

**Future Farm Technologies Inc.**  
**Management Discussion and Analysis**  
For the three months ended May 31, 2019

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## **INTRODUCTION**

The following Management Discussion and Analysis (“MD&A”) of Future Farm Technologies Inc. (the “Company”) has been prepared by management, in accordance with the requirements of National Instrument 51-102 (“NI 51-102”) as of July 30, 2019 and should be read in conjunction with the condensed interim consolidated financial statements for the three months ended May 31, 2019 and 2018 and the related notes contained therein which have been prepared under International Financial Reporting Standards (“IFRS”). The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a “Venture Issuer” as defined in NI 51-102. Additional information relevant to the Company’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

## **OVERVIEW**

### *Background and Description of Business*

Future Farm Technologies Inc. (“Future Farm” or the “Company”) was incorporated in the province of British Columbia, Canada on May 31, 1984. Effective January 24, 2017, the Company changed its name from Arcturus Growth Star Technologies, Inc. to Future Farm Technologies Inc. The Company is listed on the Canadian Securities Exchange (the “Exchange”) under the symbol “FFT” and on the OTCQB® under the symbol “FFRMF”.

Future Farm is a Canadian company with interests in North America including California, Massachusetts, Florida, Maine, Puerto Rico, Rhode Island, Vancouver and Newfoundland. The Company’s mission is to advance sustainable agriculture through indoor plant growth technology and through the production of wholesale and retail cannabis products, including hemp. Future Farm is committed to using only the highest quality processes and products. Towards this goal, the Company acquires or partners with licensed operators, and acquires or develops leading technologies in cultivation, processing, breeding, genetics, and Controlled Environment Agriculture (“CEA”).

The Company’s head office is located at 543 Granville Street, Vancouver, British Columbia, V6C 1X8.

## **SIGNIFICANT EVENTS/OVERALL PERFORMANCE**

During the first quarter of 2020, Future Farm focused on increasing long-term shareholder value by monetizing its hemp harvest in Maine, and preparing to double hemp cultivation in the fall.

The Company also raised US\$900,000 of new capital, before certain fees and expenses, from a fund of Yorkville Advisors over the course of the period to develop and expedite growth in its operations.

The summaries below provide a more in-depth update on the Company’s various projects in its three operating divisions:

- Cultivation and Processing
- Breeding and Genetics
- Retail

## **CULTIVATION AND PROCESSING**

Future Farm is positioned to be a leading producer of cannabis, hemp and CBD with cultivation projects underway in strategic markets in the U.S. and Canada.

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FLORIDA

Future Farm owns a fully operational greenhouse business on approximately 10-acres in Apopka, Florida known as White Sand Nursery (“White Sand”). White Sand currently grows ornamental plants that are sold in large retail stores throughout North America. The Company’s intent is to cultivate cannabis in its greenhouses and on its outdoor farmland, once fully licensed. This acquisition represents a major milestone for the Company and positions it in the emerging Florida cannabis market, estimated by some to have US\$1.6 billion in annual sales by 2020.

In response to the recent passage of the 2018 U.S. Farm Bill, the Company decided to expand its existing hemp portfolio to include a partnership in Florida. In March 2019, Future Farm was one of two applicants selected by Florida Agricultural & Mechanical University (“FAMU”), to enter into a research partnership to cultivate hemp in the state. The partnership allows Future Farm to be one of the first companies to plant hemp in Florida.

FAMU's staff and students will conduct joint research with Future Farm in the areas of pharmacology, agriculture technology and bio-sciences to develop the ideal cultivars for Florida’s various climates and soil conditions. The Florida project builds on Future Farm’s work with its partner, Rahan Meristem, Ltd., to apply molecular and analytical tools for the discovery of scientifically recognized medicinal and industrial uses of hemp-derived products.

MAINE

Future Farm owns a 120-acre farm in Amity and leases 100 acres of organic land in Hersey, with an option to lease up to 1,000 additional acres. Future Farm’s 80% subsidiary, Future Farm Maine, LLC (“Future Farm Maine”) also leases a 13,000-square-foot facility in Belfast equipped with state-of-the-art lighting and equipment to germinate certified and feminized hemp seedlings. Future Farm Maine is expected to provide multiple revenue streams from the sale of harvested hemp biomass, from the sale of CBD distillate, isolate, and other extracted products, and from hemp seeds.

In the fall of 2018, Future Farm Maine produced approximately 17,000 pounds of biomass and 1.5 million hemp seeds of the Cherry Wine variety, which are known for their high CBD content and outstanding genetic stability year-over-year. The Company released a video showcasing the October 2018 harvest in Hersey. Click here to view [Future Farm Maine’s October Harvest video](#).

Approximately 1.2 million seeds were made available for sale to the public in March 2019 and the Company sold out the first week of June 2019. Please visit us at [FutureFarmShop.com](#) to inquire about seeds for next year. Biomass and seed production, along with all operating and capital expenses, were approximately US\$1.2 million.

In April 2019, the Company began propagating its Cherry Wine seeds in Belfast for the 2019 crop. Nearly 200,000 seedlings were then transplanted into 100 acres in Hersey in June 2019. Click here to view [Future Farm Maine’s June Planting video](#).

Future Farm expects to harvest 130,000 pounds of biomass, which will then be processed into full spectrum hemp oil, CBD distillate, CBD isolate and other products for sale to manufacturers of consumer products using those valuable ingredients. The Company projects that it will produce over three million hemp seeds in 2019, double the production of its 2018 inaugural season. The Company estimates that the cost of production for this scale will be US\$5 million.

In May 2019, the Company signed an agreement with [Northeast Processing](#) (“NEP”), a Vermont-based hemp processing company, to process, test and package its hemp grown in 2019 into top quality whole plant extract, CBD distillate and CBD isolate. The agreement with NEP will allow the Company to provide its growing customer base with premium ingredients. NEP’s state-of-the-art facility in Brattleboro and experienced leadership team are an outstanding addition to expand the Company’s hemp-for-wellness business significantly in 2019. The partnership allows for a scalable, efficient and flexible approach to processing the Company’s harvest. Future Farm expects to offer product manufacturers premium quality distillates, isolates, extracts, water soluble products and much sought after zero THC products.

A significant aspect for the 2019 crop is the passage of the 2018 Farm Bill in the United States which effectively made it legal to grow, process and sell hemp and CBD, but which still result in that industry begin significantly regulated.

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RHODE ISLAND

Future Farm owns a 15,000-square foot building in Providence, Rhode Island, which it purchased to be used as a licensed medical marijuana cultivation facility. Once licensed, this property will be used to provide wholesale cannabis to Rhode Island's state-sanctioned dispensaries. The building is located in an M-1 zone, which permits the cultivation of cannabis by right.

PRODUCE FARMS

Future Farm is pursuing opportunities to grow produce in Maryland and Alabama using CEA in collaboration with CBO Financial Inc. ("CBO") and Volunteers of America ("VOA"). The primary objective of each farm is to establish economical and environmentally friendly vertical farms, provide job training opportunities (specifically to the VOA's reentry program for ex-offenders), provide therapeutic programs, support entrepreneurship development, and establish a model for replication at other reentry and social services facilities.

While it is not yet possible to predict the exact timing of these projects, Future Farm's plan is still to first develop a prototype farm as a demonstration project for potential sources of financing, then to use this model to expand the Company's CEA technology as well as the training and therapeutic programs developed by VOA into other markets throughout the United States.

**BREEDING AND GENETICS**

The core of Future Farm's breeding and genetics operation are in its relationships with CEPG Consulting and Design Inc. ("CEPG") and Rahan Meristem Ltd. ("Rahan" or "Rahan Meristem").

The Company intends to form a jointly owned limited liability company, "Future Farm Rahan," with world-renowned global agro-biotechnology company Rahan Meristem. Rahan has over 40 years of experience in plant propagation and breeding and provides a variety of laboratory and agro-technical services to growers, technology companies and academic institutes in over 20 countries.

Future Farm Rahan will develop, own and utilize Rahan's proven, patented and proprietary technology to mass-produce elite clones of cannabis and hemp plants. Through elite cloning, one may create a new harvest with exact replicas of the best performing plants to achieve specific, desired results in patients and recreational users. The new company intends to commercialize the intellectual property it develops by both selling clones and licensing technology. As of July 2019, the business is in the planning phase of setting up lab operations in Carpinteria, California and Newfoundland, Canada.

The Company has a 50% interest in CEPG, an experienced developer of controlled environment plant growth systems located in St. John's, Newfoundland. CEPG has a 50% interest in 420 Holdings Inc., also a Newfoundland corporation, which owns a processing facility. CEPG will prepare three cannabis related license applications for submission to Health Canada for operations based at this processing facility. This will enable research and development to begin on cannabis plants as a research hub for Future Farm Rahan. The program is expected to create valuable IP to be sold or licensed worldwide.

**RETAIL**

DISPENSARIES, PUERTO RICO

Future Farm is a 40% owner of FFPR, LLC ("FFPR") and holds a 50% economic interest in the company. FFPR plans to own and operate five dispensaries in Puerto Rico under the Clinica Verde brand, which is already established as a leading medical cannabis dispensary operator in Puerto Rico and is owned by TCG Investments, a partner in FFPR.

As of [July 2019, over 92,000 patients were registered](#) for the Puerto Rico medical marijuana program according to Marijuana Business Daily.

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LED CANADA

As of July 2019, LED Canada continues to operate out of its showroom and warehouse in Vancouver, British Columbia.

**CORPORATE UPDATES**

In March 2019, the Company entered into two Secured Convertible Debentures. One Debenture is in the Principal Amount of US\$696,197, which partially refinances the principal and accrued interest on the US\$1,340,000 Convertible Debenture entered into with Yorkville in November 2018. The other Debenture is in the principal amount of US\$500,000, which was paid to the Company in cash net of certain fees and expenses. The new Debentures bear annual interest at 8% and are repayable within 12 months, or convertible into Common Shares of the Company at a price of C\$0.14 per share.

In May 2019, the Company entered into two Secured Convertible Debentures. One Debenture is in the Principal Amount of US\$1,851,163, which refinances the principal and accrued interest on the Convertible Debenture entered into with Yorkville in November 2018. The other Debenture is in the principal amount of US\$400,000, which was paid to the Company in cash net of certain fees and expenses. The new Debentures bear annual interest at 8% and are repayable within 12 months, or convertible into Common Shares of the Company at a price of C\$0.14 per share.

**CONCLUSION**

Future Farm continues to forge ahead on a number of diversified activities in cannabis and agriculture. The Company is very pleased with the expansion of its portfolio over fiscal year 2019 and the execution of its business divisions across North America.

The Company continues to raise capital and look for new opportunities in which to expedite growth. Future Farm thanks current and prospective shareholders for their interest and ongoing support.

**SUMMARY OF QUARTERLY REPORTS**

The following is a summary of the results from the eight previously completed financial quarters. Revenues and expenses in this section are as reported, and not adjusted for operations that were later discontinued:

Quarter ended	May 31 2019	February 28 2019	November 30 2018	August 31 2018
Revenue	\$ 2,063,692	\$ 411,176	\$ 1,051,316	\$ 775,051
Total assets	8,945,368	10,027,997	13,402,358	13,366,912
Income (loss) for the period	(4,353,910)	(2,747,023)	3,160,585	(7,714,829)
Earnings (Loss) per common share	(0.03)	(0.01)	0.02	(0.06)

  

Quarter ended	May 31 2018	February 28 2018	November 30 2017	August 31 2017
Revenue	\$ 1,304,749	\$ 324,506	\$ 88,584	\$ 46,031
Total assets	13,035,832	10,913,967	6,264,069	5,196,246
Income (loss) for the period	(2,114,490)	(13,076,768)	(1,913,247)	(1,960,637)
Earnings (Loss) per common share	(0.02)	(0.13)	(0.02)	(0.02)

During the three months ended May 31, 2019, the Company recorded \$2,063,692 in revenues. The Company recorded consulting and management fees of \$727,383, and professional fees of \$96,882 due to new and ongoing consulting and management contracts the Company entered into in the current and previous periods. The Company recognized \$10,000 share-based compensation expense. The Company also recorded finance charges of \$1,056,353, offset by a positive fair value change of \$1,295,542 related to convertible debenture financings. In addition, the Company recognized a loss of \$1,806,647 on the refinancing of two of its convertible debenture financings.

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During the three months ended February 28, 2019, the Company recorded \$411,176 in revenues. The Company recorded consulting and management fees of \$613,731, and professional fees of \$177,221 due to new and ongoing consulting and management contracts the Company entered into in the current and previous periods. The Company recognized \$1,644,357 in share-based compensation expense. The Company also recorded a positive fair value change of \$2,087,315 related to convertible debenture financings.

During the three months ended November 30, 2018, the Company recorded \$1,051,316 in revenues. The Company recorded consulting and management fees of \$872,066, and professional fees of \$514,795 due to new and ongoing consulting and management contracts the Company entered into in the current and previous periods. The Company recognized \$826,037 in share-based compensation expense and recorded depreciation of \$90,216. The Company recorded two non-cash expenses related to convertible debenture financings: a positive fair value change on the derivative liability of \$5,821,465, and accretion expense of \$217,125.

During the three months ended August 31, 2018, the Company recorded \$775,051 in revenues. The Company recorded consulting and management fees of \$605,664, and professional fees of \$365,529 due to new and ongoing consulting and management contracts the Company entered into in the current and previous periods. The Company recognized \$930,779 in share-based compensation expense during the three months ended August 31, 2018. The Company recorded depreciation of \$91,092. The Company recorded two non-cash expenses related to convertible debenture financings: a negative fair value change on the derivative liability of \$4,283,706, and accretion expense of \$627,648.

During the three months ended May 31, 2018, the Company recorded \$1,304,749 in revenues. The Company recorded consulting and management fees of \$791,287, and professional fees of \$564,881 due to new and ongoing consulting and management contracts the Company entered into in the current and previous periods. The Company recognized \$1,844,330 in share-based compensation expense during the three months ended May 31, 2018 of which \$30,512 related to the incremental cost for options for which terms were modified during the period. The Company also issued 2,925,514 common shares valued at \$1,813,819 for consulting services in connection with the BCWC investment. The Company also recorded an intangible asset depreciation of \$50,329 relating to the value of customer relationships at White Sand. The Company recorded two non-cash expenses related to convertible debenture financings: a positive fair value change on the derivative liability, which offset expenses by \$2,647,572, and accretion expense of \$455,654.

During the three months ended February 28, 2018, the Company recorded \$324,506 in revenues. The Company recorded consulting and management fees of \$697,873, and professional fees of \$1,589,867 due to new and ongoing consulting and management contracts the Company entered into in the current and previous periods. Share based payments of \$5,110,689 includes the fair value of stock options granted during the period. The Company also recorded intangible assets of \$585,943 relating to the stock purchase of White Sand Nurseries, and \$1,150,000 relating to the license agreement with AR E1 LLC. The Company took a goodwill impairment of \$1,003,262 relating to the App Portfolio. The Company also recorded two non-cash expenses related to loans: a fair value change on the derivative liability of \$3,065,741 and accretion expense of \$105,859.

During the three months ended November 30, 2017, the Company recorded consulting and management fees of \$508,602 due to new and ongoing consulting and management contracts the Company had entered into in the current and previous periods. Share based compensation of \$947,386 includes the fair value of stock options granted during the period.

During the three months ended August 31, 2017, the Company recorded consulting and management fees of \$518,324 due to new and ongoing consulting and management contracts the Company had entered into in the current and previous periods. Share based compensation of \$485,456 includes the fair value of stock options granted during the period.

The primary factors affecting the magnitude and variations of the Company's losses are as follows:

- Beginning in the period ended August 31, 2017 and continuing through present, the Company increased its human resources in response to expected increase in business activities related to the asset purchase agreements. This is reflected in consulting and management fees, professional fees, and share-based payments.

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- Beginning in the period ended February 28, 2018 and continuing through present, the Company recorded changes in fair value of derivative liabilities. These derivative liabilities relate to the convertible debenture financings that the Company entered into starting in December 2017.

**RESULTS OF OPERATIONS**

**For the three months ended May 31, 2019**

**Revenues**

During the three months ended May 31, 2019, the Company recorded revenues from ongoing operations of \$2,063,692 (2018: \$1,304,749).

**Operating expenses**

During the three months ended May 31, 2019, the Company recorded a loss of \$4,353,910 (\$0.03 per share) compared to a loss of \$2,114,490 (\$0.02 per share) for the three months ended May 31, 2018.

The Company incurred operating expenses of \$1,291,125 for the three months ended May 31, 2019 compared with \$4,064,422 for the three months ended May 31, 2018. Expense details are as follows:

- Advertising, promotion, and public relations of \$43,391 (2018: \$147,964) as a result of continued advertising and promotion activities.
- Consulting and management fees of \$727,383 (2018: \$791,287) related to human resources.
- Professional fees of \$96,882 (2018: \$564,881) related to commitments required for business operations.
- Share-based payments of \$10,000 (2018: \$1,844,330)

**RELATED PARTY TRANSACTIONS**

	Management and consulting fees	Rent, utilities swap fees, and other	Share-based payments	Total
William Gildea, CEO	\$ 100,444	\$ 70,226	\$ -	\$ 170,670
Craig Stanley, director	93,600	-	-	93,600
John Sweeney, director	49,887	-	-	49,887
Scott McDermid, director	19,500	4,200	-	23,700
	\$ 263,431	\$ 74,426	\$ -	\$ 337,857

During the period ended May 31, 2019, the Company entered into a swap fee agreement with the CEO of the Company, in which they agreed to exchange 1,950,000 free trading common shares of the Company with holders of 1,950,000 restricted shares of the Company. Aggregate swap fees of \$70,226 were paid or accrued and recognized in the profit or loss.

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Amounts due to related parties as at May 31 and February 28, 2019 are as follows:

	May 31 2019	February 28 2018
Due to TerraSphere	\$ 97,450	\$ 97,540
Due to CEO of the Company	82,197	91,342
Due to companies controlled by directors of the Company	491,615	311,407
	\$ 671,262	\$ 500,289

## LIQUIDITY AND CAPITAL RESOURCES

As at May 31, 2019, the Company had \$2,156,626 in current assets (February 28, 2019: \$3,344,191) and had a working capital deficiency of \$5,085,425 (February 28, 2019 - \$2,646,969).

The Company is entirely dependent on raising equity capital to carry on its business operations. It had \$552,739 cash on hand as at May 31, 2019 (February 28, 2019: \$69,397). There is no guarantee that the Company will be able to raise the equity capital required to fund its ongoing operations.

In March 2019, the Company entered into two Secured Convertible Debentures. One Debenture is in the Principal Amount of US\$696,197, which partially refinances the principal and accrued interest on the US\$1,340,000 Convertible Debenture entered into with Yorkville in November 2018. The other Debenture is in the principal amount of US\$500,000, which was paid to the Company in cash net of certain fees and expenses. The new Debentures bear annual interest at 8% and are repayable within 12 months, or convertible into Common Shares of the Company at a price of C\$0.14 per share.

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The Company's ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements. Given the continuation of weak investor sentiment in capital markets, there exists a material uncertainty as to the Company's ability to raise additional funds on favorable terms in order to continue as a going concern.

The Company will require additional funds to fund budgeted expenses over the next 12 months since the current cash position is not sufficient to cover the anticipated operating budget. These funds may be raised through equity financing, debt financing, or other sources, which may result in further dilution in the equity ownership of our shares.

## EVENTS AFTER THE REPORTING DATE

Subsequent to May 31, 2019, the Company:

- issued 4,000,000 common shares in connection to a partial redemption of Debenture 9 (convertible debenture financing dated May 17, 2019) with original principal of US\$1,851,163; and
- issued 195,256 common shares for consulting services.

## ADDITIONAL DISCLOSURES FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

An analysis of the material components of the Company's general and administrative expenses is disclosed in the audited consolidated financial statements for the three months ended May 31, 2019 to which this MD&A relates.

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**OUTSTANDING SHARE DATA**

As at the date of this report, the Company had 164,992,681 common shares issued and outstanding. There were also 9,984,250 options and 23,343,604 warrants outstanding with expiry dates ranging from December 21, 2020 to January 30, 2024.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

**PROPOSED TRANSACTIONS**

There are no proposed transactions that have not been previously disclosed.

**COMMITMENTS**

In March 2019, the Company entered into a lease agreement with Washington High LLC for premises in Dedham, MA. The lease has a one-year term commencing March 2019 for US\$3,200 per month.

In September 2018, the Company entered into a lease agreement with Rocky Mountain Property Management Company (“Rocky Mountain”) for premises in Vancouver, BC. The lease has a one-year term commenced in September 2018 with an option to renew for one additional year for \$1,400 per month. Rocky Mountain is a related party of the Company.

In March 2018, FFPR, an associated company of the Company, signed a lease agreement for a medical dispensary location in the Condado district of San Juan, Puerto Rico. The lease has a five-year term commenced in March 2018 with an option to renew for a second five-year terms for US\$7,000 per month with a 3% annual adjustment.

In January 2018, the Company renewed a lease agreement with Baywood Nurseries Company, Inc. for premises in Orange County, Florida. The original lease commenced in January 2017 for one year with an option to renew for one additional year. The renewed lease has a one-year term commenced in January 2018 for US\$30,000 per annum.

In January 2018, the Company entered into a lease agreement with 248 Northport LLC for premises in Belfast, Maine. The lease has a two-year term commenced in February 2018 for US\$42,120 per annum.

In June 2016, the Company entered into a consulting services agreement with CBO, who will assist the Company in securing “New Market Tax Credits” of up to \$6,000,000. A director of the Company is the CEO of CBO. In connection with their services, the Company will pay CBO a closing fee equal to 6% of the tax credit and incur on-going management fees equal to 0.5% of the tax credit for the following seven years.

In May 2016, the Company entered into a management contract with the CEO of the Company. Subject to the terms of the agreement, if the contract is terminated without cause, the CEO will be entitled to cash severance of US\$180,000, plus an advance for one year’s rent on the CEO’s current apartment.

**RISKS AND UNCERTAINTIES**

The Company is pursuing new acquisition opportunities with commercial and research ventures for controlled environmental agriculture, cannabis products including hemp, and retail development. The Company has only a small amount of ongoing revenue or income from operations. The Company has limited capital resources and has to rely upon the sale of its assets or sale of its common shares for cash required to make new investments and to fund the administration of the Company.

These risks may not be the only risks faced by the Company. Additional risks and uncertainties not presently known by the Company or which are presently considered immaterial may also adversely impact the Company’s business, results of operations, and financial performance. The most significant risks and uncertainties faced by the Company are (in no specific order):

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Going concern

The Company's capability to continue as a going concern is dependent upon its ability to obtain additional debt or equity financing to meet its obligations as they come due. If the Company were unable to continue as a going concern, then significant adjustments would be required to the carrying value of assets and liabilities, and to the balance sheet classifications currently used. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise necessary funds to further develop its products.

Product Risk

There can be no assurance that any of our future product candidates will meet applicable regulatory standards, obtain required regulatory approvals, be capable of being produced in commercial quantities at reasonable costs, be successfully marketed or that the investment made in such product candidates will be recouped through sales or related royalties. There can be no assurance that we will ever achieve profitability. As a result, an investment in our common shares involves a high degree of risk and should be considered only by those persons who can afford a total loss of their investment.

Competition

The Company plans to compete in an industry in which there are few, but growing number of participants. The Company will have to prove its ability to compete against companies that are further ahead in pursuing the similar commercial ventures and have greater financial, technological, production and marketing resources.

Change in laws, regulations, and guidelines

The Company's operations are subject to a variety laws, regulations and guidelines relating to the manufacture, management, transportation, storage, and disposal of medical marijuana and hemp but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company that it may invest in or acquire.

In addition to the federal rules, the Company, its subsidiaries, and/or its associate(s) will not be able to legally grow or sell medical marijuana without compliance with state, provincial and local by-laws, laws and regulations.

Marijuana remains illegal under federal law in the United States

Marijuana remains illegal under federal law in the United States. It is a Schedule I controlled substance. Even in those jurisdictions in which the use of marijuana has been legalized at the state level, its prescription is a violation of federal law. The United States Supreme Court has ruled that it is the federal government that has the right to regulate and criminalize cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana supersedes state laws that legalize its use for even medicinal purposes. At present the states are maintaining their positions against the federal government, maintaining existing laws and passing new ones in this area, but there can be no assurance that this will continue to be the case. The political and regulatory circumstances surrounding the treatment of U.S. marijuana-related activities are uncertain. In the event that U.S. federal law against marijuana is enforced, there could be material consequences for any issuer with U.S. marijuana related activities, including prosecution and asset seizure.

Limited operating history

The Company is subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

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Future financing

The Company will require financing for the building and operation of facilities and business, which are capital intensive. In order to execute on an anticipated growth strategy, the Company will require equity and/or debt financing to support start up and on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed, if ever, or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions would limit the Company's plans and would have a material adverse effect start-up and planned operations.

Dilution

To conduct its business, the Company will require additional funds. The Company may have to issue additional securities including, but not limited to, common shares or some form of convertible security, the effect of which will result in a dilution of the equity interests of any existing shareholders.

Dependence on key personnel

The Company strongly depends on the business and technical expertise of its management and it is unlikely that this dependence will decrease in the near term. Loss of the Company's key personnel could slow the Company's ability to innovate, although the effect on ongoing operations would be manageable as experienced key operations personnel could be put in place. As the Company's operations expand, additional general management resources will be required.

If the Company expands its operations, the ability of the Company to recruit, train, integrate and manage a large number of new employees is uncertain and failure to do so would have a negative impact on the Company's business plans.

There can be no assurance that any one of these risk factors would not impact the Company's ability to fund capital expenditures or acquisitions associated with the medical marijuana industry and may have a material adverse effect on start-up and planned operations.

*Critical Judgments in Applying Accounting Policies and Key Sources of Estimation Uncertainty*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Estimates and assumptions may be revised as new information is obtained and are subject to change. The Company's accounting policies and estimates used in the preparation of the financial statements are considered appropriate in the circumstances but are subject to judgments and uncertainties inherent in the financial reporting process.

The critical judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized are disclosed in note 2 of the audited consolidated financial statements for the year ended February 28, 2019.

*Conflicts of Interest*

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the BC Business Corporations Act ("BCBCA") dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the BCBCA. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

## **FORWARD-LOOKING INFORMATION**

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "if", "expects", "estimates", "may", "could", "should", "will", "intends" and similar expressions. Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Although the Company believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking information or statements in this MD&A include, but are not limited to, information or statements concerning the Company's expectations for: the Company's current financial resources being sufficient to fund operations; the Company's ability to obtain additional funds through the sale of equity or debt commitments.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors including: changes in general economic conditions and conditions in the financial markets; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; and changing foreign exchange rates and other matters discussed in this MD&A.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, are included in the filings by the Company with securities regulatory authorities. The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual reports could differ from management's estimates.

## **CONTINGENCIES**

The Company is involved in various claims and legal actions in the ordinary course of business. As at the reporting date, the Company recorded a litigation provision of \$46,080 connection with the claims.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### Changes in Internal Control over Financial Reporting ("ICFR")

In connection with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

## **OTHER MD&A REQUIREMENTS**

Additional disclosure of the Company's technical reports, material change reports, news releases and other information can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

Please refer to the unaudited condensed interim consolidated financial statements for the three months ended May 31, 2019 on [www.sedar.com](http://www.sedar.com).

## **FINANCIAL INSTRUMENTS**

Please refer to the unaudited condensed interim consolidated financial statements for the three months ended May 31, 2019 on [www.sedar.com](http://www.sedar.com).