

# iAnthus Capital Holdings, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2019 and 2018

## Company Overview

iAnthus Capital Holdings, Inc. (the "Company", or "ICH", or "iAnthus") is one of the largest Multi-State Operators (MSOs) in the United States, providing investors with diversified exposure to the regulated cannabis industry. We develop, own and operate, what we believe to be, the best-in-class licensed cannabis cultivation, processing and dispensary facilities and we offer our innovative branded cannabis products in the United States. Through our subsidiaries, we currently own and/or operate 21 dispensaries and 13 cultivation/processing facilities throughout the eastern and western regions of the United States and distribute our cannabis products to over 100 dispensaries. Under our existing licenses, interests and contractual arrangements, we have the capacity to own and/or operate up to 68 dispensaries and up to 15 cultivation/processing facilities, and manufacture and distribute our cannabis products in 11 states with an aggregate population of approximately 121 million.

Our multi-state operations encompass the full spectrum of medical and adult-use cannabis enterprises, including cultivation, processing, product development, wholesale-distribution and retail. Our cannabis products include flower and trim, products containing cannabis flower and trim (such as pre-rolls), cannabis infused products, and products containing cannabis extracts (such as vape cartridges, concentrates, wax products, oils, tinctures, topical creams and edibles). We are an innovative leader in the burgeoning regulated cannabis industry in the United States and we are committed to creating a distinctive customer retail experience at our branded stores nationally and a portfolio of branded cannabis products recognized both in the United States and around the world.

Incorporated in British Columbia, Canada in 2014, we became the first licensed multi-state cannabis operator in the United States to publicly trade on the Canadian Securities Exchange (the "CSE") in 2016. Since our inception, we have accelerated the growth of our business through key strategic acquisitions. For example, on February 5, 2019, we acquired the U.S. operations of MPX Bioceutical Corporation ("MPX"). The acquisition of MPX (the "MPX Acquisition") expanded our operations from six to 11 states, increased our employee base to more than 500 employees, added a robust portfolio of MPX-branded products, enhanced our management team, and significantly increased our revenues.

### Our Footprint



### Competitive strengths

**National footprint with presence in key markets.** We maintain our footprint in 11 states located in the eastern and western regions of the United States, which we believe are key regions for our business and expansion strategy. The eastern region includes highly populous states with attractive competitive dynamics, including Florida, Massachusetts, Maryland, New Jersey, and New York. The western region includes states with large adult-use cannabis markets including California, Colorado and Nevada, along with medical cannabis markets in Arizona and New Mexico. Within each region we have added strong regional leadership to drive operational efficiencies and financial performance, and further our business strategy.

**Product development and brand building.** We have developed a high quality and innovative line of cannabis products. For example, our MPX-branded products are distributed in over 90 retail locations in Arizona, Maryland and Nevada and have received industry recognition by High Times Magazine and Leafly.



**Identification, execution and integration of strategic acquisitions.** Since our inception, we have acquired a total of 18 cannabis related businesses, including acquisitions completed by MPX. Our strategic acquisitions have enabled us to expand our operations, add additional dispensary and processing/cultivation facilities, increase our employee base, and add to our portfolio of branded products. We have a dedicated, highly experienced in-house team that sources, evaluates and executes our strategic acquisitions, working in conjunction with our operations, finance, accounting and legal teams to ensure a coordinated effort.

## Company Overview (cont.)

**Experienced and proven senior management team.** Members of our senior management team possess expertise in finance and capital markets, regulations and strategy, operations and project management, and marketing. Our 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 transferrable expertise to the cannabis industry from other industries.

**Ability to replicate processes and best practices.** We believe 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. We have built a team that combines experience across cannabis, retail, marketing and operations. Our team has implemented a number of best practices, Six Sigma processes and initiatives by objective philosophies that will help to streamline operations. We have implemented these practices, processes and initiatives across all of our local markets, and believe that we can replicate these strategies within any new markets that we enter. We pride ourselves on our experienced finance and accounting team and we are in the process of implementing a single enterprise resource planning system across our operations to further increase our operational efficiencies. In addition, we intend to rebrand our current dispensaries and future dispensaries under a single, unified retail brand concept, *Be. The Cannabis Store*, beginning in late 2019. We believe that our planned single retail brand concept and product brand rollouts will enable us to implement best practices in sales and marketing across our operations.

### *Growth strategy and strategic priorities*

**Expand retail footprint within existing dispensary license portfolio.** We currently have 21 dispensaries open and operating, and our licenses permit us to own and/or operate a total of 68 dispensaries. A number of our dispensaries are currently located in prime markets in the United States such as Brooklyn, Boston, Bethesda, Baltimore, Phoenix and West Palm Beach. We intend to open up to an additional 29 dispensaries by the end of 2019 across our footprint, including in other prime markets in the United States such as Miami, Las Vegas, Orlando, and Staten Island.

**Increase cultivation and processing capacity to enable more product.** We have 15 cultivation and processing licenses in 10 states, with approximately 248,000 square feet of space (including approximately 178,300 square feet indoors and 69,700 square feet outdoors) fully built-out and an additional 373,200 square feet under construction. We have the capacity to increase our cultivation and processing capacity to approximately 817,000 square feet. Upon full capacity build-out of our cultivation facilities, we expect to increase our annual cultivation yield from 30,000 pounds currently to 155,000 pounds of biomass.



**Build strong brand recognition with global appeal and broad distribution.** In addition to our proposed single, unified retail brand, *Be. The Cannabis Store*, we have built, and will continue to build, a portfolio of branded products via in-house development, acquisition, and licensing deals. Our cannabis products are sold in over 100 dispensaries, including our MPX-branded products which are distributed in over 90 locations in Arizona, Maryland and Nevada and have received industry recognition by High Times Magazine and Leafly.

# Be. The Cannabis Store

## Company Overview (cont.)

**Increase patient and customer counts per location.** We focus our marketing and sales strategies on attracting new and existing patients and customers to our dispensary locations and our online ordering sites via medical outreach, industry associations and websites, social media, and a variety of other grassroots initiatives. As our brands become more visible, and patients and consumers have positive experiences, we believe that more patients and customers will be attracted to our dispensary locations and online ordering sites.

**Acquire attractive targets to enhance our footprint, product offerings and/or operations.** We believe that strategic acquisitions are an important part of our ongoing growth strategy. We expect to continue to make selective acquisitions that, among other things, increase revenue, build our geographic footprint, add new branded products to our portfolio, and allow us to expand our capabilities and/or help improve operating efficiencies in existing markets.

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

## Corporate Highlights

- On January 24, 2019, iAnthus was named to the 2019 OTCQX Best 50, as the third best performing stock traded on the OTCQX Best Market in 2018;
- On February 5, 2019, iAnthus closed its transformational business combination with MPX;
- The Company opened two dispensaries in the key markets of New York and Florida;
- On March 18, 2019, iAnthus closed on a \$35,000 private placement of unsecured convertible note units and subsequent to the quarter, on May 1, 2019, an incremental \$25,000 was raised through the issuance of unsecured convertible notes;
- On March 25, 2019, the Company was granted approval by the Florida Department of Health to commence sales of smokable flower in the state;
- On May 4, 2019, the Company entered into a licensing agreement with Blissiva, an infused product brand specializing in producing and distributing medical cannabis products specifically formulated for women, which grants iAnthus the exclusive right to launch Blissiva across the United States; and
- The Company announced a letter of intent to acquire national CBD Products Brand, CBD for Life, providing the Company exposure to 1,000+ retail locations across the United States.

## Financial Position

- As at March 31, 2019 the Company held cash and cash equivalents of \$42,338. The Company's cash on hand as of May 30, 2019 is approximately \$44,000;
- During the period, the Company raised gross proceeds of \$35,000 through the issuance of unsecured convertible note units; and
- Subsequent to the quarter, the Company raised gross proceeds of \$25,000 through the issuance of unsecured convertible note units.

## Cautionary Note Regarding Forward-Looking Statements

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

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

## Cannabis Regulations in the United States

In the United States, the use and possession of cannabis is illegal under U.S. federal law. 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, medical use of cannabis, while 10 of those states plus the District of Columbia and certain U.S. territories recognize, in one form or another, 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 H. Obama, and in an effort to provide guidance to U.S. federal law enforcement regarding the inconsistent regulation of cannabis at the U.S. federal and state levels, the U.S. Department of Justice (the "DOJ") released a memorandum on August 29, 2013 entitled "Guidance Regarding Marijuana Enforcement" from former Deputy Attorney General James M. Cole (the "Cole Memorandum"). The Cole Memorandum acknowledged that, although cannabis is a Schedule I controlled substance under the CSA, the U.S. Attorneys in states that have legalized cannabis in some form should prioritize the use of the U.S. federal government's limited prosecutorial resources by focusing enforcement actions on the following eight areas of concern (the "Cole Priorities"):

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

In January 2018, under the President Donald J. Trump administration, former 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 the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," the memorandum does not otherwise provide that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether to prosecute cannabis-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. 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 view of U.S. federal enforcement priorities has not changed as a result of the rescission of the Cole Memorandum, others have publicly supported the rescission of the Cole Memorandum.

As of the date of this MD&A, the current Attorney General, William P. Barr, has not issued statements or guidance in his official capacity since being sworn in as Attorney General on medical or adult-use cannabis. Enforcement of U.S. federal laws with respect to cannabis remain uncertain.

Other federal legislation provides, or seeks to provide, protection to persons acting in violation of U.S. federal law but in compliance with state laws regarding cannabis. For example, what is now known as the Joyce Amendment (previously known as 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 when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should Congress at any time choose to appropriate funds to fully prosecute under the CSA, any individual or business, even one that has fully complied with state law, could be prosecuted for violations of U.S. federal law.

## Cannabis Regulations in the United States (cont.)

If Congress declines to include the Joyce Amendment in future fiscal year appropriations bills or fails to pass necessary budget legislation and causes another government shutdown, the U.S. federal government will have the authority to spend federal funds to prosecute individuals for violations of U.S. federal law. Additionally, the appropriations protections only apply to individuals or businesses in compliance with a state's medical use cannabis laws and provide no protection against individuals or businesses in compliance with a state's adult-use cannabis laws.

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 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 (the "FinCEN Memorandum"), which provides instructions to banks and other financial institutions seeking to provide services to cannabis-related businesses. The FinCEN Memorandum explicitly refers to 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. money laundering laws. Under these guidelines, financial institutions are subject to a requirement to submit a "suspicious activity report" ("SAR") in certain circumstances as required by federal money laundering laws. These cannabis related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. The FinCEN Memorandum refers to supplementary guidance in the Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. However, as discussed above, the Cole Memorandum was rescinded, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

The rescission of the Cole Memorandum did not affect the status of the FinCEN Memorandum and, to date, the U.S. Treasury has not given any indication that it intends to rescind the FinCEN Memorandum. While it was originally intended for the FinCEN Memorandum 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. Department of the 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 memorandum.

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

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

## Summary of Quarterly Results

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Sales revenues	\$ 9,620	\$ 1,986	\$ 939	\$ 256
Net loss	(18,265)	(15,926)	(10,021)	(35,435)
Loss per share - basic and diluted	(0.15)	(0.25)	(0.15)	(0.61)
Total assets	797,561	168,392	137,272	142,167
Total non-current liabilities	127,994	48,820	31,655	30,864

The following is a summary of quarterly results for the last eight quarters:

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales revenues	\$ 9,620	\$ 1,986	\$ 939	\$ 256	\$ 225	\$ -	\$ -	\$ -
Net loss	(18,265)	(15,926)	(10,021)	(35,435)	(645)	(7,079)	(2,209)	(2,552)
Net loss per share - basic	(0.15)	(0.25)	(0.15)	(0.61)	(0.01)	(0.25)	(0.08)	(0.09)

The Company has experienced substantial development over the past two years due to both organic growth and strategic acquisitions.

With the closing of the MPX Acquisition, the first quarter of 2019 was a transformational period for the Company. The acquisition expanded our operations from six to 11 states, positioning the Company as one of the leading MSOs in the United States. In addition to this landmark transaction, the Company continued to execute on its operational objectives of expanding our retail footprint and building out our 817,000 square feet of available cultivation capacity.

As greenfield projects came online throughout 2018, sales revenues steadily increased. Following the MPX Acquisition closing in February 2019, iAnthus experienced a 384% increase in sales revenues from Q4 2018 to Q1 2019 as a result of the consolidation of the newly acquired Arizona, Nevada and Maryland operations. Total sales revenues in the first quarter of 2019 increased considerably to \$9,620 from \$1,986 in the previous quarter as a result of the revenues recognized from the businesses acquired in the MPX Acquisition, after which the Company recognized two months of consolidated revenues and net losses of the combined entity.

The closing of the MPX Acquisition combined with acceleration of the Company's operational objectives also led to a significant increase in the Company's asset base. Total assets increased to \$797,561 at March 31, 2019 up from \$168,392 at December 31, 2018. This is largely due to the assets acquired in the MPX Acquisition, including intangible assets and goodwill, as well as the Company's continued build-out at its existing facilities.

The net loss for the period increased to (\$18,265) compared to (\$645) for the same quarter in fiscal 2018. The Company experienced a ramp up of expenses primarily due to increased headcount as a result of the MPX Acquisition as well as internal hiring as operations significantly accelerated. In addition, the Company incurred one-time acquisition costs of \$5,173 due to the MPX Acquisition as well as significant professional fees and general and administrative costs when compared to the prior period as a result of the additional consolidated operations.

Non-current liabilities also increased to support the Company's continued plans to expand its national footprint. The Company completed a \$35,000 private placement of debentures in March 2019 to further ensure that iAnthus is adequately capitalized to execute on its operational and strategic initiatives. As a result of the debentures issued in March 2019, as well as the debt inherited from the MPX Acquisition, the Company saw an increase in total non-current liabilities to \$127,994 at March 31, 2019, compared to \$48,820 at December 31, 2018.

The Company divides its reportable operating segments by geographic region. Following the MPX Acquisition, the Company's Chief Operating Decision Maker began to regularly review internal financial reporting and make decisions based on broader geographic regions. As a result, the Company has changed its reportable segments for the period ended March 31, 2019. The eastern region includes the Company's operations in Florida, Maryland, Massachusetts, New York, New Jersey, and Vermont. The western region includes the Company's operations in California, Arizona, Colorado, Nevada, and New Mexico.

## Discussion of Operations

### Sales Revenues and Gross Profit

	For the three months ended March 31, 2019		
	Eastern Region	Western Region	Total
Sales revenues	\$ 4,187	\$ 5,433	\$ 9,620
Cost of goods sold	(2,797)	(6,283)	(9,080)
<b>Gross profit before fair value adjustment on biological assets</b>	<b>\$ 1,390</b>	<b>\$ (850)</b>	<b>\$ 540</b>
Realized fair value adjustment on biological assets	1,528	(330)	1,198
Unrealized fair value adjustment on biological assets	2,980	841	3,821
<b>Gross Profit</b>	<b>\$ 5,898</b>	<b>\$ (339)</b>	<b>\$ 5,559</b>

  

	For the three months ended March 31, 2018		
	Eastern Region	Western Region	Total
Sales revenues	\$ 225	\$ -	\$ 225
Cost of goods sold	(40)	-	(40)
<b>Gross profit before fair value adjustment on biological assets</b>	<b>\$ 185</b>	<b>\$ -</b>	<b>\$ 185</b>
Realized fair value adjustment on biological assets	119	-	119
Unrealized fair value adjustment on biological assets	2,488	-	2,488
<b>Gross Profit</b>	<b>\$ 2,792</b>	<b>\$ -</b>	<b>\$ 2,792</b>

#### Eastern Region

The eastern region holds licenses to operate up to 53 dispensaries and seven cultivation/processing facilities. During Q1 2019, the Company added five dispensaries in the eastern region to its retail footprint, bringing the total to ten dispensaries as of March 31, 2019. This includes two new openings in New York and Florida during the quarter and the addition of three established locations in Maryland as a result of the MPX Acquisition. Sales increased 1761% from \$225 for the three months ending March 31, 2018, to \$4,187 in the same period in 2019, organically through the Company's legacy operations and as a result of these additions in Maryland through the MPX Acquisition. Sales from wholesale and retail saw a significant increase from Q1 2018 to Q1 2019 and wholesale sales were also complemented with the addition of wholesaling company-branded finished goods. The Company expects revenues to continue to increase as a more dispensaries are expected to come online throughout the year. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets, deferred income tax liabilities and net assets acquired is preliminary and may be revised by the Company as additional information is received.

The cost of goods sold in the eastern region have increased as the Company continues to expand its operations. Concurrently, however, the company continues to enhance its operational processes and procedures which yielded improved margins of 33% for Q1 2019.

## Discussion of Operations (cont.)

The eastern region had four operational cultivation and processing facilities during Q1 2019. These locations harvested a total of 2,530 pounds of plant material, which now includes the addition of fresh frozen products since February 2019. Gains on the transformation of biological assets continue to be recognized by the eastern region as efficiencies are established at the facilities and cultivation accelerates. Additional efficiencies are expected to be realized during the year as grow space continues to expand at existing facilities and with new cultivation and processing facilities coming online.

### *Western Region*

The western region holds licenses to operate eight dispensaries and four cultivation and processing facilities. Because the MPX Acquisition closed on February 5, 2019, sales, cost of goods sold and gains on fair value of biological assets did not exist for the Company in the western region prior to consolidation before the acquisition date.

As of March 31, 2019, the Company had four dispensaries fully operational in the western region. Revenue generated in Q1 2019 totaled \$5,433 and is derived from both retail and wholesale sales. Retail sales include both MPX branded and 3rd party products. Wholesale is comprised of selling MPX branded finished goods to 3rd party dispensaries. Previous quarter revenues were \$Nil as the Company was not consolidating operations in the western region prior to February 2019, when the MPX Acquisition closed. Sales are expected to increase as the Company continues to expand its footprint in the western region.

The cost of goods sold in the western region for Q1 2019 are greater than revenues as a result of the MPX Acquisition, restructuring of operations and processes, and the overall integration process. Previous quarter cost of goods sold were \$Nil in the western region as the Company was not consolidating the operations prior to February 2019. The Company believes that the margins in the western region will improve in the coming quarters.

All four cultivation/processing facilities were operational during Q1 2019 and collectively harvested 1,546 pounds of flower, trim and fresh frozen product. Gains on the fair value of biological assets were recognized in the quarter whereas the Company did not have cultivation operations in the western region prior to the MPX Acquisition, and therefore, did not recognize gains on fair value of biological assets in the prior quarter.

## Operating Expenses

### *Depreciation and Amortization*

Depreciation and amortization increased from \$481 for the quarter ended March 31, 2018, to \$2,637 in the same period of 2019. The increase in depreciation and amortization charges are a result of an increase in the Company's depreciable asset base, following the MPX Acquisition in February 2019 as well as the continued buildouts of cultivation and dispensary facilities of the Company's legacy entities. The assets acquired include real estate, equipment and other tangible and intangible assets and all intellectual property. Additionally, upon finalizing the purchase price allocations, all licenses were reclassified from indefinite to finite life intangibles, resulting in an increase in amortization for the period.

### *General and Administrative*

General and administrative expenses increased from \$1,318 for the quarter ended March 31, 2018 to \$4,064 in Q1 2019. Compared to the prior year, general and administrative expenses are higher due to the MPX Acquisition and the Company's expanded footprint across both the eastern and western regions. The added operating costs, including rent expenses, utility fees, IT expenses, security expenses and other selling costs as additional dispensaries came online through retail openings or consolidated via MPX, attributed to this increase in expenses.

### *Salaries, Employee Benefits and Share-based Compensation*

	Three months ended	
	March 31, 2019	March 31, 2018
Salaries and employee benefits	\$ 6,099	\$ 1,484
Share-based compensation	1,646	1,754
<b>TOTAL</b>	<b>\$ 7,745</b>	<b>\$ 3,238</b>

The Company's workforce has significantly increased since Q1 2018 due to continued hiring to support and execute on the Company's strategic objectives at both the corporate level and at the Company's operating entities. With the MPX Acquisition in Q1 2019, the headcount increased to over 500 employees which directly resulted in increased salaries and employee benefits for the current period as these employees were added to the payroll of the Company. Share-based compensation levels are approximately the same as the same period in 2018.

## Discussion of Operations (cont.)

### Professional Fees

Professional fees for the three months ended March 31, 2019, have increased to \$3,547 from \$1,950 in the same period of 2018 predominantly due to the MPX Acquisition. With the additional states and operations from the MPX Acquisition, the Company and its subsidiaries require the expertise of external lawyers, accountants, valuers and tax specialists. Furthermore, ensuring compliance with state and local regulations in expanded jurisdictions has also increased the Company's legal, professional and consulting fees.

### Acquisition-related costs

The Company saw a significant increase in acquisition-related costs of \$5,173 in the three months ending March 31, 2019. As at March 31, 2018, \$233 of acquisition-related costs are attributable to the acquisitions of GrowHealthy and Citiva. The substantial increase in acquisition costs for the three months ending March 31, 2019 is a direct result of the MPX Acquisition which was significantly more complex and thus, required additional legal, consulting, and advisory fees. These costs are deemed to be specific to this transaction and are non-recurring

### Other Items

#### Interest and Accretion Expense

	Three months ended	
	March 31, 2019	March 31, 2018
Interest expense	\$ 2,346	\$ 861
Accretion expense	1,515	2,871
<b>TOTAL</b>	<b>\$ 3,861</b>	<b>\$ 3,732</b>

The Company issued new debt and assumed debt via the MPX Acquisition since Q1 2018, including the following instruments:

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

Interest expense has increased since Q1 2018 as a result of the high yield notes, the Stavola Trust note, and the March 2019 Debentures. The accretion expense in the current quarter primarily relates to the accretion on the high yield notes and the OID Loan whereas the accretion in the previous year related to only the January 2018 debentures.

#### Change in fair value on financial instruments

The change in fair value on financial instruments was \$3,210 for the three months ended March 31, 2019 compared to \$7,126 for the same period in 2018. The change in fair value on financial instruments is the result of the revaluations on the derivative component of compound instruments for each reporting period. In Q1 2018, the main component of the change was the January 2018 Debentures, whereas in Q1 2019 this was driven by the OID Loan assumed by the Company in the MPX Acquisition. There was more movement in share price in Q1 2018 as compared to Q1 2019 resulting in a larger movement in the Black-Scholes valuation, and further, the 2019 balance related to a partial conversion of the underlying OID Loan during the quarter.

## 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 (the "March 2019 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.

The March 2019 Debentures are convertible at \$5.92 per common share, which would convert into an aggregate of 5,912,160 common shares of the Company. At any time, following July 16, 2019, the Company may force the conversion of the March 2019 Debentures into common shares if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

## Liquidity and Capital Resource Management (cont.)

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

If capital was no longer available in the public markets due to changes in applicable law, the Company expects that it would continue to have access to capital and would have the ability to raise such capital privately. However, there are no guarantees that such capital would be available.

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

The Company has complied with all covenants as at March 31, 2019.

### Working Capital

For the period ending March 31, 2019, the Company had negative working capital of \$22,025, compared to positive working capital of \$33,684 as at December 31, 2018. The majority of the current liabilities as of March 31, 2019, \$37,792 of the current portion of long-term debt, arose from the OID Loan which has been fully redeemed into equity subsequent to March 31, 2019. In addition, \$46,391 in derivative liabilities were recognized in the period from the historic MPX financial instruments assumed by the Company. The balance of MPX warrant derivatives were valued at \$27,134 at March 31, 2019 and were subsequently extinguished as a result of the OID Loan redemption.

### Cash Flows

Cash was \$42,338 at March 31, 2019, compared to \$15,295 at December 31, 2018. The increase in cash was largely due to the funds raised through financing activities, offset by the cash outflows from investing and operating activities.

#### *Cash Flow from Operating Activities*

Cash used in operating activities during the three months ending March 31, 2019, was \$8,538 compared to \$7,058 for the three months ending March 31, 2018. The increase was a result of the significant operating activity in Q1 2019 compared to Q1 2018 as the Company continued to acquire licenses primarily through the MPX Acquisition and achieve operational milestones at existing operations. Cash outflows from operating activities were primarily related to general and administrative expenses, wages and salaries, and professional fees.

#### *Cash Flow from Investing Activities*

Cash used in investing activities during the quarter was \$13,516 compared to \$16,406 during the three months ending March 31, 2018.

During the three months ended March 31, 2019, the Company made the following significant investment-related cash outflows:

- \$13,305 - purchase of property, plant, and equipment; and
- \$4,269 - one-time acquisition-related costs relating specifically to the MPX Acquisition.

## Liquidity and Capital Resource Management (cont.)

During the three months ended March 31, 2019, the Company received the following cash flows from investments:

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

### Cash Flow from Financing Activities

Cash generated from financing activities for the three months ended March 31, 2019 was \$43,825 compared to \$20,627 during the same period in 2018. Significant sources of financing during the quarter include:

- \$35,000 – private placement of debentures issued by the Company in March 2019;
- \$7,699 – exercise of warrants from previous rounds of financing and outstanding warrants acquired from the MPX Acquisition; and
- \$3,814 – exercise of stock options including those acquired in the MPX Acquisition.

This was offset by outflows of financing, including:

- \$2,238 – interest paid on outstanding debt.

### Contractual Obligations

The following table presents the Company's significant contractual obligations as at March 31, 2019:

USD DENOMINATED	< 1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Payables and accrued liabilities	\$ 19,874	\$ -	\$ -	\$ -	19,874
Long-term debt	46,670	8,236	86,595	1,094	142,595
Operating leases	4,129	4,052	11,495	40,739	60,415
Consultants and advisors	639	89	14	-	742
Construction contracts	8,912	-	-	-	8,912
<b>TOTAL USD DENOMINATED</b>	<b>\$ 80,224</b>	<b>\$ 12,377</b>	<b>\$ 98,104</b>	<b>\$ 41,833</b>	<b>232,538</b>
<b>CAD DENOMINATED</b>					
Payables and accrued liabilities	\$ 785	\$ -	\$ -	\$ -	785
<b>TOTAL CAD DENOMINATED</b>	<b>\$ 785</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>785</b>

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

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements at March 31, 2019.

## Liquidity and Capital Resource Management (cont.)

### Share Capital

The following table presents the Company's share capital information as at June 18, 2019.

	Number Outstanding
Common Shares issued and outstanding	153,583,042
Class A Common Shares issued and outstanding	15,528,928
Options to purchase Common Shares	11,085,172
Options to purchase Class A Common Shares	2,215,500
Warrants	36,147,855
MPX dilutive instruments <sup>(1)</sup>	407,876
Convertible Debentures	10,135,130
HY Notes	12,970,169
<b>Fully diluted shares outstanding</b>	<b>242,073,672</b>

(1) Prior to the 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 judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense.

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

### Changes in Accounting Policies

The Company has implemented the following IFRS standards effective for reporting periods commencing January 1, 2019. These standards have been discussed in greater detail within Note 19 in the notes to the condensed interim consolidated financial statements.

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

### Financial Instruments

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

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

<b>Due from related parties as at December 31, 2017</b>	<b>\$</b>	348
Repayments made to related parties in the period		50
Foreign exchange loss on due from related parties balance		(7)
<b>Due from related parties as at December 31, 2018</b>	<b>\$</b>	391
Related party due from balance acquired in period		(10,553)
Payments to and on behalf of related parties in the period		617
Repayments made to related parties in the period		31
Payments made from related parties in the period		(7)
<b>Due to related parties as at March 31, 2019</b>	<b>\$</b>	<b>(9,521)</b>

As of March 31, 2019, the Company had a loan due from a director and officer of the Company, Hadley Ford, with a balance of \$391. The total loan facility is up to CAD\$500 (equivalent \$391) and the loan accrues 2.5% interest due upon the maturity of the loan. The loan is repayable on demand and is expected to be repaid within the next 12 months. Accrued interest on the loan for the three months ended March 31,

## Additional Information (cont.)

2019, was CAD\$21 (equivalent \$16) (December 31, 2018 - CAD\$18 or equivalent \$13). The related party balance is presented in the other current assets line on the interim consolidated statement of financial position.

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

- Related party receivables of \$614 and \$50, are due from companies owned by a director and officer of the Company, Elizabeth Stavola. The balances were \$814 and \$430 respectively, as at March 31, 2019 (December 31, 2018 - \$Nil and \$Nil, respectively). 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 \$10,000, is due to a trust whose beneficiary is a director and officer of the Company, Elizabeth Stavola. For the three months ended March 31, 2019 interest expense was \$121 and accrued interest was \$200 (March 31, 2018 - \$Nil). The related party balance is included in non-current liabilities on the condensed interim consolidated statement of financial position. Refer to Note 12 in the condensed interim consolidated financial statements for further details on the Stavola Trust note.

## Subsequent Events

### OID Loan Redemption

Subsequent to March 31, 2019, iAnthus issued 8,891,016 shares and 4,445,504 warrants to satisfy all remaining OID Loan holders that were eligible for conversion.

### May 2019 Debentures

On May 1, 2019, the Company completed a private placement of \$25,000 of unsecured convertible debentures (the "May 2019 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.

The May 2019 Debentures are convertible at \$5.92 per common share, which would convert into an aggregate 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 average trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

### Warrants Exercised

Subsequent to the three months ended March 31, 2019, 574,847 warrants were exercised and resulted in the issuance of an equal amount of Common Shares. The proceeds from the exercised warrants totaled \$1,577.

### Line of Credit to Zia Integrated, LLC

On May 23, 2019, the Company established a line of credit with Zia Integrated, LLC, ("Zia") a cannabis management and consulting firm based in Maryland, permitting Zia drawdowns of up to an aggregate of \$15,000. For each drawdown made by Zia, a convertible promissory note will be issued between the Company and Zia. As of the date of filing of the condensed interim consolidated financial statements, no drawdowns have been made on the line of credit and the principal amount on the convertible promissory note is \$Nil.

### Letter of Intent to Acquire CBD For Life

On March 29, 2019, the Company announced a letter of intent to acquire CBD for Life, a national CBD brand in the U.S. The transaction is expected to close subsequently.

The transaction with CBD For Life is a related party transaction due to the fact Elizabeth Stavola is an officer and director of iAnthus and an officer and significant shareholder of CBD For Life. Closing of the transaction with CBD For Life is subject to the parties entering into a definitive agreement and that iAnthus receives a fairness opinion to the members of the Board of Directors who are non-related parties. The parties expect to enter into a definitive agreement during 2019. There can be no assurances that the transaction will be completed as proposed or at all.

## Subsequent Events (cont.)

### Options Granted

7,181,050 options granted on April 23, 2019 to executives, employees and consultants were cancelled on June 6, 2019. Concurrently with the cancellation, 9,649,047 options were granted on June 6, 2019 to executives, employees, and consultants with an exercise price of CAD\$5.35 and expiry of June 6, 2029. On June 17, 2019, 5,790,150 of the options granted on June 6, 2019 at an exercise price of CAD\$5.35 and expiry of June 6, 2029, were cancelled. The Board of Directors plans to reissue the options in 30 days from June 17, 2019, subject to regulatory requirements and the terms and conditions of the Company's stock option incentive plan. The exercise price of the new stock options shall be either the higher of the closing price the day prior to issuance or CAD\$7.50.

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

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

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

### Operation

As at March 31, 2019, the Company currently operates in the United States as more specifically described below.

	Licensed Entity	Type of Investment <sup>(1)</sup>	Permitted Number of Facilities
Massachusetts <sup>(1)</sup>	Mayflower Medicinals, Inc. ("Mayflower")	Ownership (100%)	6 dispensaries <sup>(2)</sup> 2 cultivation
	Cannatech Medicinals, Inc. ("Cannatech") <sup>(2)</sup>	Note 2	2 processing
Vermont <sup>(1)</sup>	FWR Inc. d/b/a Grassroots Vermont ("GRVT") <sup>(3)</sup>	Ownership (100%) <sup>(3)</sup>	2 dispensaries 1 cultivation 1 processing
New Mexico <sup>(1)</sup>	Reynold Greenleaf & Associates LLC ("RGA")	Ownership (24.6%)	Nil <sup>(6)</sup>
Colorado <sup>(1)</sup>	Organix, LLC ("Organix")	Note 5	1 dispensary 1 cultivation
New York <sup>(1)</sup>	Citiva Medical, LLC ("Citiva Medical")	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
Florida <sup>(1)</sup>	McCrorry's Sunny Hill Nursery, LLC d/b/a	Ownership (100%) <sup>(4)</sup>	35 dispensaries 1 cultivation 1 processing
	GrowHealthy ("McCrorry's")		
Arizona <sup>(1)</sup>	ABACA, LLC	Ownership (100%) <sup>(7)</sup>	4 dispensaries 3 cultivation 3 processing
	Soothing Options, Inc. Healing Center Wellness Center, LLC ("THCWC")		
	Health for Life, Inc. ("HFL")		
California <sup>(1)</sup>	Note 8	Note 8	Note 8
Maryland <sup>(1)</sup>	LMS Wellness, Benefit LLC	Note 9	3 dispensaries 1 processing
	GreenMart of Maryland, LLC		
	Rosebud Organics, Inc. Budding Rose, Inc.		
Nevada <sup>(1)</sup>	GreenMart of Nevada NLV, LLC	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
New Jersey <sup>(1)</sup>	MPX New Jersey, LLC	Note 10	3 dispensaries <sup>(11)</sup> 1 cultivation 1 processing

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

(2) Following the MPX acquisition, the Company owns both 100% of Mayflower Medicinals, as well as 100% of two separate management entities with service and real estate agreements with a second license holder, Cannatech Medicinals. Current rules in Massachusetts permit the company to control and operate up to three medical dispensaries and three adult use stores, which may or may not be co-located, as well as two cultivation and processing facilities.

(3) The Company owns 100% of Pakalolo, LLC, the sole member of GRVT (a not-for-profit corporation).

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

(5) On December 5, 2016, the Company acquired certain assets of Organix, the owner and operator of a Colorado medical and adult use cannabis operation with a cultivation facility in Denver, Colorado and a fully-integrated medical and adult use dispensary located in the ski town of Breckenridge, Colorado. The assets acquired include all real estate holdings of Organix’s affiliate, DB Land Holdings, Inc., consisting of a 12,000 square foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix including its brands. The foregoing assets are held by the Company’s subsidiaries, Scarlet Globemallow, LLC and Bergamot Properties, LLC and

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

are classified as "ancillary" involvement in the United States cannabis industry for the purpose of Staff Notice 51-352. The Colorado Marijuana Enforcement Division regulates Colorado's cannabis regulatory program. Applicable regulation in Colorado requires licensed operators and a portion of its shareholders to be residents of Colorado and accordingly, iAnthus, as a publicly listed company, is unable at this time to acquire a direct license under Colorado's cannabis regulatory program. As such, the Company cannot consolidate the results of Organix at this time.

- (6) RCA currently manages two cultivation operations in Albuquerque, New Mexico totaling approximately 38,000 square feet and six dispensary locations, five in Albuquerque and one in Grants, New Mexico.
- (7) Our wholly owned subsidiary, S8 Management, LLC ("S8"), has management agreements with each of these four non-profit license holders.
- (8) The Company does not currently have a license to operate a cannabis business in California; however, the Company has entered into an intellectual property licensing agreement to permit the Company's brands to be manufactured and distributed in California.
- (9) Our wholly owned subsidiary, S8 Management, LLC ("S8"), has management services agreements with three dispensaries, LMS Wellness, Benefit LLC, Budding Rose, Inc. and GreenMart of Maryland, LLC, and one processing facility, Rosebud Organics, Inc. The management services agreements also include options to acquire these dispensary and processing licenses in the future.
- (10) The Company is in negotiations to enter into a Financing, Leasing, Licensing and Services Agreement with MPX New Jersey LLC, an entity controlled by a member the Company's senior management team, subject to regulatory approval by the New Jersey Department of Health.
- (11) One medical dispensary is permitted under the current rules in New Jersey as a matter of right, with the possibility of operating two more dispensaries with a waiver from the NJ Department of Health. There is legislation currently pending in NJ that, if adopted into law, would provide the license holder with the ability to open up to three medical dispensaries as a matter of right.

### ***Compliance with Applicable State Law in the United States***

As of the date of this MD&A, we believe that each of our licensed operating entities (i) holds all applicable licenses to cultivate, possess and/or distribute cannabis in its respective state, and (ii) is in good standing, and is in compliance with, its respective state's cannabis regulatory program. We ensure that the Company's 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 U.S. state law to cultivate, 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 by the respective operating entity to ensure compliance with applicable state law; (4) each employee is provided with an employee handbook that outlines internal standard operating procedures in connection with the cultivation, 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 and using scanners to confirm each customer's legal age with the validity of each customer's driver's license; (5) each room that cannabis inventory and/or proceeds from the sale of such inventory is monitored by video surveillance; (6) software is used to track cannabis inventory from seed to sale; and (7) each operating entity is contractually obligated to the Company to comply with applicable state law in the United States in connection with the cultivation, possession and/or distribution of cannabis. The Company's U.S. legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

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

The following table reflects certain assets and liabilities on the Company's consolidated statement of financial position that pertain to our U.S. cannabis activity, as of December 31, 2018:

Balance Sheet Line Item	Percentage which relates to Investments/Holdings with U.S. cannabis-related activities
Receivables and prepaid assets	7%
Inventory and biological assets	100%
Other current assets	66%
Investments and investments in associates	100%
Property, plant and equipment	99%
Intangible assets and goodwill	100%
Other assets	8%
Payables and accrued liabilities	59%
Interest payable	0%
Derivative liabilities	0%
Other liabilities	96%
Long-term debt	0%
Deferred tax liabilities	100%

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

Income Statement Line Item	Percentage which relates to Investments/Holdings with U.S. cannabis- related activities
Gross profit	100%
Other income	77%
Operating expenses	42%
Other items	1%

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.

### *United States Federal Overview*

Cannabis is illegal under U.S. federal law. Medical and adult-use cannabis has been legalized and regulated by individual states. To our knowledge and 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, medical use of cannabis, while 10 of those states plus the District of Columbia and certain U.S. territories recognize, in one form or another, 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 CSA and, as such violates U.S. federal law. As a result of this conflict between state and federal law, cannabis businesses in the United States are subject to inconsistent legislation and regulation. See "Legalization of Cannabis in the U.S."

The Company and its U.S. legal counsel continuously monitor statements and guidance issued by U.S. Attorneys regarding the risk of enforcement action in connection with cannabis -related activities in jurisdictions in which the Company conducts cannabis -related activities. U.S. Attorneys in the jurisdictions in which the Company conducts cannabis -related activities have issued the following statements or guidance regarding the risk of enforcement action in connection with cannabis -related activities:

(1) Arizona

There is no current U.S. Attorney for the District of Arizona. On February 13, 2019, President Trump nominated Michael Bailey; his nomination is subject to confirmation by the U.S. Senate. Elizabeth A. Strange is the First Assistant U.S. Attorney for the District of Arizona. Ms. Strange has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis -related activities.

(2) California

Nicola T. Hanna is the U.S. Attorney for the Central District of California. Mr. Hanna has not yet taken a public stance on his office's enforcement priorities related to state-legal cannabis. David L. Anderson is the U.S. Attorney for the Northern District of California. Mr. Anderson has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis -related activities. Robert S. Brewer is the U.S. Attorney for the Southern District of California. Mr. Brewer has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis-related activities.

McGregor Scott is the U.S. Attorney for the Eastern District of California. After the rescission of the Cole Memorandum in January 2018, Mr. Scott's office issued the following statement: "The cultivation, distribution and possession of cannabis has long been and remains a violation of federal law for all purposes. We will evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources." In May 2018, Mr. Scott stated that his cannabis enforcement priorities would be focused on illegal cultivation on federal land, cartels dealing in cannabis, and interstate trafficking. Mr. Scott also said, "The reality of the situation is that there is so much black-market cannabis in California that we could go after just the black market and never get to state-licensed operations." He explained that this black market is comprised of "people who have no intent of ever entering the legal system that has been created and California has attempted to establish."

(3) Colorado

Jason R. Dunn is the U.S. Attorney for the District of Colorado. Mr. Dunn has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis -related activities.

(5) Florida

Maria Chapa Lopez is the U.S. Attorney for the Middle District of Florida, Lawrence Keefe is the U.S. Attorney for the Northern District of Florida and Ariana Fajardo Orshan is the U.S. Attorney for the Southern District of Florida. Ms. Lopez, Mr. Keefe and Ms. Fajardo have issued no public statements or guidance regarding the risk of enforcement in connection with cannabis -related activities.

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

### (6) Maryland

Robert K. Hur is the U.S. Attorney for the District of Maryland. Mr. Hur has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis-related activities.

### (7) Massachusetts

Andrew E. Lelling is the U.S. Attorney for the District of Massachusetts. On January 24, 2018, Mr. Lelling issued the following statements: "Marijuana cultivation and trafficking is unambiguously illegal under federal law"; "That said, the number one enforcement priority from my office is the opioid crisis"; "Twenty-one hundred people in Massachusetts were killed by opioid overdoses, not marijuana overdoses"; "The number one drug enforcement priority for us is not marijuana, it's opioids"; "Historically, the marijuana cases that we have pursued have almost always been bulk importation of marijuana from Canada or from Mexico accompanied by money laundering." On July 10, 2018, Mr. Lelling further stated that his office's marijuana enforcement would be focused on: (1) overproduction by licensed cultivations, (2) the targeted sale of cannabis to minors, and (3) organized crime and interstate transportation of drug proceeds. Following the first legal recreational cannabis sales in Massachusetts, Lelling further emphasized that his scrutiny of the legal cannabis industry in the state remained focused on the above-listed three activities and that his department would "keep doing the kind of enforcement that we've been doing all along."

### (8) New Mexico

John C. Anderson is the U.S. Attorney for the District of New Mexico. Mr. Anderson has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis-related activities.

### (9) New Jersey

Craig Carpenito is the U.S. Attorney for the District of New Jersey. Mr. Carpenito has issued no public statements or guidance regarding the risk of enforcement in connection with cannabis-related activities.

### (10) New York

Richard Donoghue is the U.S. Attorney for the Eastern District of New York, Grant C. Jaquith is the U.S. Attorney for the Northern District of New York, Geoffrey Berman is the U.S. Attorney for the Southern District of New York and James P. Kennedy is the U.S. Attorney for the Western District of New York. Mr. Donoghue, Mr. Jaquith, Mr. Berman and Mr. Kennedy have issued no public statements or guidance regarding the risk of enforcement in connection with cannabis-related activities.

### (11) Vermont

Christina E. Nolan is the U.S. Attorney for the District of Vermont. In January of 2018, Ms. Nolan issued the following statement: "We're going to use the principles we've long used in all drug cases to prioritize our finite resources." In January of 2018, Kraig LaPorte, a spokesman for Ms. Nolan, issued the following statements: "U.S. Attorney Nolan is continuing to focus on the heroin issue in Vermont, drug trafficking, violence associated with drug trafficking and gun violence." "That remains her focus."

Regardless, cannabis remains a Schedule I controlled substance under the CSA at the federal level, and neither the Cole Memorandum, its rescission, or the confirmation of Attorney General William Barr has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational cannabis, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018, the day prior to rescission of the Cole Memorandum. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from cannabis sales or any other Schedule I substance.

### ***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.

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

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. Among other things, 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 we currently operate or in our ability to expand our 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 our licensed operating facilities could have a material adverse effect on (a) our reputation, (b) our ability to conduct business, (c) our holdings (directly or indirectly) of medical or adult-use cannabis licenses in the United States, (d) the listing or quoting of our securities on various stock exchanges, (e) our financial position, (f) the operating results, profitability or liquidity or (g) the market price of our publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors" section of this MD&A. See "Risk Factors - Risks Specifically Related to the United States Regulatory System - The Company's business activities, and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law".

### **Arizona**

Pursuant to the acquisition of MPX on February 5, 2019, the Company acquired 100% of S8 Management, LLC and S8 Transportation, LLC. These entities have certain service and management agreements in place with HFL, Soothing Options, THCWC LLC. The Company also acquired 100% Tower Management Holdings, LLC and Ambarly, LLC, which have certain service and management agreements in place with ABACA.

HFL is a cannabis dispensary and cultivation facility located in Mesa, Arizona, operating under the "Health for Life" brand.

Soothing Options is a cultivation and production/manufacturing facility as well as a cannabis dispensary located in Mesa, Arizona, operating under the "Health for Life" Brand.

THCWC LLC is a cannabis dispensary located in Mesa, Arizona.

S8 Management provides material support, administrative, general management and advisory services, financing and logistics, to licensed cannabis businesses and has management agreements in place with HFL, Soothing Options, THCWC LLC and LMS.

S8 Transportation provides logistical support to HFL, Soothing Options and THCWC LLC.

ABACA is a cultivation and production/manufacturing facility, as well as a cannabis dispensary, located in Phoenix, Arizona 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 assets held by the Company's subsidiaries, HFL, Soothing Options, THCWC LLC, S8 Management and ABACA are classified as "direct" involvement in the United States cultivation or distribution industry and the assets held by the Company's subsidiary S8 Transportation 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 the 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 and its investees (HFL, Soothing Options, THCWC LLC, S8 Management, S8 Transportation and ABACA) are in compliance with 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 cultivation or distribution industry. The applicable regulations in the State of Arizona are summarized below.

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

### (i) General

In 1996, Arizona passed Proposition 200, the Drug Medicalization, Prevention, and Control Act of 1996 ("Proposition 200"), allowing doctors to prescribe medical cannabis to treat diseases or relieve pain in seriously/terminally ill patients. In order for a patient to use medical cannabis, a doctor had to provide scientific evidence to prove cannabis' usefulness along with a second doctor's opinion to the Arizona Department of Health Services (the "ADHS"). However, the language in Proposition 200 required a doctor

to "prescribe" medical cannabis, creating a conflict with U.S. federal law. For a doctor to prescribe medication, the substances must first undergo FDA trials and doctors must specify the exact dosage and consumption methods to be used. This rendered Proposition 200 illegal on a federal scope and a medical cannabis program never materialized.

In 2010, the Arizona legislature enacted the Arizona Medical Marijuana Act ("AMMA"), an initiative to legalize the medical use of cannabis. The AMMA is codified in Arizona Revised Statutes § 36-2801 et. seq. The AMMA appointed the ADHS as a regulator for the program and authorized ADHS to promulgate, adopt and enforce regulations for the AMMA. The ADHS established the Arizona Department of Health Services - Medical Marijuana Program ("MMJ Program"), which sets for the rules and regulations regarding medical cannabis in the State of Arizona. The ADHS regulations are embodied in the Arizona Administrative Code Title 9 Chapter 17 (the "Arizona Code").

Medical cannabis licenses under the AMMA are vertically integrated, meaning that a holder of a Medical Marijuana Dispensary Registration Certificate ("Certificate") is authorized to cultivate and dispense medical cannabis to patients. Each Certificate also permits its holder to operate one on-site cultivation facility, and one off-site cultivation facility which can be located anywhere within the State of Arizona. A Certificate holder is required to file an application to renew with the ADHS on an annual basis, such application must also include audited annual financial statements. While a Certificate may not be sold, transferred or otherwise conveyed, Certificate holders typically contract with third parties to provide various services related to the ongoing operation, maintenance and governance of its dispensary and/or cultivation facility so long as such contracts do not violate the requirements of the AMMA or the MMJ Program.

### (ii) Licensing Requirements

In order to obtain a Certificate, an applicant must: (a) fill out an application on the form proscribed by the ADHS, (b) submit the applying entity's articles of incorporation and by-laws, (c) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies, (d) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Arizona Code to ensure that the medical dispensary will operate in compliance and (e) designate an Arizona licensed physician as the Medical Director for the Dispensary. Certificates are renewed annually provided that the Certificate holder is in good standing with the ADHS and pays the renewal fee and submits an independent third party financial audit.

### (iii) Approval to Operate

Once an applicant has been issued a Certificate, it is allowed to establish one physical retail medical dispensary location, one cultivation location which is co-located at the dispensary's retail site (subject to local zoning laws) and one additional off-site cultivation location. None of these sites can be operational, however, until the medical dispensary receives an approval to operate from ADHS for the applicable site. This approval to operate requires: (a) an application on the ADHS form, (b) demonstration of compliance with local zoning regulations, (c) a site plan and floor plan for the applicable property, and (d) an in-person inspection by ADHS of the applicable location to ensure compliance with the Arizona Code and consistency with the medical dispensary's applicable policies and procedures.

### (iv) Security Requirements for Dispensary Facilities

Medical dispensaries must abide by certain security requirements, including (i) ensuring that access to the facilities is limited to authorized agents of the Dispensary ("Dispensary Agents") who are in possession of a Dispensary Agents identification card, and (ii) equipping the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days' video storage, (f) failure notifications and battery backups for the security system and (g) panic buttons inside each building.

### (v) Transportation Requirements

Dispensaries may transport medical cannabis between their own sites or between their own dispensary sites and another medical dispensary's site, provided that (i) prior to transportation, the Dispensary Agent must complete a trip plan showing: (a) the name of the Dispensary Agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported; and (d) the anticipated route of transportation,

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

(ii) during transport the Dispensary Agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible, and (iii) Dispensaries must maintain trip plan records.

### (vi) Inspections and Enforcement

ADHS may inspect a facility at any time upon five (5) days' notice to the operators of the medical dispensary. However, if someone has alleged that the medical dispensary is not in compliance with the AMMA or the Arizona Code, ADHS may conduct an unannounced inspection. ADHS will provide written notice to the medical dispensary of any violations found during any inspection and the medical dispensary has twenty (20) working days to take corrective action and notify ADHS.

ADHS may revoke a medical dispensary's Certificate if it determines that dispensary (a) operates before obtaining approval to operate a medical dispensary from the ADHS, (b) dispenses, delivers, or otherwise transfers cannabis to an entity other than another medical dispensary with a valid Certificate issued by ADHS, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (c) acquires usable cannabis or mature cannabis plants from any entity other than another medical dispensary with a valid Certificate issued by the ADHS, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (d) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, ADHS may revoke a Certificate if a medical dispensary does not comply with the requirements of the AMMA or the Arizona code or if the dispensary fails to implement the policies and procedures or comply with the statements provided to the ADHS with the medical dispensary's application.

### *California*

The Company, through its wholly-owned subsidiary CGX Life Sciences, Inc. (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, California.

Under the terms the agreement, Case Farms Collective will provide full scale cannabis processing services to CGX, with all concentrate products manufactured to CGX's proprietary specifications and guidelines to ensure continued consistency in CGX concentrate products nationally. Case Farms has licenses in cultivation, manufacturing, processing and distribution of 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 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 and its investees are in compliance with California's cannabis regulatory program. The Company is not aware of any non-compliance of Case Farms Collective. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with an "indirect" involvement in the United States cultivation, manufacturing or distribution industry.

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

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

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

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

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

### (i) Registration and Certification

Pursuant to MAUCRSA, three agencies were established for the purposes of regulating and licensing California cannabis operators (collectively, the "Licensing Agencies"):

- CalCannabis, a division of the California Department of Food and Agriculture, to regulate and issue cultivators licenses ("CalCannabis");
- Manufactured Cannabis Safety Branch (the "MCSB"), a division of the California Department of Public Health, to regulate and issue manufacturing licenses; and
- Bureau of Cannabis Control (the "BCC"), a division of the California Department of Consumer Affairs, to regulate and issue licenses to cannabis distributors, testing laboratories, retailers, and microbusinesses. Other departments and agencies of the State of California have regulatory oversight over cannabis businesses, but the Licensing Agencies play are the primary cannabis regulatory authorities in California.

The Licensing Agencies may issue the following classes of license:

- A Retailer License, which permits the sale of cannabis and cannabis products to any individual age 21 years of age or older who do not possess a physician's recommendation and for use pursuant to the CUA, found at Section 11362.5 of the Health and Safety Code. Under the terms of the Retailer license, a holder will be permitted to sell adult-use cannabis and cannabis products to any domestic and international qualified customer, provided that the customer presents a valid government-issued photo identification and to any medicinal cannabis patient in California who possesses a physician's recommendation. Only certified physicians may provide medicinal cannabis recommendations.
- A Cultivation License, which permits, permits a holder to engage in cannabis cultivation activity which means any activity involving the planting, growing, harvesting, drying, curing, grading or trimming of cannabis. Such license further permits the production of a limited number of non-manufactured cannabis products and the sales of cannabis to certain licensed entities within the State of California for resale or manufacturing purposes.
- A Distribution License, which permits cannabis related distribution activity which means the procurement, sale, and transportation of cannabis and cannabis products between licensed entities.

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 licenses, 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, or and are permitted to outright ban cannabis cultivation, manufacturing or sales within their jurisdiction.

The Licensing Agencies began issuing temporary licenses in January 2018. Unlike other some other states in the United 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 license type. There are no California-residency requirements for ownership of a state license under MAUCRSA.

California state and local licenses must be renewed annually. Each year, licensees are required to submit a renewal application per 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.

### (ii) Inspections

All licensees and the licensed premises are subject to investigation, inspection, and audit by the Licensing Agencies, as applicable. Additionally, all surveillance recordings are subject to inspection by the Licensing Agencies. The BCC may inspect all vehicles and trailers that transport cannabis goods and the BCC and MCSB may test any cannabis goods.

### (iii) Security Requirements

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

- maintain a fully operational security alarm system;
- contract for security guard services;
- maintain a video surveillance system that records continuously 24 hours a day;
- ensure that the facility's outdoor premises have sufficient lighting;

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

- not dispense from its premises outside of permissible hours of operation;
- store cannabis and cannabis product only in areas per the premises diagram submitted to the State of California during the licensing process;
- store all cannabis and cannabis products in a secured, locked room or a vault;
- report to local law enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and
- to ensure the safe transport of cannabis and cannabis products between licensed facilities, maintain a delivery manifest in any vehicle transporting cannabis and cannabis products. Only vehicles registered with the BCC, that meet the BCC's distribution requirements, are to be used to transport cannabis and cannabis products.

### (iv) Operations

A license holder must maintain written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, employee matters, and cash handling procedures. A license holder may only dispense a limited amount of cannabis inventory to a customer during a 30-day period. A license holder may only dispense cannabis in containers that are properly labelled. A license holder must maintain a written alcohol and drug-free workplace policy.

### (v) Record Keeping and Inventory Tracking

The State of California has selected Franwell Inc.'s METRC system as the state's track and trace system used to track commercial cannabis activity and movement across the distribution chain (i.e., from seed-to-sale). The state is still in the process of implementing the METRC system state-wide. When operational, the system will allow for other third-party system integration via application programming interface (API).

Licensees must also submit standard operating procedures describing how the operating entity will, among other requirements, secure the licensed facility, manage inventory, dispense cannabis, and handle waste, as applicable to the license type. Once the standard operating procedures are deemed compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the disclosed processes and to seek approval from the relevant regulatory agency before making any changes to such procedures. Licensees are also required to train their employees on compliant operations and are only permitted to transact with other licensed businesses. In addition to general reporting requirements applicable to all licensees, cannabis distributors must also keep records relating to tax payments collected and paid under Revenue and Taxation Code sections 34011 and 34012, collect cannabis cultivation and excise taxes, report to the California Department of Tax and Fee Administration the amounts due during the applicable reporting periods, and remit the amounts due as required by law.

### *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 20.0 million people in a state where only 10 licenses (each called a "Registration") have been granted.

The Company's flagship dispensary in Brooklyn opened on December 30, 2018, and Citiva recognized its first revenues and the associated cost of goods sold during the year. With its first dispensary open in the state and a fleet of delivery vehicles ready to deliver across New York City, the Company believes that the flagship 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 2.6 million residents. To supply the dispensary with product ahead of completion of the Warwick facility, Citiva entered into a wholesale purchase agreement with another Registered Organization ("RO") in New York, which includes a range of vapes, capsules, and tinctures.

Subsequent to year end December 31, 2018, the Company completed construction of its second dispensary location in Wappingers Falls in the Hudson Valley, NY, which opened on February 14, 2019. Further, the Company is negotiating a lease agreement for a dispensary in Staten Island, and is near finalizing a lease for its final dispensary in Chemung County. The Company continues to educate physicians in New York State on Citiva's product offerings and to create brand awareness through the 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 cultivation or distribution industry because the Company has a controlling interest in Citiva.

The State of New York has authorized the cultivation, possession and distribution of cannabis for medical purposes by certain registered New York cannabis businesses. The New York State Department of Health (the "NY DOH") supervises New York's cannabis regulatory program. The Company is advised by legal counsel regarding compliance with New York's cannabis regulatory framework

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

and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New York's cannabis regulatory program, and maintains, together with counsel an ongoing program of monitoring the law and related regulations.

The Company only engages in transactions with New York cannabis businesses that hold Registrations 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 operate a cannabis business in New York, an entity must submit an application for registration as a RO. ROs are required to manufacture, transport, distribute and dispense cannabis for certified medical use. 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 its investee (Citiva) are in compliance with New York's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with a "direct" involvement in the United States cultivation and distribution industry.

### Requirements of New York Medical Cannabis Laws and Regulations

#### (i) Corporate Structure

If the applicant is a corporate subsidiary or affiliate of another corporation, there must be disclosure of the parent or affiliate corporation including the name and address of the parent or affiliate, the primary activities of the parent or affiliate, the interest in the applicant held by the parent or affiliate and the extent to which the parent will be responsible for the financial and contractual obligations of the subsidiary.

An applicant must provide the NY DOH with its organizational and operational documents, including explanations of parents and affiliates and affidavits regarding all owners, officers, board members, managers, and employees.

An applicant must provide the NY DOH with its financial statements setting forth all elements and details of any business transactions connected with the application, including but not limited to, all agreements and contracts for consultation and/or arranging for the assistance in preparing the application. An applicant must also provide the most recent financial statement of the applicant prepared in accordance with generally accepted accounting principles applied on a consistent basis and certified by an independent certified public accountant.

If another entity maintains a 10.0% interest in the applicant, the applicant must provide a statement with the name and address of the entity together with a description of the goods, leases, or services and the probable or anticipated cost to the registered organization.

#### (ii) Premises Requirements

An applicant must provide the NY DOH the identification of all real property, buildings, and facilities that will be used in manufacturing and dispensing activities and all equipment that will be used to carry out the manufacturing, processing, transportation, distributing, sale, and dispensing activities described in the application and operating plan. An applicant must provide the NY DOH with all applicable executed and proposed deeds, leases, and rental agreements or executed option contracts related to the organization's real property interests, showing that the applicant possesses or has the right to use sufficient land, buildings, other premises, and equipment.

#### (iii) Operations

An applicant must provide an operational plan that includes a detailed description of the RO's manufacturing processes, transporting, distributing, sale and dispensing policies or procedures. An applicant must also provide the NY DOH with a timeline demonstrating the estimated timeframe from growing cannabis to production of a final approved product. An applicant must enter into a labor peace agreement with a bona fide labor organization. An applicant must provide the NY DOH a staffing plan for staff to be involved in activities related to the cultivation of cannabis, the manufacturing and/or dispensing of approved medical cannabis products, and/or staff with oversight responsibilities.

An applicant must provide the NY DOH proof from the local internet service provider(s) that all of the applicant's manufacturing and dispensing facilities are located in an area with internet connectivity.

An applicant must provide the security plan of the applicant's proposed manufacturing and dispensing facilities indicating how the applicant will comply with all legal requirements.

#### (iv) Record Keeping and Inventory Tracking

An applicant must provide the NY DOH with detailed descriptions of plans, procedures and systems adopted and maintained for seed to sale tracking, record keeping, record retention and surveillance systems relating to all medical cannabis at every stage,

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

including cultivating, possessing, and manufacturing, delivery, transporting, distributing, sale and dispensing of cannabis by the proposed registered organization.

### (v) Pricing

ROs must submit the proposed prices of approved medical cannabis products to the NY DOH for approval with documentation to support them. Documentation is to include all costs the RO considered to arrive at its proposed price. In doing so, the RO may submit documentation related to indirect costs for consideration by the New York State Department of Health.

### (vi) Testing

The NY DOH's Wadsworth Laboratories conducts the final product testing. The regulations require that the testing of each lot of final medical cannabis product be conducted with a statistically significant number of samples using acceptable methodologies to ensure that all lots manufactured of each medical cannabis product are adequately assessed for contaminants and the cannabinoid profile is consistent throughout.

### (vii) Labelling

An RO's dispensing must affix a patient-specific dispensing label approved by the NY DOH that is easily readable, firmly affixed and includes patient and care giver names and registry ID numbers, the certifying practitioner's name, the dispensing facility contact information, the dosing and administration instructions, the quantity and date dispensed, and any recommendations or limitations.

### (viii) Renewal

An application to renew any registration must be filed with the c between four months and six months prior to expiration of such registration. The NY DOH has the authority to determine what elements and information shall be in the renewal application.

## Florida

On January 17, 2018, the Company acquired substantially all of the assets of GrowHealthy Holdings, LLC ("GrowHealthy") and certain related subsidiaries. The Company had previously acquired approximately six percent (6%) of GrowHealthy in a preferred share purchase in October 2017. Those shares were redeemed by GrowHealthy as part of the Company's asset purchase in January 2018.

GrowHealthy's subsidiary and strategic partner, McCrory's Sunny Hill Nursery, LLC ("McCrory's"), holds one of twenty-two (22) Medical Marijuana Treatment Center<sup>1</sup> ("MMTC") licenses issued by the Florida Department of Health, under which McCrory's 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 Management, Inc. ("GHHIA"), which holds an exclusive 40-year management contract, to renew automatically every five (5) years thereafter, to provide management services associated with McCrory's business in connection with the MMTC license issued to McCrory's, along with an option to acquire 100% of McCrory's for a nominal consideration, pending approval of the Florida Department of Health. The license held by McCrory's allows for one cultivation and manufacturing facility and up to 35 dispensaries in Florida, which has a current population of approximately 21 million residents.

GrowHealthy continues to expand its cultivation and production capacity through the construction and/or improvement of outdoor shade houses and greenhouses 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 in December 2018 and another in Brandon in the same month, totaling two dispensaries opened in 2018. A third dispensary was opened in March 2019 in Lake Worth, bringing the total number of GrowHealthy dispensaries opened in Florida to three.

To date, GrowHealthy has executed 20 dispensary leases and is expected to open the remaining 17 dispensaries by the end of 2019. 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 cultivation or distribution industry because the Company has a controlling interest in GHHIA. Florida has authorized the cultivation, possession, and distribution of cannabis for medical use by certain licensed cannabis businesses in Florida.

<sup>1</sup> The designation Medical Marijuana Treatment Center, or "MMTC," is used in versions (including the most recent version) of Florida's medical cannabis law enacted after the regulations implementing the law were last updated. For instance, FAC 64-4.002 ("Initial Application Requirements for Dispensing Organizations"), published on June 17, 2015, implements a version of Fla. Stat. 381.986 that described requirements for "dispensing organizations" rather than MMTCs, as the latter term was not used in the then-applicable version of the law.

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

The Florida Department of Health, Office of Medical Marijuana Use ("OMMU"), is authorized to promulgate regulations implementing Florida's medical cannabis program, as governed by state law. 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 medical cannabis licenses and that are in good standing under state law so as to lawfully cultivate, process, and dispense medical cannabis in Florida. To the extent required by Florida's medical cannabis law and the regulations enacted to implement the law, the Company has fully disclosed or is in the process of fully disclosing and/or registering each financial interest the Company holds in such Florida cannabis businesses.

The Company and its investee are in compliance with Florida's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with a "direct" involvement in the United States cultivation and distribution industry.

The applicable statutory requirements and regulations in Florida are outlined below, categorized by subjects given particularly significant attention under the law and/or the regulations.

Note that the Florida law authorizing and governing the cultivation, dispensing, and use of medical cannabis was most recently amended in 2018. However, many of the regulatory rules intended to implement various parts of the statute have not been updated to conform with the changes to the law and thus purport to implement inapplicable subsections of the law and identify rulemaking authority under similarly inapplicable statutory provisions. Such outdated and effectively nullified regulatory rules, which remain part of the Florida Administrative Code ("FAC"), are identified herein as necessary.

### (i) Application Requirements for MMTC Licensure and Ongoing Obligations

Under Florida's medical cannabis law, an applicant for licensure as a MMTC is required to demonstrate:

- a. that, for the five consecutive years before submitting the application, the applicant has been registered to do business in Florida;
- b. possession of a valid certificate of registration issued by the Florida Department of Agriculture and Consumer Services;
- c. the technical and technological ability to cultivate and produce cannabis, including low-THC cannabis;
- d. the ability to secure the premises, resources, and personnel necessary to operate as a MMTC;
- e. the ability to maintain accountability of all raw materials, finished products, and any by products to prevent diversion or unlawful access to or possession of these substances;
- f. an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Florida Department of Health (the "FL DOH");
- g. the financial ability to maintain operations for the duration of the two-year approval cycle, including the provision of certified financial statements to the FL DOH (with the attendant requirement that, upon approval, the applicant (i) post a bond of either \$2,000 or \$5,000, depending on the number of qualified patients treated at the given MMTC; or (ii) provide an irrevocable letter of credit payable to the department or provide cash to the department));
- h. that all owners, officers, board members, and managers have passed a "level 2 background screening";
- i. employment of a medical director to supervise the activities of the MMTC; and
- j. a diversity plan that promotes and ensures the involvement of minority persons and businesses, or veteran businesses, in ownership, management, and employment (applicants for licensure renewal are required to demonstrate effectiveness of the diversity plan by including (i) representation of minority persons and veterans in the MMTC's workforce; (ii) efforts to recruit minority persons and veterans for employment; and (iii) record of contracts for services with minority businesses and veteran businesses).

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.

Note, the regulations implementing the statutory provision(s) concerning application requirements, FAC 64-4.002, while still part of the FAC, predate the current version of Florida's medical cannabis law and thus identify since-amended and/or repealed statutory subsections. Nevertheless, because FAC 64-4.002 remains a part of the FAC (as proposed changes to the Rule have not yet been implemented), the application requirements "Dispensing Organizations" (now known as MMTCs) are summarized below.

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

Under FAC 64-4.002 (which predates the current version of Florida's medical cannabis law), applicants seeking approval as a Dispensing Organization must complete an application form, provide an initial application fee of \$60 and explanations and/or written documentation demonstrating how the applicant has satisfied and/addressed the statutory criteria listed in Florida's medical cannabis law, including, but not limited to, (1) providing detailed explanations regarding the applicant's technical experience, knowledge, and ability relating to native and non-native plants, cultivation and processing of low-THC cannabis, (2) training programs designed to ensure employee compliance with all relevant statutes and regulations, and (3) submitting an organizational chart showing the names and roles of individuals serving as officers, directors, board members, and managers; etc. MMTCs have an ongoing obligation to remain in compliance with both the laws and regulations governing Florida's medical cannabis program as well as the representations made in the MMTC's original application. A MMTC must obtain approval from the FL DOH in the form of a variance before operating in a manner inconsistent with the representations in the application.

### (ii) Inspections

MMTCs are subject to various inspection requirements. Under Florida's medical cannabis law, within one year of licensure, a MMTC must demonstrate to the FL DOH that all of its processing facilities have passed inspection by a nationally-accredited certifying body and must immediately stop processing at any facility which fails to pass this required inspection until the MMTC demonstrates to the FL DOH that such facility has met the inspection requirement.

Further, Florida's medical cannabis law provides that the FL DOH is permitted to conduct "announced or unannounced" inspections of MMTCs to determine compliance with the law or the rules implementing the law. The FL DOH is also required to inspect MMTCs (i) upon receipt of a complaint or notice that cannabis dispensed therefrom contained mold, bacteria, or another contaminant adverse to human health or the environment; and (ii) at least biennially to evaluate the MMTC's records, personnel, equipment, process, security measures, sanitation practices, and quality assurance practices.

Note, the regulations implementing the statutory provision(s) concerning inspections of MMTCs, FAC 64-4.005, while still part of the Florida Administrative Code, predate the current version of Florida's medical cannabis law and thus identify since-amended and/or repealed statutory subsections. Nevertheless, because FAC 64-4.005 remains a part of the FAC (as proposed changes to the Rule have not yet been implemented), the regulations outlining inspection procedures for Dispensing Organizations are summarized below.

Under FAC 64-4.005 (which predates the current version of Florida's medical cannabis law), submission of an application for Dispensing Organization approval or renewal constitutes permission for the FL DOH to, at any reasonable time during the approval or renewal process, inspect any portion of the organizations' facility and to review the records required under Florida's medical cannabis law or the regulations promulgated to implement the law and to identify samples of low-THC cannabis or derivatives for laboratory analysis.

### (iii) Resources and Security Measures

As part of the application for MMTC licensure, an applicant must demonstrate the ability to secure the premises, resources, and personnel necessary to operate as a MMTC, as well as the ability to maintain accountability of all raw materials, finished products, and any byproducts to prevent diversion or unlawful access to or possession of these substances. Further, Florida's medical cannabis law requires that a MMTC maintain a fully operational security alarm system that secures all entry points and perimeter windows and is equipped with motion detectors, pressure switches, and duress, panic, and "hold-up" alarms. In addition, a MMTC must maintain a video surveillance system that records continuously, 24 hours per day, and meets numerous criteria relating to the positioning and location of cameras, the display of time and date on recorded images, and the retention of surveillance video for at least 45 days or longer upon request of a law enforcement agency.

A MMTC must also (a) ensure adequate outdoor lighting from dusk until dawn, (b) not dispense cannabis from its premises or a cannabis delivery service between the hours of 9 p.m. and 7 a.m., (c) store cannabis in a secured, locked room or vault, (d) require two security personnel to be on premises at all times where cultivation, processing, or storing of cannabis occurs, (e) require each employee and/or contractor to wear a photo identification badge whenever on the premises, (f) require each visitor to wear a visitor pass at all times while on the premises, (g) implement an "alcohol and drug-free workplace" policy, and (h) report to local law enforcement within 24 hours after the MMTC is notified or becomes aware of theft, diversion, or loss of cannabis.

### (iv) Transportation Safety

To ensure the safe transport of cannabis and cannabis delivery devices to MMTCs, testing laboratories, and/or qualified patients, a MMTC must maintain a cannabis transportation manifest in any vehicle transporting cannabis, which must be generated from the MMTC's "seed-to-sale" tracking system and include (a) the date and time of departure, (b) the name, location address, and license number of originating MMTC; name and address of the recipient, (c) the quantity and form of any cannabis or cannabis delivery device being transported, (d) arrival date and estimated time of arrival; delivery vehicle make, model, and license plate number, and (e) name and signature of MMTC employees completing the delivery.

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

The MMTC must also ensure that (1) only vehicles in good working order are used to transport cannabis, (2) lock cannabis and cannabis delivery devices in a separate compartment or container within the vehicle; require employees to have possession of their identification card at all times while transporting cannabis or cannabis delivery devices, (3) at least two persons to be in a vehicle transporting cannabis or cannabis delivery devices, (4) at least one person to remain in the vehicle while the cannabis or cannabis delivery device is being delivered and (5) safety and security training is provided to employees transporting or delivering cannabis and/or cannabis delivery devices.

### (iv) Processing Procedures

When processing cannabis, a MMTC must (A) process the cannabis within an enclosed structure and in a room separate from other plants or products, (B) comply with state and federal laws and regulations and FL DOH rules for solid and liquid waste, (C) test the processed cannabis using a medical cannabis testing laboratory prior to dispensing cannabis; (D) use only the pesticides registered with the Florida Department of Agriculture and Consumer Services and subject to the label requirements and/or restrictions; (E) package the cannabis in accordance with the U.S. Poison Prevention Packaging Act of 1970; and (F) package the cannabis in a receptacle containing specified information.

### (v) Labelling and Insert Requirements

When processing cannabis, a MMTC must package the cannabis in a receptacle with a firmly-affixed, legible label stating (a) that the cannabis or low-THC cannabis meets the testing requirements, (b) the name of the MMTC from which the cannabis originates, (c) the batch number and harvest number from which the cannabis originates and the date dispensed, (d) the name of the physician who issued the physician certification, (e) the name of the patient, (f) the product name, if applicable, and dosage form, including concentration of THC and cannabidiol (subject to the requirement that the product name may not contain wording commonly associated with products marketed by or to children), (g) the recommended dose, and (h) a warning that it is illegal to transfer medical cannabis to another and a cannabis universal symbol to be developed by the FL DOH. Further, when dispensing cannabis, a MMTC must include in each package dispensed a patient package insert with certain information on the product dispensed related to its clinical pharmacology, indications and contraindications, use, dosage forms and strengths, administration, warnings and precautions, and adverse reactions.

### (vi) Inventory and Source Tracking

The FL DOH is required to establish, maintain, and control a software tracking system that traces cannabis "from seed to sale" and allows "real-time, 24 hour access" by the FL DOH to data from all MMTCs and cannabis testing laboratories. MMTCs are required to use the tracking system established by the FL DOH or to integrate their own seed-to-sale tracking systems with the tracking system established by the FL DOH. Until the FL DOH establishes the tracking system, MMTCs may use their own.

## Massachusetts

In 2017, the Company acquired an 80.0% controlling interest in Pilgrim Rock Management, LLC ("Pilgrim"), the affiliated management company that provides intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower, a formerly not-for-profit corporation and the holder of the Company's first affiliated, vertically-integrated medical Registered Marijuana Dispensary ("RMD") licenses in Massachusetts. The Company acquired the remaining 20.0% of Pilgrim in April 2018, which gave the Company a 100% ownership of Pilgrim, which in turn was the sole member of the not-for-profit corporation Mayflower. On July 31, 2018, Mayflower was converted under Massachusetts law into a for-profit corporation, which is now 100% owned by the Company.

Upon the completion of construction in December 2017, Mayflower received a final Certificate of Registration from the Massachusetts Department of Public Health (the "MA DPH") and began medical marijuana operations at the Holliston, Massachusetts cannabis cultivation and processing facility in January 2018. The first harvest took place on April 20, 2018 and the first medical marijuana dispensary, located in Boston, opened 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.

The Company anticipates that Mayflower will ultimately operate out of three or four locations for medical marijuana operations – one cultivation and 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 a second Massachusetts RMD license holder as described below. The Holliston facility will be dedicated to cultivation and the manufacturing of cannabis infused products and cannabis concentrates including edibles, vaporizer pen cartridges, tinctures, and topicals. Mayflower holds a second provisional Certificate of Registration and is in process of obtaining approval from the Massachusetts Cannabis Control Commission ("Commission") to move the location of its retail medical marijuana dispensary from Gloucester to Lowell. The Company has secured a binding interest to lease the second retail RMD facility in Lowell.

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

In February, 2019, as part of the MPX acquisition, the Company acquired two Massachusetts entities with management and other services agreements with Cannatech Medicinals, Inc., a not-for-profit RMD license holder with a cultivation and processing facility and a separate retail dispensing facility, both located in Fall River, MA. Both Fall River facilities are provisionally licensed as RMD facilities.

Mayflower is also in the process of obtaining the local approvals and state licenses required to commence adult use marijuana operations in Massachusetts. The Company anticipates that Mayflower and/or Cannatech will ultimately operate out of five locations for its adult use marijuana operations (three retail locations and two cultivation and product manufacturing facilities). Mayflower currently holds provisional licenses from the Commission to cultivate and manufacture adult use marijuana and marijuana products at its existing cultivation and manufacturing facility in Holliston. Within the next several weeks, Mayflower also expects to receive the local approvals necessary to submit applications to the CCC for adult use Retailer licenses at its current locations in Boston and Lowell, and Cannatech may seek an adult use Retailer license at its Fall River location. Finally, Mayflower has secured a binding interest to lease an adult use retail dispensary in Worcester and submitted a Retailer license application, which is on the Commission meeting agenda to receive provisional approval on May 30, 2019. The Company is limited by Massachusetts law to owning or controlling no more than three adult use retail locations.

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

Massachusetts has authorized the cultivation, processing, possession and distribution of cannabis by certain licensed Massachusetts cannabis businesses. The Cannabis Control Commission (the "CCC") regulates Massachusetts' cannabis regulatory program. State law required the transfer of the Medical Use of Marijuana Program from the MA DPH to the CCC by December 31, 2018. The CCC regulates both the medical and the adult use cannabis programs.

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 in good standing to cultivate, possess and/or distribute cannabis in Massachusetts in compliance with Massachusetts' cannabis regulatory programs. 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 (i.e., Mayflower). The Company and its investee (Mayflower) are in compliance with Massachusetts' cannabis regulatory programs. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry.

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

### (i) Registration and Certification

The CCC grants vertically-integrated, medical cannabis cultivation, processing and dispensary licenses. In order to obtain a license to cultivate, process and/or dispense cannabis, each applicant must file an application detailing the applicant's business structure, management profile, operations profile, capitalization, architectural plans and the proposed location of business operations. No entity may control more than three licenses in any particular class (i.e., cultivator, retailer, manufacturer, craft cooperative, research facility, transporter or microbusiness). License applicants are required to conduct a "community outreach meeting" where the license applicant presents information concerning the license holder's operations to the community.

### (ii) Inspections

The CCC may inspect a license holder and affiliated vehicles at any time without prior notice to determine the license holder's compliance with state law and regulatory requirements. All areas of an RMD, all dispensary agents and activities, and all records are subject to such inspection. During an inspection, the CCC may direct a license holder or applicant to test for regulated contaminants.

### (iii) Security Requirements

A license holder must implement sufficient security measures to deter and prevent unauthorized entrance into areas containing cannabis, and theft, loss or diversion of cannabis. A license holder is required to obtain positive identification from any individual seeking access to areas containing cannabis, and to use and maintain security alarms, locks, surveillance equipment, safes, a lit outside perimeter, and additional safeguards as required by the CCC if the CCC determines that additional safeguards are necessary. A license holder's written operating procedures must contain a policy requiring the immediate dismissal of any employee that diverts cannabis or engages in unsafe practices. License holders are subject to an annual security audit.

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

### (iv) Operations

A license holder must maintain a set of detailed written operating procedures regarding security measures, prevention of diversion, employee security policies, hours of operations, pricing, inventory storage and procedures, record keeping, quality control, personnel policies, dispensing, record keeping, emergencies, employee termination, a list of board members and executives, financial records and cash handling. Each license holder must maintain minimum liability insurance coverage. A license holder's employees are required to complete training prior to performing job functions. Furthermore, a license holder is required to abide by packaging and labelling requirements and edible cannabis products cannot bear a reasonable resemblance to any product available for consumption as a commercially available candy. License holders are required to provide educational materials about cannabis to customers. Where operations include both medical and adult use operations, license holders must provide a plan for separating medical use operations from adult use operations.

### (v) Record Keeping and Inventory Tracking

Massachusetts requires license holders to maintain written records for a period of at least two (2) years regarding operating procedures, inventory, seed-to-sale tracking, personnel, financials and waste disposal. Each license holder is required to track cannabis inventory from seed-to-sale, including by tagging all cannabis inventory. A license holder is required to conduct a monthly inventory of cannabis inventory.

## Vermont

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

On January 22, 2018, Vermont 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 and older to possess up to an ounce of cannabis and possess up to two plants. There is not currently a regulatory system in place to permit the commercial sale of recreational cannabis.

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

Vermont has authorized the cultivation, possession and distribution of cannabis by certain licensed Vermont cannabis businesses. The Vermont Department of Public Safety ("DPS") regulates Vermont's cannabis regulatory program. 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 (i.e., GRVT). In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry.

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

### (i) Registration and Certification

The Department of Public Safety ("DPS") grants cannabis dispensary licenses. To obtain a license to dispense cannabis, each applicant must file an application with the required fee. Currently, the DPS is not accepting cannabis dispensary applications.

A completed DPS-approved dispensary application shall include:

- (a) The formal non-profit entity name, name of principal officer applicant, mailing address, and phone number;
- (b) Articles of incorporation and bylaw;

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

- (c) The proposed location(s), physical address and documentation from the landlord or property owner providing consent to operate a dispensary at the identified location. (If the proposed location(s) has yet to be determined, the applicant shall identify the municipality in which the proposed dispensary will be located);
- (d) Verification from the municipality that the proposed physical address is not located within 1,000 feet of a pre-existing public or private school boundary or licensed/regulated childcare facility, and that local codes and ordinances do not prohibit dispensaries. (In the event that the municipality is unable to provide verification that the proposed physical address is not located within 1,000 feet from an existing public or private school boundary or licensed/regulated childcare facility, a sworn affidavit of the applicants or other qualified individual may be substituted, provided that the affidavit sets out that reasonable efforts were made);
- (e) The name, address, dates of birth, and valid Vermont driver's license or non-driver identification number of each principal officer and board member of the dispensary;
- (f) Proof of fingerprinting from a designated Identification Center for each principal officer and board member;
- (g) A list of all individuals or entities proposed that will have direct or indirect entitlements to the land or building(s), and/or providing capital to the non-profit entity;
- (h) An acknowledgement that the dispensary will pay for the costs associated with all persons that apply as a principal officer, board member, or employee of a dispensary for a registry identification card;
- (i) Information addressing selection criteria and measures contained in Section 5.4;
- (j) A signature, certifying that the information submitted is true and accurate; and
- (k) A completed statement of compliance with taxes and unemployment compensation contributions.

An application shall also address each of the following criteria and measures:

- (a) Business plan and facility information;
- (b) Overall health needs of registered patients; and
- (c) Safe and secure communities.

No person shall commence operations as a registered dispensary without a DPS-issued limited operating registration certificate and appropriate registry identification cards. A dispensary shall not possess cannabis until an operational security alarm system, video surveillance, and panic buttons have been installed and the DPS has performed a site assessment, nor shall it dispense cannabis before issuance of an active operating registration certificate. Limited operating registration certificates issued by the DPS to a dispensary are non-transferable.

After a dispensary has been issued a limited operating registration certificate, the dispensary must obtain an active operating registration certificate and begin dispensing cannabis within six months. A waiver allowing an additional three months may be granted by the DPS upon receipt of a written justification for the delay. A dispensary that does not commence dispensing within the required timeframe shall forfeit any and all fees that have been submitted. If a dispensary fails to commence dispensing within the required timeframe, the DPS may reopen the application process for a replacement dispensary.

Once a dispensary has installed all required security measures, submitted the required fee, obtained registry identification cards for each principal officer and board member, and is prepared to begin dispensing cannabis, the DPS shall perform a site assessment. If the dispensary passes the site assessment, an active operating registration certificate will be issued within 10 business days. If any violations are discovered during the course of the site assessment, another site assessment shall occur to verify corrective actions have been implemented. A determination may be made to revoke the limited operating registration certificate and reopen the application process depending on the severity of the infraction. An active operating registration certificate issued by the DPS shall expire no more than one year after issuance, and is non-transferable.

The DPS shall renew a dispensary's registration certificate for operation within 10 business days after submission of a completed DPS-approved form with all required documentation and the required fee. When a registered dispensary is requesting to renew a registration certificate for operation, all information submitted by the dispensary shall be updated, if the updated information has not previously been submitted. Past enforcement action(s) and failure to provide all updated information are grounds for denial by the DPS.

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

### (ii) Inspections

A license holder is subject to on-site assessments by the DPS at any time, without notice. The DPS may perform an on-site assessment without limitation for the purpose of determining compliance with 18 V.S.A. Chapter 86 and the Vermont Marijuana Registry's Rules ("the Rules"). Issuance of a dispensary registration certificate constitutes permission for entry and assessment of the dispensary. Failure to cooperate with required assessments may be grounds to revoke a dispensary registration certificate. During an assessment, the DPS may identify violations of the Rules. If a violation is identified, the dispensary shall receive written notice issued by the DPS of the nature of the violations. The dispensary shall notify the DPS in writing with a postmark date within 20 business days of the date of the notice identifying the corrective actions taken and the date of the correction. The DPS may require laboratory testing of cannabis produced by a registered dispensary and may specify the testing methodology. The registered dispensary shall bear the costs of any testing required by the DPS. The DPS may assess delivery vehicles for compliance with the Rules and may assess all records maintained by a registered dispensary as required by the Rules. These records shall include the dispensary's confidential records, including its dispensing records.

### (iii) Security Requirements

When transporting cannabis products, a license holder must:

- (a) Transport cannabis and cannabis-infused products in a secure locked container;
- (b) Only permit registered dispensary cardholders in the vehicle;
- (c) Ensure that dispensary personnel other than the personnel performing delivery services have knowledge of the delivery schedule;
- (d) Depart with only the amount of cannabis scheduled for delivery;
- (e) Schedule deliveries to occur only during established operating hours;
- (f) Package and label all products in accordance with the Rules prior to leaving the registered location;
- (g) Transfer cannabis products physically to a cardholder;
- (h) Ensure delivery vehicles are discreet and do not display advertising, cannabis related insignia, or distinguishing features indicative of dispensary operations;
- (i) Ensure that all registered dispensary cardholders performing deliveries have a mode of communication for contacting emergency services personnel;
- (j) Develop and implement policies and procedures to ensure employee safety and to provide security sufficient to prevent loss of inventory, theft, and diversion for the dispensing, delivery, and storage of cannabis; and
- (k) Require all registered dispensary cardholders physically possess their registry identification cards when performing delivery services.

All cardholders shall have their registry identification cards on-site at all times while at a registered dispensary. A record shall be maintained of all individuals entering and exiting the dispensary. The record shall contain first and last legal name of all individuals, time, date, and registry identification number. In exceptional situations, the record shall also contain entity affiliation and purpose of entry and may omit a registry identification number. A registered dispensary shall limit access to cardholders, except for the following exceptional situations, listed below:

- (a) A contractor or vendor, or the owner of the property on which a dispensary is located, who is performing services related to the operation of a dispensary and who needs access to the registered dispensary may be allowed access for a limited time under the direct accompaniment of a registered dispensary cardholder.
- (b) A government employee who, in the performance of his or her job duties require access to the registered dispensary shall be allowed access for a limited time under the direct accompaniment of a registered dispensary cardholder.
- (c) Emergency services personnel, such as firefighters, police officers or other officials, who in the performance of his or her life safety duties require access to the registered dispensary in an emergency life safety or protection situation may enter a registered dispensary without escort in order to perform his or her job.

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

Only registered dispensary cardholders acting in his or her official capacity may access a registered dispensary cultivation or processing location, except in one (or more) of the circumstances set out immediately above. All cultivation of cannabis shall take place in a secure indoor facility. A record shall be maintained of all individuals entering and exiting the cultivation and/or processing location. The record shall contain first and last legal name, time, date, purpose for entry, entity affiliation, and registry identification number. All registered dispensaries conducting dispensing appointments in the same facility as cultivation and/or processing shall secure the cultivation and/or processing area(s) from the dispensing area of the facility with a lock or other security device in addition to all other security measures required by the Rules.

Registered dispensaries shall implement appropriate security measures to deter and prevent unauthorized entrance into areas containing cannabis and the theft of cannabis. The DPS may require modifications or supplemental information related to the dispensaries' security measures. Security safeguards shall include at a minimum:

- (a) Exterior lighting sufficient to deter nuisance activity and facilitate surveillance, while not disturbing neighbors;
- (b) Preventing trees, bushes and other foliage outside of a registered dispensary location to grow to such an extent that would affect the functionality of security measures;
- (c) Installation and use of devices or a series of devices, including, but not limited to, a signal system interconnected with a radio frequency method such as cellular, private radio signals, or other mechanical or electronic device to detect an unauthorized intrusion;
- (d) An operational security alarm system at each registered location, with an immediate automatic electronic notification system, connected to an outside security provider that professionally monitors for unauthorized entry and robbery events.

The operational alarm system shall at a minimum shall contain the following components:

- (a) access control;
- (b) alerting equipment;
- (c) control panel;
- (d) fire sensors;
- (e) panic buttons; and
- (f) perimeter sensors to deter and prevent against unauthorized entry and theft of cannabis.

The alarm system shall allow "opening" and "closing" notifications to be transmitted to the outside security provider. This feature will alert the security provider every time the alarm system is turned "on" or "off". The alarm system and all of its components shall be tested professionally at least once a year and shall transmit an automatic daily scheduled test to the outside security provider to ensure that the alarm system and telephone lines are operational. Cellular reporting backup and line seizure functionality shall be integrated into the alarm system. Repairs performed on the alarm system shall be made in a reasonable amount of time to ensure that the alarm system is operating properly. The alarm system shall be tested after any major electrical storms or significant power outages. Testing shall be documented and include at a minimum, testing date, summary of activity performed, any items that required corrective action, and name of the person performing the testing.

Any items requiring corrective actions must be performed in a reasonable amount of time and documented. Documentation of corrective actions shall include at least the following: the reason for repair, date of repair, name of the person performing the repair, and summary of repair activity. Automatic daily testing is not required to be documented but any corrective action required as a result of the daily testing shall be documented as described above. There shall be documentation describing the automatic daily testing process. In the event the security system is non-operational due to loss of power, mechanical malfunction, or other circumstance, for more than a four-hour period, the registered dispensary shall notify the DPS in writing within 24 hours from the time of the event. Alternate security measures, approved by the DPS, may be required until the security system is restored and fully operational. Documentation shall be maintained any time the security system is non-operational, including cause, date, corrective action taken, contactor performing corrective actions (if applicable), any alternative security measures implemented, and cardholder name and identification number documenting the event.

If a violation occurs during an event, the DPS shall be notified in accordance with the Rules. Video surveillance shall monitor customer service areas, cultivation areas, entry and egress areas, and any other areas at the registered location containing cannabis, including processing and packing areas. Video footage shall be recorded and stored digitally for 30 days.

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

The DPS shall be provided remote access to the video surveillance at each registered dispensary location to assist with investigations related to any reported incidents, suspected illegal activity, or other violations of these rules, through a secure connection provided by the registered dispensaries. The DPS's access to the video surveillance will be limited to the investigative reasons stated above for a limited period of time. The DPS will not constantly monitor live video surveillance. The intended purpose is limited solely to investigate reported or suspected activity prohibited by these rules.

The DPS will maintain a log documenting the date and cause when accessing video surveillance. The registered dispensaries may record when the DPS accesses the surveillance video and request a copy of the DPS's documentation for the justification of access on a specific date. The DPS's documentation will not be available during the course of an active investigation.

### (iv) Operations

A registered dispensary shall package all cannabis dispensed in an envelope or other container used and intended for sale. A label shall be affixed on the packaging of all cannabis that is dispensed. The label shall identify the particular strain of cannabis and the weight of cannabis contained within the package in gram or ounce units. Cannabis strains shall reflect the properties of the plant. Additionally, the label shall contain a statement to the effect that the State of Vermont does not attest to the medicinal value of cannabis, a statement that this product is not for resale, and clearly identify "marijuana" is contained within the packaging. The dispensary shall verify the amount of all cannabis dispensed. Documentation shall be maintained containing at a minimum the name and registry identification number of the registered dispensary cardholders verifying the amount of cannabis and any errors identified.

Usable cannabis added when producing cannabis-infused products shall be measured by weight in gram or ounce units. The weight of usable cannabis included when preparing infused products shall be calculated in each batch or container of cannabis-infused products. A dispensary shall establish a methodology for determining the weight of cannabis attributable to each cannabis-infused product intended to be dispensed, including any recorded testing results. This methodology shall be submitted to the DPS for review prior to dispensing the cannabis-infused product. The DPS may require adjustments to this methodology. All products shall be labeled with ingredients added during preparation and any relevant food safety handling and/or storage instructions in addition to packaging and labeling requirements contained in the Rules. The weight of usable cannabis contained in cannabis-infused products shall count toward the amount of cannabis dispensed under the Rules. The weight of usable cannabis contained in cannabis-infused products shall also count towards the possession limit of a registered dispensary.

The transfer, transport, sale, and dispensing of cannabis between registered dispensary locations shall be accompanied by a trip ticket as permitted under these rules. Cannabis transported from a registered dispensary location shall be in a locked container. A trip ticket when cannabis is transported by a registered dispensary to another registered dispensary shall contain:

- (a) the originating and receiving registered dispensary name and physical address;
- (b) the weight and form of cannabis;
- (c) cardholder registry identification numbers; and
- (d) relinquishing time and date.

A license holder must maintain written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, employee matters, and cash handling procedures. A license holder may only dispense a limited amount of cannabis inventory to a customer during a 30-day period and may only dispense cannabis in containers that are properly labelled.

A registered dispensary shall develop, implement, and maintain a confidential personnel file on each principal officer, board member and employee. All personnel files shall be kept on-site at a registered dispensary location and shall be available for inspection by the DPS upon request. Personnel records shall include the following information:

- (a) Copy of current registry identification card and valid driver's license or non-driver identification card;
- (b) Employment application and required documentation;
- (c) Job description or employment contract as required under the Rules;
- (d) Documentation of training as required under the Rules;
- (e) Past performance evaluations;
- (f) Documentation of disciplinary actions; and

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

- (g) Documentation of results of drug tests.

A registered dispensary shall have and adhere to a written alcohol and drug-free workplace policy. The policy must be available to the DPS upon request. The policy must include the following definitions; alcohol, controlled substance, illegal drug, legal drug, under the influence, and workplace. The policy must also:

- (a) explain its applicability;
- (b) describe procedures for disciplinary actions;
- (c) specify exceptions for legal drugs and for illegal drugs as permitted by these rules;
- (d) outline employer and employee responsibilities; and
- (e) include referral information.

Registered dispensaries cultivating hemp are not required to comply with 6 V.S.A. Chapter 34. A registered dispensary electing to cultivate hemp shall submit a proposal for doing so to the DPS. The DPS shall issue a written decision within 10 business days from receipt and may request supplemental information. The DPS may also require a site visit of the proposed location. A registered dispensary shall not commence operations under this section until receipt of written approval.

Registered dispensaries shall develop and implement appropriate security measures to deter and prevent unauthorized entrance to the cultivation area containing hemp. Security measures shall include, at a minimum:

- (a) Exterior lighting sufficient to deter nuisance activity and facilitate surveillance, while not disturbing neighbors;
- (b) Prevention of trees, bushes and other foliage outside a hemp cultivation location to grow to such an extent that would impact the functionality of security measures;
- (c) Device or a series of devices, including at least, a signal system interconnected with a radio frequency method such as cellular, private radio signals, or other mechanical or electronic device to detect an unauthorized intrusion; and
- (d) Fencing or other type of barrier to prevent unauthorized entrance and to reasonably prevent visibility to the public.

The transfer, transport, sale, and dispensing of hemp between registered dispensary shall be accompanied by a trip ticket as permitted under these rules. Hemp transported from a registered dispensary shall be in a locked container. A trip ticket when hemp is transported or transferred by a registered dispensary to another registered dispensary shall contain:

- (a) the weight and form of hemp;
- (b) originating and receiving registered dispensary name and physical address;
- (c) cardholders' registry identification numbers; and
- (d) relinquishing time and date.

A registered dispensary shall package all hemp dispensed in an envelope or other container used and intended for sale. A label shall be affixed on the packaging of all hemp that is dispensed. The label shall identify the particular strain of hemp and the amount of hemp contained within the package. Hemp strains shall reflect the properties of the plant. Additionally, the label shall contain a statement to the effect that the State of Vermont does not attest to the medicinal value of cannabis, and a statement that this product is not for resale. Hemp added when producing hemp-infused products shall be measured by weight. The weight of hemp included when preparing infused products shall be calculated in each batch or container of hemp-infused products. All products shall be labeled with ingredients added during preparation and any relevant food safety handling and/or storage instructions in addition to packaging and labeling requirements contained the Rules.

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

A registered dispensary is prohibited from engaging in the following conduct:

- (a) Possessing at any one time more than their authorized possession limit in the absence of a possession limit waiver;
- (b) Acquiring cannabis except through the cultivation of cannabis by that registered dispensary at its registered location (except that a registered dispensary may donate cannabis, cannabis-infused products, and cannabis related supplies to another registered dispensary in Vermont provided that no consideration is paid, and that the recipient does not exceed the possession limits - records shall be kept in accordance with the Rules);
- (c) Contracting for the acquisition, possession, cultivation, manufacture, transfer, transport, delivery, or dispensing of seeds, clones, or plants or cannabis or cannabis-infused products (unless explicitly authorized by the Rules).

The DPS shall be notified immediately when a violation of these rules or an emergency situation occurs. A registered dispensary shall notify the DPS in writing the next business day after a violation of the Rules is known or suspected. A registered dispensary shall provide any and all information pertaining to the violation to the DPS and shall complete and submit a DPS-approved incident report form to the DPS within 10 business days of the initial notification. The report must indicate the nature of the breach and the corrective actions taken by the registered dispensary. A registered dispensary must contact their local law enforcement agency when a violation of these rules results in a criminal law violation. Any suspected illegal activity involving operations of a registered dispensary must be reported to law enforcement and the DPS by the registered dispensary, except for violations of federal law for the manufacturing, distribution or possession of cannabis.

### (v) Record Keeping and Inventory Tracking

Operating documents of a registered dispensary shall include procedures for the oversight of the registered dispensary, personnel records, and procedures to ensure accurate and confidential recordkeeping as required by these rules. Records maintained by a registered dispensary shall include but are not limited to:

- (a) The registered dispensary must have up-to-date written policies and practices on-site and available to the DPS upon request. Each registered dispensary shall develop, implement, and maintain policies and procedures addressing confidentiality training, performance evaluations, proper use of security measures and controls, emergency training, and disciplinary actions.
  - a. Emergency training shall include specific procedural instructions on how to respond to an emergency, including robbery or violent incident.
  - b. Confidentiality training shall include specific instruction regarding how to protect the confidentiality of cardholders, and instruction regarding confidential health care information as defined by Vermont law and the Federal Health Insurance Portability and Accountability Act of 1996, as amended.
- (b) A registered dispensary shall develop, implement, and maintain on-site an up-to-date policy regarding job descriptions and employment contracts for all employees. This policy shall include information regarding an employee's duties, authority, responsibilities, qualifications, and supervision.
- (c) Registered dispensaries shall maintain manual or electronic financial records documenting, at a minimum: assets, liabilities, monetary transactions, sales, various journals, ledgers, supporting documents, agreements, checks, invoices, and vouchers.
  - a. These records are subject to assessment and shall be made available to the DPS electronically upon request.
  - b. Dispensary records shall include sales records containing the unique identification number of the person to whom cannabis has been distributed, the quantity of cannabis distributed, the date of distribution, and the form of cannabis distributed. The sales record must also indicate the purchase price of the product.
  - c. A registered dispensary shall submit the results of a financial audit to the DPS no later than 60 days after the end of the dispensary's first fiscal year, and every other year thereafter. The audit shall be conducted by an independent certified public accountant, and the costs shall be borne by the registered dispensary. The DPS may also periodically require, within its discretion, the audit of a registered dispensary's records by the DPS.

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

- (d) A registered dispensary shall establish written policies and procedures addressing inventory controls including the requirements contained in the Rules. The registered dispensary shall submit these written policies and procedures, including any updates, to the Vermont Marijuana Registry ("VMR") prior to implementation. Furthermore, records shall be maintained for the following information, at a minimum:
- a. Cannabis clones and seeds acquired. The record shall contain the date, quantity, strain, and participating cardholders' acknowledgement attesting to the transfer, including their registry identification numbers.
  - b. Hemp clones and seeds acquired. The record shall contain the date, quantity, strain, supplier name, entity affiliation, if any, and dispensary cardholder taking possession.
  - c. Immature and mature cannabis plants transferred between registered dispensaries. The record shall contain the plant's growth stage, date, quantity, strain, and participating cardholders' registry identification numbers and acknowledgement attesting to the transfer.
  - d. Culled cannabis plants. The record shall contain the plant's growth stage, date, strain, quantity, method of disposal, and acknowledgement attesting to the information by the cardholder culling and a second cardholder verifying the information, including the cardholders' registry identification numbers.
  - e. Cannabis plants harvested. The record shall contain the date, weight of the harvested portion of the plant, strain, any testing data, and acknowledgement attesting to the information by the cardholder harvesting and an acknowledgement by a second cardholder verifying the information, including the cardholders' registry identification numbers.
  - f. Cannabis plant material when the drying process has concluded. The record shall contain the duration of the drying process, the date, weight of remaining cannabis, strain, any testing data, and acknowledgement attesting to the information by the cardholder processing the cannabis and an acknowledgement by a second cardholder verifying this information, and duration, including the cardholders' registry identification numbers.
  - g. Cannabis plant material when the curing process is completed. The record shall contain the duration of the curing process, the date, weight of the flowers and leaves, strain, any testing data, signatures and registry identification numbers for the cardholder who processes the plant material and a second cardholder verifying the above information.
  - h. Packaged cannabis plant material. The record shall contain the date, weight of the flowers and leaves in grams or ounce units, the strain, any testing data, including signatures and registry identification numbers for the cardholder packaging and second cardholder verifying this information.
  - i. Cannabis plant material used in cannabis-infused products. In addition to requirements contained in the Rules, the record shall contain the date, strain, any testing data, signatures, and registry identification numbers for the cardholder harvesting, and second cardholder verifying this information.
  - j. Cannabis or cannabis-infused products entered into inventory for distribution. The record shall contain weight of cannabis in gram or ounce units, quantity, strain, form, date, and signatures of the cardholder entering inventory and second cardholder verifying the information, including the cardholders' registry identification numbers.
  - k. Disposal of cannabis. The record shall contain the quantity, weight, strain, form, date, signatures and registry identification numbers for the cardholder disposing of cannabis and second cardholder or law enforcement officer verifying disposal of cannabis. When a law enforcement officer accepts possession of the cannabis for disposal, a registry identification number may be omitted.
- (e) A registered dispensary shall possess and implement plans, policies and procedures for security to deter and prevent unauthorized access and theft for the dispensary location(s).
- (f) A registered dispensary shall retain documentation of all incident reports, alarm activations, and alarm system maintenance in accordance with the Rules.

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

### Colorado

On December 5, 2016, the Company, through its wholly-owned subsidiary, Scarlet Globemallow, LLC ("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, Colorado and a medical and adult-use dispensary located in Breckenridge, Colorado. The assets acquired include all real estate holdings of Organix's affiliate, DB Land Holdings, Inc. ("DB"), consisting of a 12,000 square foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands (the "Organix Assets"). Upon finalization of the purchase price allocation, the purchase price of the Organix Assets was determined to be \$4,520. The real estate assets are owned by Bergamot Properties, LLC, which is a wholly-owned subsidiary of Scarlet.

In a related transaction, Bellflower, LLC agreed to acquire all cannabis inventory and licenses to cultivate, manufacture and sell cannabis-based products from Organix for \$300 (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, provided 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 and potentially to other licensed cannabis operators in Colorado. Bergamot Properties 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.

On May 29, 2019, Colorado Governor Jared Polis signed House Bill 19-1090 into law ending Colorado's prohibition on publicly traded cannabis companies and allowing publicly traded companies and out-of-state private funds with more than 15 owners to invest in Colorado cannabis businesses. The Bill also introduces certain applicant disclosure requirements to account for the anticipated out-of-state investments soon to enter Colorado's cannabis market. The law applies to applications for licenses made after November 1, 2019 and still requires Colorado's licensing authority to promulgate regulations for recordkeeping, findings of suitability, and transfers of ownership, among other regulations, which is unlikely to occur for some months

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.

#### (i) General

There are two regulatory schemes in Colorado for the legal use of cannabis products: one for medical cannabis and the other for retail cannabis. Both are administered by the Marijuana Enforcement Division of Colorado's Department of Revenue ("MED").

Only a holder of a medical cannabis license or a retail cannabis license may sell cannabis and cannabis products to customers. The holder of a license may purchase cannabis only from other licensed cultivation facilities, licensed stores, or licensed product-manufacturing facilities.

#### (ii) Licensure

The use of medical cannabis became legal in Colorado in 2010 and retail cannabis became legal in 2012. The medical use of cannabis is primarily governed by Title 44, Article 11 of the Colorado Revised Statutes and the Code of Colorado Regulations at 1 CCR 212-1. Retail use is primarily governed by Article 12 of Title 44 of the Colorado Revised Statutes and the Code of Colorado Regulations at 1 CCR 212-2. Among other restrictions and obligations, Articles 11 and 12 of Title 44 of the Colorado Revised Statutes, in conjunction with the Code of Colorado Regulations, establishes the law regarding (i) the location of a licensed cannabis establishment, (ii) minimum security requirements, (iii) the implementation of an electronic verification and inventory control system, and (iv) operating procedures for handling edible or cannabis-infused products.

A medical cannabis establishment may not operate until it has been licensed by both the applicable local licensing authority and the state licensing authority. If the state licensing authority has issued a license before the local licensing authority approves or grants a local license, the state license will be conditioned upon local approval. If the local licensing agency denies the application, the state license will be revoked. A medical cannabis license is valid for one (1) year, except that a medical cannabis transporter license and an occupational license are valid for two (2) years. In order to renew a license, the licensee must submit a renewal application and pay the applicable renewal fee set forth in the Code of Colorado Regulations (the fees vary based on the type of facility and number of patients to which medical cannabis is dispensed; fees range from \$2 to \$7 per renewal).

There are eight classes of licenses for medical cannabis distributors in Colorado:

- 1) Medical Marijuana Center License, which permits a licensee to sell medical cannabis and to purchase cannabis from certain cultivation and manufacturing facilities licensed to distribute medical cannabis;

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

- 2) Optional Premises Cultivation License, which permits the owner of a medical cannabis center or product manufacturing facility to grow and cultivate medical cannabis to supply those associated cannabis centers or manufacturing facilities;
- 3) Optional Premises Cultivation Facility License, which permits the licensee to cultivate medical cannabis to sell and distribute the cannabis to licensed centers, product manufacturers, or other optional premises cultivation facilities;
- 4) Medical Marijuana-Infused Products Manufacturing License, which permits the licensee to manufacture medical cannabis-infused products and distribute those products to licensed medical cannabis centers;
- 5) Medical Marijuana Testing Facility License, which permits the licensee to perform testing and research on medical cannabis for licensees;
- 6) Medical Marijuana Transporter License, which permits the licensee to provide logistics, distribution, and storage of medical cannabis and medical cannabis infused products;
- 7) Medical Marijuana Business Operator License, which permits the licensee to operate a medical cannabis establishment on a licensee-owner's behalf; and
- 8) Marijuana Research and Development License, which permits a person to possess cannabis for limited research purposes, including to grow, cultivate, and transfer cannabis as appropriate.

As with a medical cannabis establishment, a retail cannabis establishment must be licensed both by the state and locally before operating. Additionally, if the MED grants a license before the applicable local jurisdiction approves or grants a local license, the state license is conditioned upon local approval. If the local jurisdiction denies the application, the state license is revoked. Licenses for retail cannabis must be renewed every year, with the exception of retail cannabis transporter license and an occupational license, which can be renewed every two years.

There are seven classes of retail cannabis licenses, which are essentially the retail counterparts of the medical cannabis licenses listed above:

- (1) Retail Marijuana Store License;
- (2) Retail Marijuana Cultivation Facility License;
- (3) Retail Marijuana Products Manufacturing License;
- (4) Retail Marijuana Testing Facility License;
- (5) Occupational License;
- (6) Retail Marijuana Transporter License;
- (7) Retail Marijuana Business Operator License.

### (iii) Labelling and Packaging

Colorado law imposes certain labeling and packaging requirements for cannabis and cannabis infused products held and sold by medical and retail cannabis dispensaries, cultivation operations, and products manufacturers. Generally, packaging must be in accordance with the rules and procedures for inventory tracking and cannot include images or pictures that specifically target persons under the age of 21 (such as the word "candy" or cartoon images).

In addition, there are comprehensive packaging and labeling requirements based on the type of product and licensee. For example, the packaging and labeling of medical cannabis must include certain licensee information, net weight, harvest batch numbers, potency statements, contaminant testing statement, a list of all pesticides used during cultivation, among other information. If a medical cannabis-infused product is made for a specific patient, the label must include the patient's registry number.

In addition, while different materials may be used for packaging different types of products, the products must be packaged in a child-resistant container.

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

### (iv) Security and Storage Requirements

The Colorado Code of Regulations includes comprehensive security and storage requirements meant to ensure adequate control of the licensed premises and the cannabis products stored within them. The regulations require the cannabis establishments to create "limited access areas" and restrict the number of visitors to those areas. The regulations require security alarm systems that meet certain minimum specifications, including continuous monitoring for all entry points and perimeter windows. Any outdoor cultivation will require measures to ensure the outdoor areas are not readily accessible by unauthorized individuals.

The regulations additionally require video surveillance capable of archiving, and equipped with failure notification systems. Camera coverage is required for all limited access areas, point of sale areas, security rooms, and all points of ingress and egress. Additionally, camera systems must allow for the clear identification of activity occurring within 20 feet and enable the recording of facial features sufficient to determine identity. The same surveillance requirements are in place for outdoor cultivation areas.

Finally, the cannabis establishments must ensure all points of ingress and egress, including for outdoor areas, are equipped with commercial-grade non-residential door locks.

### (iv) Inspections

The MED may require a licensee, upon demand, to permit inspection of any licensed premises during business hours or at any time of apparent operation, and to permit testing or examination of any cannabis or cannabis product. Additionally, relevant local jurisdictions and their investigators may inspect cannabis establishments during business hours and other times of apparent operation.

Under the applicable Colorado statutes, each licensee is required to keep a complete set of all records necessary to show fully the business transactions of the license, among other records. These records are open at all times during business hours for inspection by the state licensing authority. Likewise, the licensed premises - including any places of storage where medical cannabis (or product) is stored, cultivated, sold, or dispensed, are to be open and subject to inspection at all times during business hours and other times of apparent activity. Locked areas are to be made available for inspection during such times without delay and upon the request of the state or local licensing authority.

### (v) Recordkeeping

A cannabis establishment must maintain all business records necessary to account for all business transactions conducted under its license(s) for the current year and three preceding calendar years. The books and records for the preceding six months must be maintained on the licensed premises at all times.

The books and records must include, among other records, the following:

- (1) A list of all employees, their occupational license number, and non-employee owners who work at the establishment;
- (2) Business contact information for vendors who maintain video surveillance systems and security alarm systems;
- (3) All records relating to advertising and marketing, including audience composition data;
- (4) A diagram of all limited access areas and any permitted off-premises storage facilities;
- (5) A list of all visitors entering the limited access areas or restricted access areas;
- (6) All records normally retained for tax purposes.

In addition, the cannabis establishment must retain records relating to inventory tracking and records relating to the transportation of any cannabis or cannabis products. These records must be provided on an on-demand basis to the MED during normal business hours or hours of apparent operation.

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

### *New Mexico*

RGA was formed on April 2, 2014 for the primary purpose of serving as: (i) a branding, marketing and consulting company to license and/or sublicense certain technology and product names to medical cannabis license holders in New Mexico; (ii) a holding company for acquiring, leasing, and/or managing real estate, fixtures and equipment; and (iii) an entity that enters into financial transactions to support operating medical cannabis license holders. RGA currently manages two cultivation operations in Albuquerque, New Mexico totaling approximately 38,000 square feet and six dispensary locations (five in Albuquerque and one in Grants, New Mexico). 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 the State of 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 cultivation or distribution industry.

New Mexico has authorized the cultivation, possession and distribution of cannabis by certain licensed New Mexico cannabis businesses. The New Mexico Department of Health regulates New Mexico's cannabis regulatory program. The Company is advised by legal counsel regarding compliance with New Mexico's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New Mexico's cannabis regulatory program. The Company only engages in transactions with New Mexico cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in New Mexico in compliance with New Mexico's cannabis regulatory program. To the extent required by New Mexico's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New Mexico cannabis businesses. The Company and its investee, RGA, are in compliance with New Mexico's cannabis regulatory program.

### *Maryland*

The Company, through S8 Management, LLC ("S8"), a wholly owned subsidiary of the Company, operates three medical cannabis dispensaries in Maryland (LMS Wellness Benefit LLC, Budding Rose, Inc. and GreenMart of Maryland, LLC) and one medical cannabis processor (Rosebud Organics, Inc.) (collectively, the "Maryland Facilities"), pursuant to management agreements with the entities that hold licenses issued by the Natalie M. LaPrade Maryland Medical Cannabis Commission ("MMCC"). The management agreements were executed in March of 2018, but deemed effective in January of 2018, and have an initial term of twenty (20) years with up to two (2) renewal terms of twenty (20) years each. Generally, each management agreement requires S8 to take any actions required to ensure the effective, efficient and successful administration, operation and management of the applicable Maryland Facilities, comply with all applicable laws, and maintain separate bookkeeping and accounting in accordance with U.S. GAAP. In consideration for its management services, each management agreement provides S8 a management fee equal to 5% of the Maryland Facility's gross revenue, plus reimbursement of S8's operating expenses and a handling fee, as well as any tax payments made by S8 on the owner's behalf. The management agreements for the dispensaries contain customary termination provisions in the event of a party's breach or a governmental authority's determination of illegality; the management agreement with the processor allows S8 to terminate at any time and for any reason upon written notice.

The Company, through CGX Life Sciences, Inc., a wholly owned subsidiary of the Company, holds options to purchase each of the Maryland Facilities. The options expire at various times in 2020. The MMCC has taken the position that a person may hold an equity interest in only one license in each category (i.e., grower, processor, dispensary). On May 13, 2019, however, the Governor of Maryland signed into law an amendment of Maryland's medical cannabis law that will permit a person or entity to own or control (i.e., manage) up to four (4) dispensaries. The new law goes into effect July 1, 2019. Also on May 13, 2019, the Governor of Maryland signed into law a second amendment of the medical cannabis law that prohibits the transfer of the ownership of a grower, processor, or dispensary until the applicable facility has operated for at least three (3) years. The Company is in the process of negotiating amendments to the option agreements in order, among other things, to extend the expiration dates in light of the change in law. A change in ownership of a dispensary or processor license, including through exercise of an option, is subject to the approval of the MMCC.

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 cannabis regulatory program. The Company and its investees with "direct" involvement in the United States cultivation or distribution industry are in compliance with Maryland's medical cannabis regulatory program. Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cultivation or distribution industry.

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

### (1) Registration and Certification

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 (4) dispensaries. The applicant must first seek pre-approval from the MMCC in order to be granted a license. As part of the pre-approval application, the applicant must submit information related to its operations; safety and security; medical cannabis professionalism; retail management factors; business and economic factors; and other additional factors that may apply.

In order to become a licensed medical cannabis dispensary, each applicant must submit an application detailing the location of the proposed dispensary, the personal details of each principal officer or director, and operating procedures the dispensary will use. An owner, a member, an employee, a volunteer, an officer, or a director of a dispensary must undergo a criminal background check and register as a dispensary agent.

Once licensed, the medical cannabis dispensary is required to submit to the MMCC quarterly reports including the following information: (i) the number of patients served; (ii) the county of residence of each patient served; (iii) the medical condition for which medical cannabis was recommended; (iv) the type and amount of medical cannabis dispensed; and (v) if available, a summary of clinical outcomes, including adverse events and any cases of suspected diversion. The medical cannabis dispensary must not include any patient personal information in the quarterly report.

Licenses for medical cannabis processors or dispensaries are issued for an initial term of six (6) years and may be renewed for a term of (4) years, subject to the approval of the MMCC. Therefore, the Company's ability to maintain the management agreements for the term and renewal terms provided therein will depend upon the licensees' ability to renew its licenses.

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

On December 11, 2018, the MMCC issued via its website Bulletin 2018-012 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 that required 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, again via its website, proposed regulations intended to clarify its position on ownership restrictions and 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 S8's management agreements for the Maryland Facilities will continue to be valid and enforceable.

### (2) Inspections

A medical cannabis dispensary is inspected by the MMCC prior to receiving approval from the MMCC to be authorized to begin cultivation, processing, and dispensing. Once a medical cannabis processing facility or dispensary is licensed and operational, the MMCC may also conduct inspections at any time and without notice to the license holder.

### (3) Safety and Security Requirements

As part of the medical cannabis dispensary application, the applicant must provide information about the dispensary's operating procedures consistent with the oversight regulations established by the MMCC, including the following: (i) storage of cannabis and products containing cannabis only in enclosed and locked facilities; (ii) security features and procedures; (iii) how the dispensary will prevent diversion; and (iv) safety procedures. As part of the safety and security requirements, the applicant must detail how the premises will be constructed to prevent unauthorized entry, including a designation of a secured room meeting high-security requirements. The applicant must describe how it would train all registered dispensary agents on safety procedures, including responding to: (i) a medical emergency; (ii) a fire; (iii) a chemical spill; and (iv) a threatening event including: (A) an armed robbery, (B) an invasion, (C) a burglary, or (D) any other criminal incident.

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

The applicant must describe its security and surveillance plan with information including the following: (i) an alarm system that covers all perimeter entry points, windows, and portals at the premises that: (a) will be continuously monitored; (b) detects smoke and fire capabilities; (c) detects power loss capabilities; (d) includes panic alarm devices mounted at convenient, readily-accessible locations through the licensed premises; (e) inclusion of a second, independent alarm system to protect where records are stored on- and off-site and where any secure room holds medical cannabis; (f) equipped with auxiliary power to continue operation for at least 48 hours; (ii) a video surveillance that: (a) records continuously for 24 hours per day for 365 days a year without interruption, (b) has cameras in fixed places that allow for the clear facial identification and of activities in the controlled areas of the premises, including where medical cannabis is packaged, tested, processed, stored, or dispensed, (c) has the capability of recording clear images and displays the time and date of the recording, and (d) demonstrates a plan for retention of recordings for at least 30 days.

### (4) Operations

As part of the dispensary or processor application, the applicant must provide information about the facility's operations, including the following: (i) communication systems; (ii) facility odour mitigation; and (iii) back-up systems for all cultivation and processing systems. The applicant must establish a standard operating procedure of all aspects of the receipt, storage, packaging, labelling, handling, tracking, and dispensing of products containing medical cannabis and medical cannabis waste.

In addition, the applicant must provide information about the facility's medical cannabis professionalism, including the following information: (i) experience, knowledge, and training in training agents in the science and use of medical cannabis; and, for a dispensary, (ii) use of a clinical director.

The applicant must also provide information about the dispensary's retail management operations, including the following: (i) a detailed plan to preserve the quality of the medical cannabis; (ii) a plan to minimize any negative impact on the surrounding community and businesses; (iii) a detailed inventory control plan; and (iv) a detailed medical cannabis waste disposal plan.

The business and economic factors of the dispensary business must also be detailed, including the following information: (i) a business plan demonstrating a likelihood of success, demonstrating sufficient business ability and experience on the part of the applicant, and providing for appropriate employee working conditions, benefits, and training; (ii) demonstration of adequate capitalization; and (iii) a detailed plan evidencing how the dispensary will enforce the alcohol and drug free workplace policy.

Additional information the applicant must also provide includes the following: (i) demonstration of Maryland residency among the owners and investors; (ii) evidence that the applicant is not in arrears regarding any tax obligation in Maryland or other jurisdictions; and (iii) the medical cannabis extracts and medical cannabis-infused products proposed to be dispensed with proposed cannabinoid profiles, including varieties with high cannabidiol content, and the varieties of routes of administration.

### (5) Record Keeping and Inventory Tracking

Maryland requires use of a seed-to-sale tracking system. The applicant must create and use a perpetual inventory control system that identifies and tracks the stock of medical cannabis from the time it is delivered or produced to the time it is delivered to a dispensary (in the case of a processor) or a patient or qualified caregiver (in the case of a dispensary). The applicant must describe how it will assure the integrity of the electronic manifest and inventory control system and that a cannabis transportation agent will continue the chain of custody to a dispensary agent.

The applicant must retain attendance records and ensure dispensary and processor agents are trained on the record retention and standard operating procedure.

### (6) Enforcement

The MMCC is charged with enforcing Maryland's medical cannabis laws and regulations. The MMCC is authorized to take action against licensees who fail to comply with the laws and regulations. Sanctions may range from a notice of violation and request for corrective action plan, to fines, and suspension or revocation of a license.

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

### *Nevada*

The Company acquired 99% of the membership units of GreenMart of Nevada NLV, LLC ("GreenMart NV"), pursuant to the MPX acquisition. GreenMart NV is a licensed cultivation and production facility located in North Las Vegas, Nevada. GreenMart NV is seeking regulatory approval for a transfer that, once approved by the state, will result in the Company acquiring the remaining 1% and owning 100% of GreenMart NV.

GreenMart NV, currently has two Nevada Medical Marijuana Licenses, one for cultivation and one for product manufacturing, with operations of both being conducted at a facility in North Las Vegas, Nevada.

GreenMart NV also currently has two Nevada Adult-Use Licenses, one for cultivation and one for product manufacturing, with operations of both being conducted at the same North Las Vegas facility.

GreenMart NV was also awarded four conditional Adult-Use licenses for dispensaries in December of 2018, and is currently seeking to perfect those licenses at the state and local level.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiary, GreenMart NV, are classified as "direct" involvement in the United States cultivation or distribution industry.

Nevada has authorized the cultivation, possession and distribution of cannabis by certain licensed Nevada cannabis businesses. 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 its investee (GreenMart NV), 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 cultivation or distribution industry.

The applicable Nevada regulations are summarized below.

#### (i) General

Nevada has two regulatory schemes for legal use of cannabis products, one for medical cannabis and the other for adult-use cannabis. Both are now administered by Nevada Department of Taxation (NDT), and neither has any residency requirements for owners.

The Nevada regulatory scheme only permits the holder of a medical cannabis registration certificate or retail license to sell cannabis and cannabis products to customers. Only cannabis that is grown/produced and processed in the state by a licensed establishment may be sold in the state. The holder of a registration certificate or retail license may purchase cannabis from licensed cultivation facilities and other retail stores. The holder of a registration certificate or retail license may also purchase cannabis and cannabis products from licensed product manufacturing facilities.

#### (ii) Registration and Certification

The use of medical cannabis became legal in Nevada in 2001. State-certified medical cannabis establishments, such as dispensaries, became operational in 2015. The Nevada Medical Marijuana Program is governed by Chapter 453A of the Nevada Revised Statutes and Chapter 453A of the Nevada Administrative Code. In particular, each medical cannabis establishment must register with the NDT and apply for a medical cannabis establishment registration certificate (for the purposes of this description of Nevada law and regulations, a "Medical Marijuana License"). Among other restrictions and obligations, NRS Chapter 453A establishes the law regarding (i) the location of a medical cannabis establishment, (ii) minimum security requirements, (iii) the implementation of an electronic verification and inventory control system, and (iv) operating procedures for handling edible or cannabis-infused products. The NDT will initially issue a provisional Medical Marijuana License until the local governmental authority within the state of Nevada (i.e., city, town, township or unincorporated area within a county) has issued a business license for operation and such local governmental authority certifies that the establishment is in compliance with all applicable local ordinances. A provisional licensee may not engage in a cannabis business operations until it has received all necessary local approvals and a final registration certificate from NDT.

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

A Medical Marijuana License is valid for a period of one (1) year after the date of issuance. In order to renew the license, an establishment must resubmit the application information required pursuant to NRS 453A.322 and pay to the NDT the renewal fee set forth in NRS 453A.344. The renewal periods serve as an update for NDT on the licensee's operations.

The recreational use of cannabis became legal in Nevada pursuant to the "Regulation and Taxation of Marijuana Act," Chapter 453D of the Nevada Revised Statutes (hereafter, the "RTMA"). The RTMA enables the cultivation, manufacturing, testing, transporting, selling and possession of cannabis for adult-use in Nevada. Pursuant to the RTMA, individuals over 21 years of age may also purchase and possess certain amounts of cannabis. Prior to November 15, 2018, the NDT only accepted applications for Adult-Use Licenses from individuals that held a Medical Marijuana License pursuant to NRS Chapter 453A. On or after November 16, 2018, the NDT began its more permanent process of soliciting applications for potential establishments. Going forward, the NDT will determine on an annual basis whether a sufficient number of cannabis establishments exist to serve the people of the state of Nevada. If the NDT determines that additional cannabis establishments are necessary, the NDT will issue a request for applications to operate a cannabis establishment by posting notifications online and at the NDT's office and other state offices.

There are five types of Adult-Use Licenses in Nevada:

- 1) Cultivation Facility License, which permits a licensee to cultivate (grow), process, and package cannabis; to have cannabis tested by a testing facility; and to sell cannabis to retail cannabis stores, to cannabis product manufacturing facilities, and to other cultivation facilities, but not to customers;
- 2) Distributor License, which permits a licensee to transport cannabis from a cannabis establishment to another cannabis establishment. For example, from a cultivation facility to a retail store;
- 3) Product Manufacturing Facility License, which permits a licensee to purchase cannabis; manufacture, process, and package cannabis and cannabis products; and sell cannabis and cannabis products to other product manufacturing facilities and to retail cannabis stores, but not to customers. Cannabis products include things like edibles, ointments, and tinctures;
- 4) Testing Facility License, which permits a licensee to test cannabis and cannabis products, including for potency and contaminants.
- 5) Retail Store License, which permits a licensee to purchase cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities, and cannabis from other retail stores; can sell cannabis and cannabis products to customers.

### (iii) Inspections and Reporting Requirements

The state of Nevada uses a computerized track and trace system to track commercial cannabis activity and seed-to-sale. Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements.

### (iv) Labelling and Packaging.

Nevada regulates the labeling and packaging of cannabis and cannabis products held and sold by adult-use dispensaries, medical cannabis dispensaries, and cultivation facilities. For example, adult-use and medical cannabis dispensaries must affix to each container or package containing usable cannabis sold at retail a label that includes information about the business or trade name and the registration certificate number of the cultivation facility that cultivated and sold the usable cannabis, the lot number, the date and quantity dispensed, the cannabinoid profile, a warning that states, "This product may have intoxicating effects and may be habit forming," and a statement that, "This product may be unlawful outside the State of Nevada." The regulations further provide that a majority of the aforementioned information must appear in "substantially the same" form as provided in the regulations, which appears as a square box containing the trade name of the business, followed by its certificate number, lot number, harvested date, final testing date, packaged-on date, best-if-used-by date, cannabinoid profile and net weight. In addition, while the material used for the packaging will depend on the type of product (e.g., a metal crown cork-style bottle cap may be used for liquid-form and concentrated cannabis products) all products must be packaged in child-resistant packaging.

### (v) Storage and Security Requirements

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft and loss of cannabis or cannabis products, Nevada law and regulations governing the sale, distribution, cultivation and transportation of cannabis and cannabis products requires that: (1) cannabis must only be stored or cultivated in an enclosed, locked facility; (2) non-dispensaries must only have one, secure entrance; (3) employees are trained in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as educating employees on the differences in strains, methods of consumption, methods of cultivation, methods of fertilization, methods for

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

health monitoring (including recognizing the signs of cannabis abuse, impairment or instability), clinical effects of cannabis on the human body, and required warnings and literature that must be supplied to the customer; (4) security equipment be in place to deter and prevent unauthorized entrances; (5) electronic monitoring be in place; and (6) security procedures are implemented to deter and prevent theft, loitering and adequately monitor the location and product.

### (vi) Operations and Transportation

In addition to ensuring adequate safety, storage and protection of the products, Nevada requires licensed cannabis distributors in order to transport cannabis from a licensed grow or production facility. For example, Nevada requires that, during the transportation of cannabis or cannabis products, the licensed cannabis distributor agent must: (a) be at least 21 years of age, have a valid driver's license and carry insurance for the vehicle; (b) carry a copy of the trip plan and delivery manifest with him or her for the duration of the trip; (c) have his or her cannabis establishment agent card in his or her immediate possession; (d) have a means of communicating with the cannabis establishment for which he or she is providing the transportation; and (e) ensure that all cannabis or cannabis products are not visible.

### *New Jersey*

MPX New Jersey LLC ("MPX NJ") received initial approval from the New Jersey Department of Health ("NJ DOH") in December, 2018 to proceed under the Alternative Treatment Center ("ATC") permitting process to commence operations at a Galloway, New Jersey cultivation facility and an Atlantic City, New Jersey dispensary facility. In 2019, as part of the MPX acquisition, the Company acquired a 4% beneficial interest in MPX NJ. The Company is currently in negotiations with MPX NJ and expects to enter into a broad services agreement to provide exclusive financing, leasing, licensing and professional services to MPX NJ. NJ DOH's approval of MPX NJ 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.

New Jersey has authorized the cultivation, possession and distribution of cannabis for medical purposes by certain licensed New Jersey cannabis businesses. 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 the state's cannabis regulatory program. To the extent required by New Jersey's cannabis regulatory program, the Company is in the process of fully disclosing and/or registering each financial interest the Company holds in such New Jersey cannabis businesses. The Company and its investees 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 cultivation or distribution industry.

The paragraphs below summarize the New Jersey Compassionate Use Medical Marijuana Act ("CUMMA") and its enabling regulations in effect as of the date of this disclosure. The New Jersey legislature has passed a bill to amend these laws. If the bill is signed into law by the Governor of New Jersey, amendments to current law include:

- Transferring regulatory oversight from the New Jersey Department of Health ("NJDOH") to a new Cannabis Regulatory Commission.
- Limiting the number of available cannabis cultivation permits to twenty-three for an eighteen month period commencing on the bill's effective date.
- Authorizing Alternative Treatment Centers ("ATC") with a permit issued or applied for prior to the bill's effective date to maintain up to two satellite dispensaries.
- Mandating periodic reviews of the number of authorized cannabis cultivators, manufacturers, wholesalers, and dispensaries and issuing new permits as needed to ensure patient accessibility.

We cannot assure that the bill will become law, that it will not be revised and passed in another form or at all.

The current applicable laws in the State of New Jersey are summarized below.

On January 18, 2010, the CUMMA was signed into law. The CUMMA provides protection from arrest, prosecution, property forfeiture, and criminal and other penalties by the State of New Jersey for those patients who use cannabis to alleviate suffering from certain medical conditions, as well as their physicians, primary caregivers, and those who are authorized to produce, process and dispense cannabis for medical purposes.

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

### (i) General Procedures and Standards Applicable to ATCs

Pursuant to its mandate under the CUMMA, the NJ DOH established the Medicinal Marijuana Program and grants permits authorizing the cultivation and dispensing of medical cannabis by vertically integrated ATCs. To obtain an ATC permit, an application must be filed with the NJ DOH. Currently, the NJ DOH is not accepting applications to open additional ATCs.

Applicants must disclose the information requested by the NJ DOH's Request for Applications ("RFA"), which, pursuant to regulation, includes:

- a. The applicant's organizational documents;
- b. Evidence of good standing with the New Jersey Department of Treasury;
- c. A certificate certified under the seal of the New Jersey State Treasurer as to the applicant's legal status;
- d. A valid Business Registration Certificate on file with the New Jersey Department of Treasury;
- e. A list of the proposed ATC's employees, principal officers, directors, owners, and board members;
- f. A list of all persons having five percent or more ownership in the applicant and a description of the ownership held by each such person;
- g. The identities of all creditors holding a security interest in the premises;
- h. The by-laws and a list of members of the applicant's medical advisory board;
- i. Evidence that all principals, directors, board members, owners, and employees will cooperate with a criminal history record background check;
- j. The mailing and physical address of the proposed ATC;
- k. Verification of approval from the community in which the ATC will be located;
- l. Evidence of compliance with local codes and ordinances; and
- m. A legible map or maps of the service areas by zip code of the ATC and its site compatibility with commercial structures within the immediate neighbourhood.

Applicants must also provide responses to the RFA's scored criteria, which include the following categories:

- 1) Past business experience of applicants;
- 2) Business operations and compliance;
- 3) Security;
- 4) Cultivation, manufacturing, and dispensary operations;
- 5) Financing;
- 6) Value and Affordability for Patients;
- 7) Market Diversification;
- 8) Community support and participation;
- 9) Corporate responsibility;
- 10) Diversity; and
- 11) Commitment to Clinical Research.

Upon approval of the application for an ATC permit and payment of the required fee, the NJ DOH may conduct an onsite assessment of the ATC before issuing a permit for a one-year term. Sixty days prior to the expiration of the ATC permit, the permit holder must submit an application for renewal with the NJ DOH.

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

### (ii) ATC Policies, Procedures and Records

Each ATC must develop, implement and maintain an operating manual that addresses, at a minimum, the following:

- a. Procedures for the oversight of the alternative treatment center;
- b. Procedures for safely growing and dispensing medicinal cannabis;
- c. Procedures to ensure accurate recordkeeping, including inventory protocols to ensure that quantities cultivated do not suggest redistribution;
- d. Employee security policies;
- e. Safety and security procedures;
- f. Patient education and designation policies; and
- g. A description of the ATC's (1) hours of operation and after hour contact information, (2) fee schedule and availability of sliding fee scales based on income, (3) expectations of onsite personnel in maintaining confidentiality and privacy of the operations and clients of the ATC, (4) criteria for involuntary disenrollment from the ATC's list of qualifying patients pursuant to unacceptable behavior and appeal process, and (5) registered qualifying patient's assumption of risk in complying with ATC registration policies.

Upon request, the ATC's operating manual must be available for inspection by the NJ DOH.

### (iii) Plant Cultivation Authorized Conduct

Each ATC shall (a) produce cannabis only at the indoor cultivation site and area authorized in its permit, (b) sell cannabis with a consistent unit price and label and without volume discount, (c) limit its inventory of usable cannabis and seeds to reflect current patient needs as identified by the number of patients registered with the alternative treatment center, (d) comply with applicable laws and rules of the New Jersey Department of Agriculture and attendant inspection and enforcement activities, and (e) comply with the state's secure storage requirements.

### (iv) Labelling and Packaging

The ATC must establish and implement policies for maintaining information about the different potencies, effects and forms for each usable cannabis package that the ATC prepares to dispense to registered qualifying patients and their caregivers. Product labels must also include the following:

- a. The name and address of the alternative treatment center that produced the medicinal cannabis;
- b. The quantity of the medicinal cannabis contained within the package;
- c. The date that the ATC packaged the content;
- d. A sequential serial number, lot number and bar code to identify lot associated with manufacturing and processing;
- e. The cannabinoid profile of the medicinal cannabis contained within the package;
- f. The medicinal cannabis strain strength;
- g. A statement that the product is for medical use by a qualifying patient and not for resale;
- h. A list of any other ingredients besides medicinal cannabis contained within the package;
- i. The date of dispensing to the qualifying patient or primary caregiver; and
- j. The qualifying patient's name and registry identification card number.

Cannabis for medical use may be labelled "organic" if the registered dispensary is certified as being in compliance with the United States Department of Agriculture certification requirements applying to organic products. Further, as there are no pesticides authorized for use on cannabis, and the unauthorized application of pesticides is unlawful.

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

### (v) Processing

Cannabis must be processed in a safe and sanitary manner to protect registered qualifying patients from adulterated cannabis. Processing is limited to the dried leaves and flowers of female cannabis plants, which shall be, (a) well cured and free of seeds and stems, (b) free of dirt, sand, debris or other foreign matter, and (c) free of mold, rot or other fungus or bacterial diseases.

### (vi) Dispensing Authorized Conduct

ATCs are only permitted to provide dispensary services to qualifying patients and/or their primary caregivers who have previously designated the ATC as their registered ATC, as reflected on the registry identification card of the qualifying patient and/or his or her primary caregiver. The ATC must maintain, and make available for NJ DOH inspection, an up to date copy of the registry identification card and New Jersey driver's license or other State-issued photographic identification of each current qualifying patient and his or her primary caregiver, if any. Records must be continuously updated to reflect any notices that a registered qualifying patient and/or his or her primary caregiver designated or ceased his or her designation of the ATC.

ATCs must formulate a system for documenting a patient's self-assessment of pain and/or primary qualifying symptom using a pain rating scale. If the ATC serves different patient populations, more than one pain scale may be appropriate. The ATC must document a patient's self-assessment of pain or primary qualifying symptom upon commencement of the dispensing of medicinal cannabis to the patient and thereafter at three-month intervals. ATCs must also provide "log books" to registered qualifying patients and registered primary caregivers who request them to track strains used and their effects.

Alls ATCs are prohibited from furnishing usable cannabis to a registered patient or primary caregiver if the ATC suspects or has reason to believe that the person is abusing cannabis or other substances or unlawfully redistributing usable cannabis. Further ATCs are may only dispense medicinal cannabis directly to registered qualifying patients and their registered primary caregivers in the follow forms: (a) dried; (b) oral lozenges; or (c) topical formulations.

ATCs are only permitted to keep inventory in an amount equal two ounces of usable cannabis per registered qualifying patient plus additional supplies to meet newly registered qualifying patients, consistent with the NJ DOH's actual demand ratios. Inventories must be adjusted within ten business days of a change in the number of registered qualifying patients and primary caregivers who have designated the ATC as their dispensary. NJ DOH rules require that two ATC employees weigh, log-in and sign-out quantities of packaged usable cannabis to perform dispensing.

### (v) Marketing and Advertising

ATCs must restrict signage to black text on a white background on external signage, labeling and brochures for the alternative treatment center. Such facility external may not be illuminated at any time. The exterior of the ATC facility may not display advertisements for medicinal cannabis or a brand name except for purposes of identifying the building by the permitted name. The price of cannabis cannot be advertised by the ATC, except that a catalogue or a printed list of the prices and strains of medicinal cannabis available can be provided to registered qualifying patients and primary caregivers. Cannabis and paraphernalia may not be displayed or clearly visible from the ATC's exterior and, except for paraphernalia sold to registered qualifying patients or their primary caregivers, the ATC may not produce any items for sale or promotion bearing a cannabis symbol or reference.

### (vi) Reporting Requirements

ATCs must collect statistical data, including:

- a. The number of registered qualified patients and registered primary caregivers;
- b. The debilitating medical conditions of qualified patients;
- c. Patient demographic data;
- d. Program costs; and
- e. A summary of the patient surveys and evaluation of services.

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

ATC are required to submit its statistical data to the NJ DOH annually.

### (vii) Security

NJ DOH requires a ATC to have in place effective security controls and procedures that guard against theft and diversion of cannabis including, when appropriate, systems to protect against electronic records tampering. ATCs are required to to:

- a. Install, maintain in good working order and operate a safety and security alarm system at its authorized physical address(es);
- b. Implement appropriate security and safety measures to deter and prevent the unauthorized entrance into areas containing cannabis and the theft of cannabis;
- c. Implement security measures that protect the premises, registered qualifying patients, registered primary caregivers and principal officers, directors, board members and employees of the ATC;
- d. Establish a protocol for testing and maintenance of the security alarm system;
- e. Conduct maintenance inspections and tests of the security alarm system at the ATC's authorized location at intervals not to exceed 30 days from the previous inspection and test and promptly implement all necessary repairs to ensure the proper operation of the alarm system;
- f. In the event of a failure of the security alarm system due to a loss of electrical support or mechanical malfunction that is expected to last longer than eight hours: (i) Notify the NJ DOH upon becoming aware of reportable loss, discrepancies identified during inventory, diversion or theft; and (ii) provide alternative security measures approved by the NJ DOH or close the facility impacted by the failure or malfunction until the security alarm system is restored to full operation;
- g. Keep access from outside the premises to a minimum and ensure that access is well controlled;
- h. Keep the outside areas of the premises and its perimeter well lighted.
- i. Provide law enforcement and neighbors within 100 feet of the ATC with the name and phone number of a staff person to notify during and after operating hours to whom they can report problems with the establishment;
- j. Equip interior and exterior premises with electronic monitoring, video cameras and panic buttons;
- k. Limit entry into areas where cannabis is held to authorized personnel;
- l. Consistently and systematically prevent loitering, that is, the presence of persons who are not on-duty personnel of the ATC and who are not ATC registrants engaging in authorized ATC-dispensary activity; and
- m. Provide onsite parking.

### (viii) Transportation

An ATC that is authorized by permit to cultivate medicinal cannabis at one location and to dispense it at a second location shall transport only usable cannabis from the cultivation site to the dispensing site according to a delivery plan submitted to the NJ DOH. Moreover, the delivery of medicinal cannabis to the home or residence of a registered qualifying patient or primary caregiver is prohibited.

Each transport vehicle is required to have a delivery team consisting of at least two registered ATC employees. At least one delivery team member must remain with the vehicle at all times that the vehicle contains medicinal cannabis. Each delivery team member must possess his or her ATC identification card and have access to a secure way of communicating with the ATC.

Every transport vehicle must be equipped with a secure lockbox or locking cargo area, which shall be used for the sanitary and secure transport of medicinal cannabis.

Commercial automobile liability insurance must be maintained on each vehicle used for transporting medicinal cannabis in the amount of one million dollars per incident. Further transport vehicles may not display any markings that would either identify or indicate its use for transporting medicinal cannabis.

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

A record of each transport of medicinal cannabis must be logged and include:

- a. The date and time that the transport began and ended;
- b. The names of the ATC employees comprising the delivery team;
- c. The weight of the medicinal cannabis transported;
- d. The lot number of the medicinal cannabis, the name of the strain and whether it is high, medium or low potency; and
- e. The signatures of the ATC employees comprising the delivery team.

Any vehicle accidents, diversions, losses, or other reportable events that occur during transport must be reported to the NJ DOH.

ATCs are expressly prohibited from delivering cannabis to the home or residence of a registered qualifying patient or primary caregiver.

### (ix) Storage

Access to medicinal cannabis storage areas must be limited to the absolute minimum number of specifically authorized employees. When it is necessary for employee maintenance personnel, nonemployee maintenance personnel, business guests or visitors to be present in or pass through medicinal cannabis storage areas, ATCs must provide for adequate observation of the area by an employee whom the permit holder specifically authorized by policy or job description to supervise the activity.

Each ATC must ensure that the storage of usable cannabis prepared for dispensing to patients is in a locked area with adequate security. Adequate security at a minimum, must be assessed, established and maintained based on:

- a. The quantity of usable cannabis kept on hand;
- b. The ATC's inventory system for tracking and dispensing usable cannabis;
- c. The number of principal officers, directors, board members, agents, volunteers or employees who have or could have access to the usable cannabis;
- d. The geographic location of the ATC and its associated environmental characteristics, such as the remoteness of the facility from local populations and the relative level of crime associated with the area;
- e. The scope and sustainability of the security alarm system; and
- f. The findings of root cause analyses of any breaches of security and/or inventory discrepancies for usable cannabis at that location.

Raw materials, bulk materials awaiting further processing, and finished products that contain cannabis must be stored in either a safe or steel cabinet, or vaults (each subject to certain specifications).

## 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 Company's Annual report for the year ended December 31, 2018 filed with securities regulators and available on [www.sedar.com](http://www.sedar.com), which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers.

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

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

## Risk Factors (cont.)

- 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.
- As a foreign private issuer, the Company is subject to different U.S. securities laws and rules than a U.S. domestic issuer, particularly certain disclosure requirements, which could limit the information publicly available to the Company's shareholders.
- The Company may lose the Company's foreign private issuer status in the future, which could result in significant additional costs and expenses to the Company.
- There is a limited market for the Common Shares.
- The requirements of being a public company may strain the Company's resources, result in more litigation, and divert the attention of the Company's management.
- The Company does not expect to declare or pay dividends in the foreseeable future.
- The Company's failure to maintain effective internal controls over financial reporting could have an adverse effect on the Company.
- Future issuances of Common Shares or securities convertible into, or exercisable or exchangeable for, Common Shares ("Securities"), or the expiration of escrow arrangements or lock-up agreements that restrict the issuance of new Common Shares or the trading of outstanding Common Shares, could cause the market price of the Common Shares to decline and would result in the dilution of current holders of Common Shares.
- Future issuances of debt securities, which would rank senior to Common Shares upon the Company's bankruptcy or liquidation, may adversely affect the level of return holders of Common Shares may be able to achieve from an investment in Common Shares.
- The Company may be subject to penny stock regulations and restrictions, which may make it difficult to sell the Common Shares.