- The Company does not expect to declare or pay dividends in the foreseeable future.
- The Company's failure to maintain effective internal controls over financial reporting could have an adverse effect on the Company.
- Future issuances of Common Shares or securities convertible into, or exercisable or exchangeable for, Common Shares ("Securities"), or the expiration of escrow arrangements or lock-up agreements that restrict the issuance of new Common Shares or the trading of outstanding Common Shares, could cause the market price of the Common Shares to decline and would result in the dilution of current holders of Common Shares.
- Future issuances of debt securities, which would rank senior to Common Shares upon the Company's bankruptcy or liquidation, may adversely affect the level of return holders of Common Shares may be able to achieve from an investment in Common Shares.
- The Company may be subject to penny stock regulations and restrictions, which may make it difficult to sell the Common Shares.
- The Company will incur ongoing costs and obligations related to regulatory compliance in a new and constantly evolving legal landscape. Failure to comply with legal mandates may result in additional costs for corrective measures, penalties, or restrictions of operations.
- There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits, or approvals needed to produce and distribute its products.
- The Company may not be able to create and maintain a competitive advantage in the marketplace.
- The Company faces risks related to weather patterns and agricultural hemp operations such as low yields, the risk that crops may become diseased or victim to insects or other pests and contamination, the possibility of extreme weather conditions, all of which could result in low crop yields, decreased availability of hemp, and higher acquisition prices. There can be no guarantee that an agricultural event will not adversely affect the Company's business and operating results.

Risk Factors (cont.)

- The Company faces risks related to the transportation of hemp and hemp-derived products and its reliance on third party transportation services, including risks resulting from the continually evolving federal and state regulatory environment governing hemp production and transportation.
- Certain hemp-derived products of the Company, even though compliant with the 2014 Farm Bill and 2018 Farm Bill, may contain traceable amounts of THC. Whether or not ingestion of THC at low levels or otherwise is permitted in a particular jurisdiction, there may be adverse consequences to end users who test positive for trace amounts of THC attributable to use of the Company's hemp-derived products. A claim or regulatory action against the Company based on such positive test results could adversely affect the Company's reputation and would have a material adverse effect on its business and operational results.
- The production, labelling, advertising, and distribution of the Company's hemp-derived products are regulated by various federal, state, and local agencies, including the FDA and FTC. At any point, enforcement strategies of a given agency can change, which could restrict the permissible scope of the Company's marketing or the ability to sell its products in the future. Enforcement activities by federal, state, and/or local law enforcement and regulatory authorities under the auspice of individual state law and local law, regardless of any potential conflict thereby with federal law could adversely affect the Company's business and operating results.
- The shifting compliance environment, patchwork of state laws, and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that the Company may violate one or more of these requirements. If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation thereof, the Company may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, and/or the curtailment or restructuring of the Company's operations, any of which would adversely affect the Company's business and financial results.
- There is uncertainty surrounding the characterization of CBD as a food and/or dietary ingredient by the FDA, and the Company may be subject to enforcement action taken by the FDA concerning products containing derivatives from hemp. Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions.
- The USDA, FDA, and other federal, state, and local agencies are currently in the process of rulemaking to establish standards governing the production and sale of hemp-derived products in the U.S. There is uncertainty as to whether such rules will be unfavourable or could negatively impact the Company's operations with respect to its hemp-derived products. Changes in the regulatory framework and in the interpretation of applicable laws and regulations at a federal, state, and local level could be unfavourable to the Company.
- Changes in current public support for favourable legislative action at the state and federal levels could negatively impact the Company.
- Changes in consumer perception of CBD products and product returns could negatively impact the Company.

Upcoming Change in Issuer's GAAP

The Company has ceased to be a "foreign private issuer" under the rules of the U.S. Securities and Exchange Commission and will cease to be eligible to use the rules and forms available to foreign private issuers as of December 31, 2019. As a result, the Company will have to prepare its December 31, 2019 audited annual financial statements in accordance with United States generally accepted accounting principles ("US GAAP"), with such change being applied retrospectively. The extent of the impact of this change in accounting framework has not yet been determined. The Company will report its fourth quarterly results for 2019 under IFRS as issued by the International Accounting Standards Board and the Company expects to provide further guidance over the year on the impacts of converting to US GAAP.