

iAnthus Capital Holdings, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months Ended September 30, 2019 and 2018

Company Overview

iAnthus Capital Holdings, Inc. (the "Company" 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 it believes to be, the best-in-class licensed cannabis cultivation, processing, and dispensary facilities, and the Company offers innovative branded cannabis and cannabidiol ("CBD") products in the United States. Through its subsidiaries, the Company currently owns and/or operates 27 dispensaries and 13 cultivation/processing facilities throughout the United States and distributes cannabis and CBD products to over 200 dispensaries and 1,500 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/or distribute its cannabis products in 11 states with an aggregate population of approximately 121 million.

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. iAnthus' 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.

Since its inception, the Company has accelerated the growth of its business through key strategic acquisitions. On February 5, 2019, the Company acquired the U.S. operations of MPX Biocetical 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 across the United States. 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 1,500 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, Dillard's, Hallmark, Olympia Sports, and Weis Markets, and large distribution and sales partnerships with UNFI, MarketHub, Kimberly Wahlberg, and Appelman Schauben. 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. In addition, the Company is currently exploring international opportunities for expansion of its CBD For Life product offerings and anticipates entering key markets over the next 12 months. In September 2019, the Company further strengthened its foothold in Nevada with the announcement of the acquisition of WSCC, Inc. ("Sierra Well"), a leading Northern Nevada operator with two dispensaries in Reno and Carson City, two cultivation facilities, and one production and manufacturing facility.

Competitive strengths

National footprint with presence in key markets. The Company maintains its footprint in 11 U.S. states and has organized its operations into two regions: Eastern and Western. The Eastern region includes highly populous states with attractive competitive dynamics and is comprised of Florida, Massachusetts, Maryland, New Jersey, and New York. The Western region includes states with large adult-use cannabis markets and is comprised of 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 that will help to streamline operations. The Company 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 and future dispensaries under a single, unified retail brand concept, Be. New flagship stores in Miami, Las Vegas, and Atlantic City will follow and existing stores will be 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 its operations.

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 200 retail locations in Arizona, Maryland, Nevada, and Massachusetts and have received industry recognition by High Times Magazine and Leafly. In Arizona, MPX-branded products are ranked first in non-vape concentrates with a 12% market share and vapes are ranked fifth with a 5% market share. To date, four of the top twenty non-vape concentrates in Nevada are MPX-branded, and MPX-branded wax is the top-selling non-vape concentrate in the state. The Company continued to develop these markets through the launch of products including MPX-branded edibles, Black Label and MPX-branded cultivar pre-rolls. The Company also distributes bulk flower, trim, and distillate as raw materials to its wholesale customers in those states.



Company Overview (cont.)

Build strong brand recognition with global appeal and broad distribution. The first flagship Be. store is under construction in Brooklyn, and the Company anticipates a grand opening in the coming months. 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.



iAnthus has also entered into agreements to manufacture and/or distribute third party brands. In April 2019, 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 other dispensary locations 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, cultivation, and processing 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 BDS Analytics and Arcview Market Research is projected to generate more than \$20 billion in U.S. retail sales by 2024. 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 that are transferrable to cannabis.

Growth strategy and strategic priorities

Expand retail footprint within existing dispensary license portfolio. iAnthus currently has 27 dispensaries open and operating, and the Company's licenses permit it to own and/or operate a total of up to 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, Baltimore and Las Vegas.



Increase cultivation and processing capacity to enable more product. iAnthus has 15 cultivation and processing licenses in 10 states, with approximately 295,000 square feet of space (including approximately 225,000 of indoor square footage and 70,000 of outdoor square footage) fully built-out and an additional 200,000 of square feet currently under construction. The Company has the capacity to increase its cultivation and processing capacity to over 1.0 million 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 over 150,000 pounds of biomass.

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 established, and patients and customers 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. Strategic acquisitions are an important part of the Company's 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. During the three months ended September 30, 2019, the Company announced that it has entered into an agreement to acquire Sierra Well, a leading Nevada-based vertically licensed cannabis company with two premium dispensary locations in Reno and Carson, and over 20,000 square feet of cultivation and production/manufacturing capabilities.

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 cultivation, 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.

Recent Developments

- On July 11, 2019, iAnthus announced the expansion of its CBD For Life brand presence through a partnership with Dillard's. CBD For Life products are sold directly to consumers online at www.cbdforlife.us as well as in over 1,500 retail locations across the United States, with a dedicated team working with national retailers to on-board new locations weekly. In addition to Dillard's, CBD For Life's roster of national retailers include Hallmark, Urban Outfitters, and Paper Source, and large distribution and sales partnerships with UNFI, Markethub, Kimberly Wahlberg Agency, and Appelman Schauben Agency;
- 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 2,800 square foot dispensary;
- During the quarter ended September 30, 2019, the Company opened four dispensaries in North Miami, Lakeland, Gainesville, and Bonita Springs, bringing the Company's total dispensary count in Florida to nine;
- On September 19, 2019, the Company entered into an agreement to acquire Sierra Well, a leading, vertically licensed cannabis company based in Nevada with two dispensary locations and over 20,000 square feet of cultivation and production/manufacturing space in Reno and Carson City. The acquisition is subject to regulatory approval and is expected to close in 2020;
- On September 30, 2019, the Company announced that Gotham Green Partners ("GGP") has invested an additional \$20.0 million through the purchase of secured convertible notes from iAnthus. GGP's investment is part of a broader \$100.0 million financing plan to support the buildout of existing markets in which the Company currently operates; and
- On October 17, 2019, the Company announced plans to update its corporate governance and oversight to ensure that the Company's Board of Directors (the "Board"), is comprised of a majority of independent directors, transforming the Board into a best-in-class Board in the cannabis industry with leaders from across various industries with proven track records in finance, marketing, and retail operations. This transformation is subject to approval by shareholder vote on December 5, 2019.

Operational and Financial Highlights

- During the quarter ended September 30, 2019, the Company produced approximately 5,000 pounds of dried and cured cannabis (flower, trim, and whole cured plant) and approximately 900 pounds of fresh frozen cannabis, representing an increase of 11% and 50% over the prior quarter ending June 30, 2019, respectively;
- The Company continued the buildout of its Lake Wales facility, adding an additional 27,000 square feet of cultivation space in the quarter. The combined indoor and outdoor cultivation space now covers over 130,000 square feet;
- Construction continued at the flagship Brooklyn Be. store, with a targeted opening in January 2020; remaining stores are projected to be converted during 2020;
- As at September 30, 2019, the Company had a total of 27 dispensaries open and expects to have approximately 30 open by year end;
- As at September 30, 2019, 295,000 square feet of space (including approximately 225,000 of indoor square footage and 70,000 of outdoor square footage) has been fully built-out and an additional 200,000 square feet is currently under construction; and
- Finalized the planned enterprise resource planning (ERP) selection in preparation for program deployment in the fourth quarter; the Company will deploy a multi-phase, multi-year program to improve operational transparency, cost reduction and business performance.
- On September 30, 2019, the Company closed an additional \$20.0 million from GGP through the purchase of secured convertible notes from the Company.

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") prepared as at November 20, 2019, 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 nine months ended September 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 and Hemp 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 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," it 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 individuals and businesses 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 the U.S. 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.

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.

Cannabis and Hemp Regulations in the United States (cont.)

Further, the appropriations protections only apply to individuals or businesses operating in compliance with a state's medical cannabis laws and provide no protection to 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, respectively. 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.

Despite the rescission of the Cole Memorandum, this 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. On September 25, 2019, the U.S. House of Representatives passed the SAFE Banking Act. The SAFE Banking Act creates protections for financial institutions that provide banking services to businesses acting in compliance with applicable state cannabis laws, but it is uncertain whether it will be passed by the U.S. Senate and ultimately 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 businesses 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. Therefore, 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 federally illegal, unless exempted by Section 7606 of the Agricultural Act of 2014 (the "2014 Farm Bill"). The 2018 Farm Bill removed 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 amends the Agricultural Marketing Act of 1946 to allow for the 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 may 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.

Following the conclusion of the third quarter, the USDA issued an interim final rule on October 31, 2019 governing the domestic production of hemp under the 2018 Farm Bill, establishing the U.S. Domestic Hemp Production Program, and commencing a 60-day period during which the USDA will accept public comment on the interim final rule. The interim final rule will be effective from October 31, 2019 through November 1, 2021 at which time the USDA may adopt permanent regulations. The interim final rule outlines the requirements for the USDA to approve plans submitted by states and tribal governments for the domestic production of hemp.

Cannabis and Hemp Regulations in the United States (cont.)

It also establishes a federal plan for hemp producers in states or territories of Native American tribes that do not have USDA-approved hemp production plans. The USDA will now begin reviewing hemp production plans submitted by state and tribal governments that wish to obtain or retain primary regulatory authority over hemp production in their respective jurisdictions. Once the USDA formally receives a plan from a state or tribal government, the agency will have 60 days to review and approve or reject the plan.

Although the interim final rule provides the framework for the USDA, state departments of agriculture, and tribal governments to begin the implementation of commercial hemp production programs pursuant to the 2018 Farm Bill, the 2014 Farm Bill will remain in effect for one year after the effective date of the USDA interim final rule. The interim final rule does not affect industrial hemp that was or is being cultivated under the 2014 Farm Bill programs. Accordingly, until the USDA approves a state or tribal hemp production plan and licenses are issued pursuant to a USDA-approved plan, the 2014 Farm Bill will remain the primary U.S. federal law governing domestic hemp production. On or about October 31, 2020, the 2014 Farm Bill hemp provisions will officially sunset and state programs must comply with the 2018 Farm Bill regulations.

Under both the 2014 Farm Bill and the 2018 Farm Bill, states and tribal governments have authority to adopt regulatory regimes that are more restrictive than federal mandates 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 drugs and 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 food or dietary supplements. In May 2019, the FDA held a public hearing to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing cannabis or cannabis-derived compounds. 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 cannabis business activities and the cannabis 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

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Sales revenues	\$ 22,341 \$	19,200 \$	9,620 \$	1,986
Net loss	(15,270)	(9,290)	(18,265)	(15,926)
Loss per share - basic and diluted	(0.09)	(0.06)	(0.15)	(0.25)
Total assets	831,589	810,998	797,561	168,392
Total non-current liabilities	170,418	147,293	127,994	48,820

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Sales revenues	\$ 22,341 \$	19,200 \$	9,620 \$	1,986 \$	939 \$	256 \$	225 \$	-
Net loss	(15,270)	(9,290)	(18,265)	(15,926)	(10,021)	(35,435)	(645)	(7,079)
Loss per share - basic and diluted	(0.09)	(0.06)	(0.15)	(0.25)	(0.15)	(0.61)	(0.01)	(0.25)

As a result of the Company's successful execution of its retail strategy, expansion of wholesale programs across key markets and growth of the Company's new CBD line of business, CBD For Life, sales revenues have steadily increased over the last eight quarters. During the quarter ended September 30, 2019, the Company opened four dispensaries in Florida and realized retail sales growth. The quarter ended September 30, 2019, is also the first period that consolidates the results of operations of the Company's CBD business. The Company expects sales revenues to continue to increase with the addition of new dispensaries, continued wholesale and retail penetration, and entry of CBD For Life products onto shelves nationally.

Over the last eight quarters, the Company's net losses have fluctuated, due in part to the change in fair value of derivative instruments. The impact of non-cash valuation adjustments on derivative instruments for the quarter ended September 30, 2019, was a gain of \$10,223 as compared to a loss of \$1,018 in the prior year comparative period. For the nine months ended September 30, 2019, the impact of non-cash valuation adjustments on derivative instruments was a gain of \$36,214 compared to a loss of \$9,188 for the nine months ending September 30, 2018. These fluctuations are driven by volatility in the Company's stock price.

Total assets increased over the prior quarter as a result of the build out of dispensaries, cultivation, and processing facilities across the U.S., largely in Florida, Massachusetts, and New York. The Company expects further investment to build out its dispensary network as well as its cultivation and processing capabilities to meet future sales growth through both wholesale and retail channels.

Total non-current liabilities have increased from the second to third quarter due to the issuance of an additional \$20,000 of secured notes to GGP. The Company expects non-current liabilities to increase as more financing is received as part of the broader financing plan with GGP, and as the balances are accreted up to the face value of the debt instruments.

Discussion of Operations

Sales Revenues and Gross Profits

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 profits for three and nine months ended September 30, 2019 and 2018 are highlighted in the charts below:

	For the three months ended September 30, 2019		
	Eastern Region	Western Region	Total
Sales revenues	\$ 13,220	\$ 9,121	\$ 22,341
Cost of goods sold	(6,029)	(5,570)	(11,599)
Gross profits before fair value adjustment on biological assets	\$ 7,191	\$ 3,551	\$ 10,742
Fair value adjustment on sale of inventory	(4,227)	(1,844)	(6,071)
Fair value adjustment on biological assets	11,466	413	11,879
Gross profits	\$ 14,430	\$ 2,120	\$ 16,550

	For the nine months ended September 30, 2019		
	Eastern Region	Western Region	Total
Sales revenues	\$ 27,560	\$ 23,601	\$ 51,161
Cost of goods sold	(10,836)	(18,649)	(29,485)
Gross profits before fair value adjustment on biological assets	\$ 16,724	\$ 4,952	\$ 21,676
Fair value adjustment on sale of inventory	(12,865)	(3,298)	(16,163)
Fair value adjustment on biological assets	26,006	2,035	28,041
Gross Profits	\$ 29,865	\$ 3,689	\$ 33,554

Discussion of Operations (cont.)

Sales Revenues and Gross Profits (cont.)

	For the three months ended September 30, 2018		
	Eastern Region	Western Region	Total
Sales revenues	\$ 939	\$ -	\$ 939
Cost of goods sold	(329)	-	(329)
Gross profits before fair value adjustment on biological assets	\$ 610	\$ -	\$ 610
Fair value adjustment on sale of inventory	(397)	-	(397)
Fair value adjustment on biological assets	2,415	-	2,415
Gross Profits	\$ 2,628	\$ -	\$ 2,628

	For the nine months ended September 30, 2018		
	Eastern Region	Western Region	Total
Sales revenues	\$ 1,420	\$ -	\$ 1,420
Cost of goods sold	(408)	-	(408)
Gross profits before fair value adjustment on biological assets	\$ 1,012	\$ -	\$ 1,012
Fair value adjustment on sale of inventory	(480)	-	(480)
Fair value adjustment on biological assets	6,301	-	6,301
Gross Profits	\$ 6,833	\$ -	\$ 6,833

Eastern Region

As at September 30, 2019, the Eastern region holds licenses to operate up to 53 dispensaries and seven cultivation and processing facilities. Currently, the Company has 16 dispensaries and five cultivation and processing facilities open and operational in this region.

The Company's sales revenues in the Eastern region for the third quarter of 2019 increased 30.2% to \$13,220 from \$10,153 in the second quarter of 2019. The increase in revenues was driven by dispensary openings in Florida and continued growth across Eastern states where the Company operates as well as the Company's CBD business. Sales revenues increased from \$939 in the third quarter of 2018 to \$13,220 in the third quarter of 2019 as a result of the MPX Acquisition, the acquisition of CBD For Life, and the organic growth of its existing operations.

As a result of higher sales revenues, fair value adjustments on the sale of inventory have also increased. During the three and nine months ended September 30, 2019, 3,300 and 8,300 pounds, respectively, of plant material was harvested from four cultivation facilities operating in the Eastern region as compared to 270 and 860 pounds for the three and nine months ended September 30, 2018, respectively. The increased cultivation activity quarter-over-quarter has resulted in higher fair value adjustments on biological assets.

In the Eastern region, gross profits before fair value adjustments on biological assets in the third quarter of 2019 was \$7,191, or 54.4% of sales revenues as compared to \$7,158, or 70.5% of sales revenues in the second quarter of 2019. Gross profits increased to 109.2% of sales revenues in the third quarter of 2019 as compared to 93.9% of sales revenues in the second quarter of 2019 primarily due to higher favorable fair value adjustments on biological assets.

Discussion of Operations (cont.)

Sales Revenues and Gross Profit (cont.)

Western Region

As at September 30, 2019, the Western region holds licenses to operate up to eight dispensaries and four cultivation and processing facilities. Currently, the Company has four dispensaries and four cultivation and processing facilities open and operational in this region. Prior to the MPX Acquisition on February 5, 2019, the Company did not consolidate operations in the Western region.

In the Western region, the Company's sales revenues for the third quarter of 2019 increased to \$9,121 from \$9,047 in the second quarter of 2019 primarily due to growth of the Company's wholesale programs in Nevada and Arizona. Sales revenues are expected to continue to grow in the Western region as dispensaries come online in Nevada, edible offerings are expanded in the Nevada market, and as the Company increases its market share through expansion of its wholesale programs in the Western region.

Gross profits for the Western region before fair value adjustments on biological assets in the third quarter of 2019 was \$3,551, or 38.9% of sales revenues as compared to \$2,039, or 22.5% of sales revenues in the second quarter of 2019. Gross profits increased to \$2,120 or 23.2% of sales revenues in the third quarter of 2019 as compared to \$1,909, or 21.1% of sales revenues in the second quarter of 2019. The increase in gross profits is attributable to an increase in sales revenues offset by the fair value adjustments on biological assets. The fair value adjustments on sale of inventory and biological assets are higher in the third quarter of 2019 as compared to the second quarter of 2019 due to an increase in harvest from the four cultivation and processing facilities. Collectively, 2,000 and 4,700 pounds of plant material was harvested for the three and nine months ended September 30, 2019, respectively.

Operating Expenses

Depreciation and Amortization

The purchase price allocation for the MPX Acquisition was finalized in the second quarter of 2019, and as a result, five months of depreciation was recognized in the second quarter. Accordingly, depreciation and amortization expenses decreased from \$5,915 in the second quarter of 2019 to \$5,294 in the third quarter of 2019. Depreciation and amortization expenses increased to \$5,294 and \$13,847 for the three and nine months ended September 30, 2019, respectively, as compared to \$668 and \$1,796 for the three and nine months ended September 30, 2018, respectively. This increase results from the expenses recorded on additional depreciable assets, which include real estate, equipment, and other tangible and intangible assets and intellectual property.

General and Administrative

General and administrative expenses primarily consist of rent, office expenses, insurance, and repairs and maintenance. For the three months ended September 30, 2019, general and administrative expenses were \$8,393, compared to the prior quarter of \$5,654, with the increase due in part to higher estimated tax expenses for the quarter ended September 30, 2019. For the three and nine months ended September 30, 2019, these expenses were \$8,393 and \$18,110, respectively, as compared to \$1,855 and \$4,516 in the respective prior year comparative periods. The increase in general and administrative expenses is attributed to the MPX Acquisition, acquisition of CBD For Life, estimated tax expenses, and investments in operational infrastructure to drive strategic initiatives that better position the Company for future growth.

Salaries, Employee Benefits and Share-based Compensation

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salaries and employee benefits	\$ 9,261	\$ 2,779	\$ 23,467	\$ 7,263
Share-based compensation	9,537	1,676	20,770	5,681
TOTAL	\$ 18,798	\$ 4,455	\$ 44,237	\$ 12,944

Share-based compensation were consistent from \$9,586 in the second quarter of 2019 to \$9,537 in the third quarter of 2019, with a slight decrease due to the vesting periods. Salaries and employee benefits increased from \$8,107 in the second quarter to \$9,261 in the third quarter of 2019 and from \$7,263 for the nine months ended September 30, 2018 to \$23,467 for the nine months ended September 30, 2019. The increases were mainly due to expansion of the Company's skilled labor force including additional senior personnel in marketing, IT, infrastructure, and legal.

Professional Fees

Professional fees for the three and nine months ended September 30, 2019, were \$4,569 and \$13,044, respectively, as compared to \$1,812 and \$6,647 in the respective prior year comparative periods. This is the result of the Company's continued expansion which required the expertise of various professionals such as bankers, 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. Professional fees decreased slightly to \$4,569 in the third quarter of 2019 from \$4,929 in the second quarter of 2019. Professional fees are expected to remain consistent in future periods.

Discussion of Operations (cont.)

Operating Expenses (cont.)

Acquisition-related costs

Acquisition-related costs for the nine months ended September 30, 2019, increased to \$6,468 as compared to \$265 in the prior year comparative period. Acquisition-related costs decreased from \$1,058 in the second quarter of 2019 to \$236 in the third quarter of 2019. Acquisition-related costs for the three months ended June 30, 2019, included costs associated with the integration of the MPX Acquisition, which were minimal in the third quarter of 2019. Similar costs were \$Nil for the three months ended June 30, 2018, and September 30, 2018, as there was no acquisition activity during these periods.

Other Items

Interest and Accretion Expense

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Interest expense	\$ 3,722	\$ 1,315	\$ 9,538	\$ 3,463
Accretion expense	1,868	2,066	7,990	15,328
TOTAL	\$ 5,590	\$ 3,381	\$ 17,528	\$ 18,791

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

- Secured notes in May 2018, formerly the high yield notes ("Tranche One Secured Notes");
- Original issue discount loan ("OID Loan") in February 2019 through the MPX Acquisition and fully redeemed in the second quarter of 2019;
- Stavola Trust note in February 2019 through the MPX Acquisition;
- Debentures issued in March 2019 ("March 2019 Debentures");
- Debentures issued in May 2019 ("May 2019 Debentures"); and
- Secured Notes in September 2019 ("Tranche Two Secured Notes").

Interest expense increased to \$3,722 for the third quarter of 2019 from \$3,470 for the second quarter of 2019. The increase is a result of the Company recognizing a full three months of interest expense on the May 2019 Debentures in the current quarter. Accretion expense was \$1,868 in the third quarter of 2019 as compared to \$4,606 in the second quarter of 2019. The decrease was a result of the redemption of OID Loan in the second quarter of 2019, and as such, no accretion expense was recorded on this instrument during the quarter ended September 30, 2019.

Accretion expense was lower at \$7,990 in the nine months ending September 30, 2019, as compared to \$15,328 in the nine months ending September 30, 2018, due to the Company's early repayment during the second quarter of 2018 of 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 decreased from a gain of \$22,781 for the three months ended June 30, 2019, to a gain of \$10,223 for the three months ended September 30, 2019. For the nine months ended September 30, 2019, the change in fair value on financial instruments was a gain of \$36,214 compared to a loss of \$9,188 for the nine months ended September 30, 2018. The change in fair value on financial instruments is the result of the revaluation on the derivative component of compound financial instruments each reporting period. The primary cause of the gains in 2019 were the decreases in the Company's share price at the end of each period, which is a key input used in the Black-Scholes model used in the valuation 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 5,912,159 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.

Tranche Two Secured Notes

On September 30, 2019, the Company issued an additional \$20,000 of secured notes. The Tranche Two Secured Notes accrue interest at 13.0%, mature May 14, 2021, and are convertible into 10,582,011 shares of the Company at \$1.89 per share. The Tranche Two Secured Notes were issued with warrants to purchase, in aggregate, up to 5,076,142 shares of the Company at \$1.97 per share.

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 nine months ended September 30, 2019, the Company reported a net loss of \$42,827, operating cash outflows of \$27,184, and an accumulated deficit of \$126,420 as at September 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 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 8.0%. 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;
- 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 8.0%. 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; and
- In September 2019, the Company issued an additional \$20,000 of secured notes, which mature on May 14, 2021, and accrue interest at 13.0%. This placement is convertible at \$1.89 per share which would convert into an aggregate of 10,582,011 common shares of the Company. This Company concurrently issued warrants to purchase, in aggregate, up to 5,076,142 shares of the Company at \$1.97 per share.

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 will 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.

Liquidity and Capital Resource Management (cont.)

Liquidity (cont.)

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

Working Capital

For the period ending September 30, 2019, the Company had working capital of \$43,817, compared to working capital of \$33,684 as at December 31, 2018. A large portion of the current liabilities balance includes \$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.

Cash Flows

As at September 30, 2019, the Company held cash of \$27,933 compared to \$15,295 as 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 nine months ended September 30, 2019, was \$27,184 compared to \$18,959 for the nine months ended September 30, 2018. Higher spending was a result of increased operating activity during the year compared to the same period in prior year due to the MPX Acquisition in the first quarter. 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 nine months ended September 30, 2019, was \$49,697 compared to \$16,030 for the nine months ended September 30, 2018.

During the nine months ended September 30, 2019, the Company's cash outflows related to investing activities were as follows:

- \$44,342 – purchase of property, plant, and equipment;
- \$5,564 – one-time acquisition-related costs relating specifically to the MPX Acquisition and the acquisition of CBD For Life; and
- \$2,164 – cash paid as consideration for the acquisition of CBD For Life.

During the nine months ended September 30, 2019, the Company had the following significant cash inflows from investing activities:

- \$4,058 – cash obtained from the acquisition of subsidiaries due to the MPX Acquisition.

Cash Flow from Financing Activities

Cash generated from financing activities for the nine months ended September 30, 2019, was \$84,146 as compared to \$45,468 during the same period in 2018. Significant sources of financing during the nine months ended September 30, 2019, include:

- \$80,000 – private placement of debentures issued by the Company in March 2019, May 2019, and September 2019;
- \$9,387 – exercise of warrants from previous rounds of financing and outstanding warrants; and
- \$4,171 – exercise of stock options.

This was offset by outflows of financing, including:

- \$7,962 – interest paid on outstanding debt; and
- \$1,341 – issuance costs related to debt financings.

Liquidity and Capital Resource Management (cont.)

Contractual Obligations

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

USD DENOMINATED	< 1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Payables and accrued liabilities	\$ 26,162	\$ -	\$ -	\$ -	26,162
Long-term debt	24,135	71,329	67,596	1,166	164,226
Leases	5,736	5,657	10,644	47,810	69,847
Service Contracts	126	20	4	-	150
Consultants and advisors	530	-	-	-	530
Construction contracts	1,340	-	-	-	1,340
TOTAL USD DENOMINATED	\$ 58,029	\$ 77,006	\$ 78,244	\$ 48,976	262,255
CAD DENOMINATED					
Payables and accrued liabilities	\$ 706	\$ -	\$ -	\$ -	706
TOTAL CAD DENOMINATED	\$ 706	\$ -	\$ -	\$ -	706

Long-term debt consists of convertible debentures, secured notes, and outstanding mortgages. 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.

Liquidity and Capital Resource Management (cont.)

Off-Balance Sheet Arrangements

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

Share Capital

The following table presents the Company's share capital information as at November 20, 2019.

	Number Outstanding
Common Shares issued and outstanding	171,643,192
Options to purchase Common Shares	19,222,692
Warrants	40,912,407
MPX dilutive instruments ⁽¹⁾	407,876
Debentures	10,135,130
Secured Notes	24,009,860
Fully diluted shares outstanding	266,331,157

(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 expenses.

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 19 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 19 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		655
Repayments made to related parties		31
Repayments made from related parties		(1,169)
Due to related parties as at September 30, 2019	\$	(9,625)

Additional Information (cont.)

Transactions with Related Parties (cont.)

As at September 30, 2019, the Company had a loan due from an director and officer 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 interest at the rate of 2.5%, due upon the maturity of the loan on June 30, 2020. Accrued interest on the loan as at September 30, 2019, was CAD\$28 (equivalent \$21) (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 \$785 as at September 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; and
- 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 September 30, 2019, was \$216 (December 31, 2018 - \$Nil). The related party balance is included in the current portion of long-term debt 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 the fact Elizabeth Stavola is an director and officer of the Company and an officer and significant shareholder of CBD For Life. 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 an individual related through a familial relationship to a director and officer of the Company, Elizabeth Stavola;
- \$1,540 was paid and 9,500 shares are issuable 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 two individuals 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 \$30 and \$152, respectively, as at September 30, 2019 (December 31, 2018 - \$Nil).

Subsequent Events

Capital Activity

On November 1, 2019, the Company granted 1,152,500 stock options to employees and consultants with an exercise price of \$2.27.

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 disclosures 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 September 30, 2019, the Company currently operates in the United States as more specifically described below.

	Licensed Entity	Type of Investment ⁽²⁾	Permitted Number of Facilities
Arizona ⁽²⁾	ABACA, LLC (“ABACA”) Soothing Options, Inc. (“Soothing Options”) Healing Center Wellness Center, LLC (“THCWC”) Health for Life, Inc. (“HFL”)	Ownership (100%) ⁽³⁾	4 dispensaries 3 cultivation 3 processing
California ⁽²⁾	See Note 4	See Note 4	See Note 4
Colorado ⁽²⁾	Organix, LLC (“Organix”)	See Note 5	1 dispensary 1 cultivation
Florida ⁽²⁾	McCroy’s Sunny Hill Nursery, LLC (“McCroy’s”)	Ownership (100%) ⁽⁶⁾	35 dispensaries 1 cultivation 1 processing
Maryland ⁽²⁾	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 7	3 dispensaries 1 processing
Massachusetts ⁽²⁾	Mayflower Medicinals, Inc. (“Mayflower”) Cannatech Medicinals, Inc. (“Cannatech”) ⁽⁸⁾	Ownership (100%) ⁽⁸⁾	3 medical marijuana dispensaries ⁽⁸⁾ 3 adult-use stores 3 medical cultivation/processing 3 adult-use cultivation 3 adult-use processing
Nevada ⁽²⁾	GreenMart of Nevada NLV, LLC (“GMNV”)	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
New Jersey ⁽²⁾	MPX New Jersey, LLC (“MPX NJ”)	See Note 9	3 dispensaries ⁽¹⁰⁾ 1 cultivation 1 processing
New Mexico ⁽²⁾	Reynold Greenleaf & Associates LLC (“RGA”)	Ownership (24.6%)	Nil ⁽¹¹⁾
New York ⁽²⁾	Citiva Medical, LLC (“Citiva”)	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
Vermont ⁽²⁾	FWR Inc. d/b/a Grassroots Vermont (“GRVT”) ⁽¹²⁾	Ownership (100%) ⁽¹²⁾	2 dispensaries 1 cultivation 1 processing
United States ⁽¹³⁾	iA CBD, LLC (“iA CBD”)	Ownership (100%)	See Note 10

(2) 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”.

(3) The Company’s wholly owned subsidiary, SB Management, LLC (“SB 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.

(4) 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.

(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, CO 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, CO 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.

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- (6) The Company owns 100% of GHHA Management, Inc ("GHHA"), 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 McCrory's, along with an option to acquire 100% of McCrory's for a nominal consideration, subject to the approval of the Florida Department of Health ("FL DOH"). On August 14, 2019, the FL DOH approved GHHA's option to acquire McCrory's, and GHHA subsequently exercised the option following the conclusion of the third quarter of 2019. Accordingly, the Company through its wholly owned subsidiary, GHHA, now owns 100% of McCrory's.
- (7) 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.
- (8) The Company, through its wholly owned subsidiary iAnthus Capital Management, LLC ("ICM"), 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.
- (9) On August 27, 2019, iAnthus New Jersey, LLC ("iAnthus NJ"), the Company's wholly owned subsidiary, entered 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").
- (10) 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 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.
- (11) RGA currently manages two cultivation operations in Albuquerque, NM totaling approximately 50,000 square feet and seven dispensary locations, six of which are located in Albuquerque, NM and one of which is located in Grants, NM.
- (12) The Company owns 100% of Grassroots Vermont Management Services, LLC ("GVMS"), the sole shareholder of GRVT, and has entered into a management services agreement with GRVT. Accordingly, the Company through its wholly owned subsidiary, GVMS, owns 100% of GRVT.
- (13) 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 cannabis 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 its U.S. cannabis activity, as of September 30, 2019:

Balance Sheet Line Item	Percentage which relates to Investments/Holdings with U.S. cannabis-related activities
Receivables and prepaid assets	73%
Inventory and biological assets	100%
Other current assets	43%
Investments and investments in associates	100%
Property, plant and equipment	99%
Intangible assets and goodwill	100%
Other assets	66%
Payables and accrued liabilities	74%
Interest payable	0%
Derivative liabilities	0%
Other current liabilities	52%
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	12%

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.

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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. See "Risk Factors -- See "Risk Factors - Risks Specifically Related to the United States Regulatory System - The Company's cannabis business activities, and the cannabis 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, operating under the "Health for Life" brand. 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, 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 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 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.

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Once an applicant has been issued a Certificate, it is permitted 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. 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 of 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. 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 established 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 cultivator 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. 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.

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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.

Following the conclusion of the third quarter, Governor Gavin Newsom signed bill AB 37 into law on October 12, 2019 ("**AB 37**"). Pursuant to AB 37, the California state tax code will depart from Internal Revenue Service policy with respect to Section 280E of the U.S. Tax Code, which precludes cannabis businesses from taking ordinary tax deductions or credits for business expenses. AB 37 permits California-licensed cannabis companies to take ordinary state tax deductions or credits for business expenses for each taxable year beginning on or after January 1, 2020 and before January 1, 2025.

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. 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 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 expanding its wholesale relationships to ensure a diverse product offering.

On February 14, 2019, the Company opened its second dispensary location in Wappingers Falls, NY. Further, the Company executed a lease agreement for a dispensary in Staten Island, which is expected to open in the first quarter of 2020. The Company also expects to open its fourth dispensary in Ithaca, NY in the second half of 2020. 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 Registered Organization 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 and not 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.

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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 subject to the approval of the FL DOH. On August 14, 2019, the FL DOH approved GHHIA's option to acquire McCrory's and GHHIA subsequently exercised the option following the conclusion of the third quarter of 2019. Accordingly, the Company through its wholly owned subsidiary, GHHIA, owns 100% of McCrory's. The license held by McCrory's allows for one or more cultivation and manufacturing facilities and up to a current cap of 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. In 2019, GrowHealthy opened additional dispensary locations in Brandon, Lake Worth, Orlando, Daytona Beach, North Miami, Lakeland, Gainesville, and Bonita Springs, FL, bringing the total number of GrowHealthy dispensaries opened in Florida to nine. GrowHealthy is expected to open three additional dispensaries by the end of the fourth quarter of 2019 and nine additional dispensaries by the end of the second 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, 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, which are 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 database, an additional five dispensaries per MMTC are added to the statutory cap and an additional four vertically integrated MMTC licenses may be issued. Unless re-enacted, the caps are currently set to expire on April 1, 2020. As of November 15, 2019, there were approximately 283,909 qualified patients and 197 approved dispensary locations in Florida.

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, which is authorized to promulgate regulations concerning edible products.

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 its 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.

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 management services, financing, intellectual property licensing, real estate, equipment leasing, and certain other services to Mayflower.

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

The Company acquired the remaining 20% of Pilgrim in April 2018, which gave the Company 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, MA.

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 through its wholly owned subsidiary, ICM.

The Company anticipates that it will ultimately operate out of three or four locations for medical marijuana operations, including 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. Following the conclusion of the third quarter, Mayflower received approval from the Massachusetts Cannabis Control Commission (the "Commission") on October 10, 2019 to move the location of its second retail Medical Marijuana Treatment Center from Gloucester, MA to Lowell, MA. The Company has secured a binding interest to lease its 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 Final 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 months, 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, including 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"). 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"). 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 licenses annually.

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

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 adult-use marijuana programs.

Following the conclusion of the third quarter, the Commission's amended medical and adult-use marijuana regulations went into effect on November 1, 2019. The Company is reviewing the amended regulations with local counsel to ensure compliance.

Vermont

In 2017, the Company acquired 100% of Pakalolo, LLC ("Pakalolo"), the sole member of GRVT, a non-profit medical cannabis license holder in Vermont. 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.

On August 23, 2019, GRVT was converted from a non-profit corporation to a for profit corporation and issued its only common stock outstanding to GVMS. In connection with the conversion, GRVT is now 100% owned by the Company through its wholly owned subsidiary, GVMS, and Pakalolo is no longer a member of GRVT.

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 applicable 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, GRVT, and GVMS 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 to grow up to three marijuana plants and possess up to two ounces of marijuana for medical purposes. 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 ("VT 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 the issuance of an active operating registration certificate, among other requirements. Limited operating registration certificates issued by the VT 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 VT 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 VT DPS may reopen the application process for a replacement dispensary.

Up to five registered dispensaries may be authorized by the VT 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 VT DPS. On an annual basis, a dispensary may seek to renew its registration certificate. Upon this renewal request, the VT DPS determines whether to renew a dispensary's registration certificate for operation within 10 business days after submission of a completed VT DPS-approved form with all required documentation and the required fee.

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

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 three cultivation operations in Albuquerque, NM, totaling approximately 50,000 square feet, and seven dispensary locations, six of which are in Albuquerque, NM and one of which is in Grants, NM. RGA will also begin managing an additional dispensary in Roswell, NM during the fourth quarter of 2019 and an additional dispensary in Las Cruces, NM in the first quarter of 2020. RGA will also manage another dispensary location in Las Cruces, NM. RGA also manages a kitchen and extraction laboratory located in Albuquerque, 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. 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.

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.

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 was 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.

Effective August 12, 2019, the MMCC adopted regulatory changes to Maryland's medical cannabis regulations. The Company is reviewing the regulatory changes with local counsel to ensure compliance.

Nevada

As a result of the MPX Acquisition on February 5, 2019, the Company, through its wholly owned subsidiary CGX, acquired 99% of the ownership interests 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 ownership interests of GMNV, and the Company will then own 100% of GMNV through its wholly owned subsidiary, CGX.

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. In December 2018, GMNV was awarded four conditional adult-use dispensary licenses ("Marijuana Retail Stores"), which GMNV is currently seeking to perfect at the state and local level. The NV DOT's award of conditional adult-use Marijuana Retail Store licenses are being challenged by several unsuccessful applicants in Nevada state court.

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.

On September 18, 2019, the Company, through its wholly owned subsidiary, iA Northern Nevada, LLC, entered into an agreement to acquire Sierra Well, the owner and operator of one co-located Marijuana Retail Store and Medical Marijuana Dispensary in Carson City, NV, one co-located Marijuana Retail Store and Medical Marijuana Dispensary in Reno, NV, two Cultivation Facilities in Carson City, NV and Reno, NV for the cultivation of medical and adult-use cannabis, one Marijuana Production Manufacturing Facility in Carson City, NV for the production and manufacturing of medical and adult-use cannabis, and one Distributor License (the "Sierra Well Acquisition"). The Sierra Well Acquisition is subject to regulatory approval, including by the NV DOT.

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.

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

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

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 Medical Marijuana Licenses. Following November 16, 2018, the NV DOT began soliciting applications for 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.

In Nevada, the regulatory schemes with respect to medical and adult-use cannabis are administered by the NV DOT, and medical and adult-use marijuana licenses are issued for Cultivation Facilities, Marijuana Product Manufacturing Facilities, Medical Marijuana Dispensaries (for the retail sales of medical marijuana) or Retail Marijuana Store Licenses (for retail sales of adult-use marijuana), and Independent Testing Laboratories. 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 set to fully 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. On August 27, 2019, iAnthus New Jersey, the Company's wholly owned subsidiary, entered 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 and iAnthus 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, MPX NJ, and iAnthus 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.

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

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 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. They 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 permits are to be geographically distributed with one located in each of the northern, central, and southern regions of New Jersey.

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 the 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, the Company through its wholly owned subsidiary, 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 cannabis business activities, and the cannabis 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.

Risk Factors (cont.)

- 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.
- 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.

Risk Factors (cont.)

- 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, and 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.
- 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 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 or 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 federal, state, and local levels 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.