Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)

Management Discussion and Analysis

As at and for the Three and Six Months Ended June 30, 2019

(In U.S. Dollars, Unless Otherwise Noted)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(All amounts are in U.S. dollars, unless otherwise noted)

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Vibe Bioscience Ltd. (formerly Altitude Resources Inc.) (the "Company"). The MD&A discusses the operating and financial results for the three and six months ended June 30, 2019, is dated August 27, 2019, and takes into consideration information available up to that date. The MD&A is based on the unaudited interim consolidated financial statements of the Company for the three and six months ended June 30, 2019. The MD&A should be read in conjunction with (i) the unaudited consolidated interim financial statements for the three and six months ended June 30, 2019, prepared in accordance with IFRS applicable to preparation of interim financial statements, including International Accounting Standard ("IAS") 34 - Interim Financial Reporting, and (ii) the audited consolidated financial statements and related notes for the period from June 11, 2018 to December 31, 2018, prepared in accordance with International Financial Reporting Standards ("IFRS").

The MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. Additional information is available on the Company's website (www.vibebycalifornia.com) and all previous public filings are available through SEDAR (www.sedar.com). All amounts are denominated in U.S. dollars ("USD") unless otherwise noted.

CAUTIONARY NOTE REGARDING FORWARD LOOKING INFORMATION

The MD&A contains certain forward-looking information relating to the Company's plans, strategies, objectives, expectations and intentions. The use of any of the words "expect", "intend", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "budget", "forecast", "should", "believe", "plans", "intends", "confident" and similar expressions are used to identify forward looking information. In particular, but without limiting the foregoing, the MD&A may contain forward-looking information pertaining to the following:

- (i) Product sales expectations and corresponding forecasted increases in revenues.
- (ii) Gross margin expectations and corresponding cost control and measurement.
- (iii) Expectations regarding production capacity, costs, yields and cannabis prices.
- (iv) Expectations regarding general and administrative cost levels.
- (v) The completion of construction of production facilities, associated costs, and receipt of related licenses from associated regulatory authorities
- (vi) The successful completion and integration of historical and in-process acquisitions into the Company's operations.
- (vii) Strategic acquisition, investments and capital expenditures, and the related benefits.
- (viii) Expectations regarding regulatory and legislative uncertainties and potential changes in tax laws.

The forward-looking information is based on information available as of the date of the MD&A and the Company is under no obligation, and specifically disclaims any intention or obligation to update or revise such forward-looking information because of new information, future events or otherwise, except as expressly required by applicable law. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking information throughout the MD&A. The forward-looking information included in the MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking information is based on current expectations, estimates and projections that involve numerous risks and uncertainties which could cause actual results to differ materially from those anticipated and described in the forward-looking information.

NON-IFRS MEASURES

The MD&A contains references to certain financial measures and associated per share data that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company believes that these non-IFRS Measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. These financial measures are computed on a consistent basis for each reporting period and include the following:

(i) EBITDA (earnings before interest, taxes, depreciation and amortization) is used by management to analyze the Company's profitability based on the Company's principal business activities regardless of how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. The detailed calculation of EBITDA is presented later in the MD&A.

(ii) EBITDA margin is calculated by EBITDA divided by revenue and is used by management to analyze the Company's profitability relative to its revenue generation.

(iii) Adjusted EBITDA is used to by management to measure the results of the Company's core cannabis business. Amounts are deducted from EBITDA to eliminate the impact of foreign exchange, share-based payment expense, impairment losses, gains or losses on the sale of property and equipment, listing and transaction expenses, fair value adjustments on financial assets and liabilities and any other expenses that management considers one-time in nature which are not related to operational performance. The detailed calculation of EBITDA is presented later in the MD&A.

(iv) Adjusted EBITDA margin is calculated by dividing revenue by adjusted EBITDA and is used by management to analyze the profitability of the Company's core cannabis profitability relative to its revenue generation.

(v) Gross margin is used by management to determine the overall profitability of the Company's various cannabis products. Gross margin is calculated by subtracting cost of goods sold, including adjustments for biological assets, from revenue.

(vi) Gross margin percent is calculated as gross margin divided by revenue and is used by management to measure the Company's direct product profitability.

(vii) Working capital or working capital deficit is used by management to analyze the operating liquidity available to the Company. Working capital consists of the Company's current assets, excluding cash less the Company's current liabilities, excluding current portion of debt and notes payable. The detailed calculation of working capital is presented later in the MD&A.

(viii) G&A or selling and marketing as a percent of revenue is used by management to measure the level of the Company's general and administrative costs ("G&A") and selling and marketing expenses relative to the revenue generated. G&A as a percent of revenue is calculated as G&A expense divided by revenue. Selling and marketing expense as a percent of revenue is calculated as selling and marketing expense divided by revenue.

Non-IFRS measures should be considered together with other data prepared accordance with IFRS to enable investors to evaluate the Company's operating results, underlying performance and prospects in a manner similar to the Company's management. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

COMPANY OVERVIEW

On March 25, 2019, Altitude Resources Inc. ("Altitude"), 2657152 Ontario Inc. ("Newco"), a wholly-owned subsidiary of Altitude and Vibe Bioscience Corporation ("Vibe") completed a three-cornered amalgamation whereby Vibe amalgamated with Newco and completed a reverse take-over of Altitude (the "Altitude Reverse Take-over"). The Altitude Reverse Take-over was completed by issuing 6.883 common shares of Altitude in exchange for each Class A common share of Vibe, resulting in Vibe becoming a wholly-owned subsidiary of Altitude with the former shareholders of Vibe acquiring a controlling interest in Altitude. In connection with the Altitude Reverse Take-over, Altitude delisted its shares on the TSX Venture Exchange, changed its name to Vibe Bioscience Ltd. (the "Company"), completed a listing on the Canadian Securities Exchange under the ticker symbol "VIBE" and consolidated all of its issued and outstanding common shares on a basis of 12 to 1.

Prior to the Altitude Reverse Take-over, Altitude did not operate an active business. The current operations of the Company are conducted through Vibe which was incorporated under the laws of the Province of Ontario on June 11, 2018; the date on which the Company's current operations began. On February 18, 2019, the Company completed the simultaneous acquisition of 100% of the interests in four California based entities under common control (the "U.S. Acquisition") for aggregate proceeds totaling $7,419,541 consisting of common shares of the Company with a calculated value of $4,234,037 and cash totaling $3,185,504 (after a final working capital adjustment favorable to the Company totaling $614,496).

The four entities included in the U.S. Acquisition consisted of (i) Port City Alternative of Stockton Inc. ("Port City"), (ii) 8130 Alpine LLC ("8130 Alpine"), (iii) Alpine CNAA LLC ("Alpine CNAA"), and (iv) Alpine Alternative Naturopathic ("Alpine Alternative"). The entities acquired in the U.S. Acquisition are collectively referred to as the "U.S. Targets". The operations of 8130 Alpine and Alpine CNAA were merged in connection with the U.S. Acquisition and the resulting entity is now named Vibe Cultivation LLC, hereinafter referred to as "Alpine Cultivation". Upon completion of the U.S. Acquisition the Company began operating its cannabis business, through these acquired entities on a combined basis.

In connection with the U.S. Acquisition, the Company also entered into a purchase and sale agreement to acquire all of the issued and outstanding securities of NGEV, Inc. ("NGEV"). However, the acquisition of NGEV was conditional upon NGEV obtaining a license from the State of California to operate as a cannabis cultivation facility (the "NGEV License"). The NGEV License was not obtained and the NGEV purchase and sale agreement was terminated by the Company in May 2019. Although the acquisition of NGEV was never completed, the Company funded the operations of NGEV through May 2019 with no obligation for repayment by NGEV.

In addition to the 6.883 to 1 share exchange and 12 to 1 share consolidation related to the Altitude Reverse Take-over noted above, the Company completed a share split on a 1 to 1.511 basis in connection with a private placement of the Company's common shares completed in the first quarter of 2019. All results presented as at and for the three and six months ended June 30, 2019, including comparative results, related to common share and per common share amounts, warrants and stock options and related exercise prices reflect the above notes share exchange, consolidation and split.

The Company's business is to evaluate, acquire and develop cannabis cultivation and manufacturing assets and retail cannabis dispensaries, predominantly in the U.S., in order to become a vertically integrated cannabis operator.

The Company's Canadian head office is located at #214, 2505 - 17 Ave SW Calgary, Alberta T3E 7V3 and its U.S. head office is located at 8112 Alpine Ave Sacramento, California 95826.

FINANCIAL RESULTS

Financial and Operational Highlights[a]

In the second quarter of 2019, the Company continued to build on the positive results realized in the first three months of the year:

(i) *U.S. Targets generate revenue and adjusted EBITDA[b] of $3,096,836 and $673,505, respectively*. The Company's U.S. dispensary and cultivation operations continued their positive results in the three months ended June 30, 2019, generating revenue and adjusted EBITDA of $3,096,836 and $673,505, respectively, compared to revenue and adjusted EBITDA of $1,313,726 and $303,870, respectively from February 18, 2019 (the acquisition date) to March 31, 2019. The U.S. operations benefited from the seasonality of the retail cannabis business which experiences higher revenue in the summer months.

(ii) *Delivery service commenced.* In June 2019 the Company, through Alpine Alternative, was granted a delivery license for the City of Sacramento which allows for door-to-door delivery of cannabis products throughout California's Central Valley. The Company launched its delivery service on June 7, 2019 and expects to realize the benefits of the delivery license throughout the remainder of 2019 and into 2020 as customers become familiar with the service offering.

(iii) *Retained KCSA Strategic Communications ("KCSA") to lead the Company's public and investor relations programs.* KCSA is a leading U.S. communications firm and will work the Company's management to develop a comprehensive communications strategy designed to increase the visibility of the Company in the marketplace and assist in communicating the Company's mission to become a dominant vertically integrated cannabis retailer.

(iv) *New extracts product development completed.* In the second quarter of 2019, the Company completed the development of its new "Hype" brand extracts product which will be sold through the Company's retail dispensaries beginning in August 2019.

(v) *Planned Improvements to the Company's cultivation facilities are expected to be complete in Q4.* The first phase of upgrades to the Alpine Cultivation facilities are near completion with the resulting increased nursery capacity expected to be operational in the fourth quarter of 2019.

(a) Readers are cautioned that this section contains forward looking information that is based on various assumptions and subject to certain risk factors – see discussion of Cautionary Note Regarding Forward Looking Information.

(b) Readers are cautioned that adjusted EBITDA does not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

Corporate Strategy[a]

The Company's mission is to become a dominant vertically integrated cannabis retailer and multi-state operator in the U.S. with an emphasis on promoting ethical and responsible adult use of cannabis while continuing to supply the medicinal market with high quality and targeted use cannabis and cannabis related products. Management believes that a key factor in increasing market share is to acquire existing, well managed cannabis operators with cultivation, manufacturing and retail operations that management anticipates will be cash flow positive for the Company on day one of acquisition. Since their acquisition in February 2019, the U.S. Targets have generated positive results for the Company realizing $673,505 of adjusted *EBITDA[b]* on revenue of $3,096,836 in the second quarter of 2019; the first full quarter of operations since the U.S. Acquisition.

Management is also focused on generating revenue growth organically through investment in product development and existing cultivation and retail infrastructure. In the second quarter of 2019, the Company completed the development of its new "Hype" brand extracts product which will be sold through the Company's retail dispensaries beginning in August 2019. In addition, the Company is currently completing the expansion and upgrade of its existing cultivation facilities which, when completed in the fourth quarter of 2019, are anticipated to improve the harvest process, resulting in increases in both yields and annual volume of harvested cannabis. Management believes that by investing in product development and cultivation, manufacturing and distribution operations, the Company will be able to increase sales into and from its existing retail channel in addition to gaining market share in the wholesale supply of cannabis.

The Company is also focused on creating efficiency of the point-of-sale process at the dispensary locations and improving methods of product delivery, including providing on-line ordering, drive through services and door-to-door delivery. The Company successfully secured a delivery license in June 2019 and commenced its door-to-door delivery service, the benefit of which is expected to be realized through the remainder of 2019 and into 2020. Management believes that by providing multiple and varied ways of product payment and delivery, the Company will attract a wider and more varied customer demographic and further increase customer loyalty.

In addition, management is focused on ensuring new dispensaries deliver an exceptional and unique retail experience under "Vibe by California™" branded stores. Capital is being invested at the existing dispensary locations that is intended to develop consistent store branding in addition to creating an inviting and consistent customer experience across all locations. The Company is also making similar investments in the Redding retail dispensary location which is scheduled to be opened by the end of 2019, pending the satisfaction of certain customary closing conditions related to the acquisition of the dispensary (including receipt of all necessary third-party consents and approvals). Management believes that investing in a consistent corporate and product brand across all dispensary locations will improve customer recognition of, and loyalty for, the "Vibe by California™" and "Hype" brands while maximizing the return on capital invested.

(a) Readers are cautioned that this section contains forward looking information that is based on various assumptions and subject to certain risk factors – see discussion of Cautionary Note Regarding Forward Looking Information.

(b) Readers are cautioned that adjusted EBITDA does not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

Results of Operations

The Company was incorporated on June 11, 2018 with the issuance of 390 common shares for nominal consideration but did not commence operations until July 2018. Consequently, there are no comparative results for the three and six months ended June 30, 2018. Further, the Company's core cannabis business did not commence until the acquisition of the U.S. Targets on February 18, 2019. Consequently, revenue, gross margin, G&A, selling and marketing expense, net loss, EBITDA and adjusted EBITDA amounts include results of (i) the U.S. Targets from February 18, 2019 to June 30, 2019, and (ii) the Company's head office for the entire six months ended June 30, 2019. Amounts presented for the three months ended June 30, 2019 include the results of the U.S. Targets and the head office for the entire period. The Company's key financial results for the three and six months ended June 30, 2019 are as follows:

	Period ended June 30, 2019		**Quarter ended**
	Three months	**Six months**	**March 31, 2019**
Results of operations			
Revenue	$ 3,096,836	$ 4,410,562	$ 1,313,726
Gross margin	1,296,113	1,879,420	583,307
Gross margin % [a]	*41.9*	*42.6*	*44.4*
G&A - U.S. Targets	391,233	558,987	167,754
G&A - head office	590,932	876,209	285,277
G&A - total	982,165	1,435,196	453,031
Selling and marketing	229,222	326,992	97,770
G&A as a percent of revenue [a]	*31.7*	*32.5*	*34.5*
Selling and marketing as a percent of revenue [a]	*7.4*	*7.4*	*7.4*
Net loss	(855,080)	(3,077,051)	(2,221,971)
EBITDA [a]	(241,265)	(2,149,962)	(1,908,697)
Adjusted EBITDA [a]	113,322	172,658	59,336
EBITDA % [a]	*(7.8)*	*(48.7)*	*(145.3)*
Adjusted EBITDA % [a]	*3.7*	*3.9*	*4.5*

(a) Readers are cautioned that the amounts presented do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

Revenue and gross margin

The Company's Alpine Alternative and Port City dispensaries provide a wide variety of high-quality cannabis flowers, edibles and extracts and generate consistent positive gross margins of 48% to 50% of revenue. The Alpine Cultivation operations provide the Company with cannabis cultivation and manufacturing assets and supply products for the Company's Port City and Alpine Alternative dispensaries.

Revenue and gross margin realized by the U.S. Targets for the three and six months ended June 30, 2019 are as follows:

	Three months ended June 30, 2019				
	Port City	Alpine Alternative	Total dispensaries	Alpine Cultivation	Total
Revenue	**$ 1,500,180**	**$ 1,398,795**	**$ 2,898,975**	**$ 197,861**	**$ 3,096,836**
Cost of good sold	758,791	712,159	1,470,950	324,561	1,795,511
Net effect of adjustments for biological assets	-	-	-	5,212	5,212
Gross margin [(a)]	**$ 741,389**	**$ 686,636**	**$ 1,428,025**	**$(131,912)**	**$ 1,296,113**
Gross margin % [(a)]	*49.4*	*49.1*	*49.3*	*(66.7)*	*41.9*

	Six months ended June 30, 2019 (b)				
	Port City	Alpine Alternative	Total dispensaries	Alpine Cultivation	Total
Revenue	**$ 2,132,505**	**$ 1,952,566**	**$ 4,085,071**	**$ 325,491**	**$ 4,410,562**
Cost of good sold	1,088,877	980,991	2,069,868	470,984	2,540,852
Net effect of adjustments for biological assets	-	-	-	(9,710)	(9,710)
Gross margin	**$ 1,043,628**	**$ 971,575**	**$ 2,015,203**	**$(135,783)**	**$ 1,879,420**
Gross margin % [(a)]	*48.9*	*49.8*	*49.3*	*(41.7)*	*42.6*

(a) Readers are cautioned that the amounts presented do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures. Gross margin % is calculated by divided gross margin by revenue.

(b) Results of the U.S. Targets include the period from the date of acquisition on February 18, 2019 to June 30, 2019.

The Port City dispensary comprises approximately 2,500 square feet of leased retail space and generated revenue totaling $1,500,180 and $2,132,505 in the three and six months ended June 30, 2019, respectively, and gross margin of $741,389 (49.4%) and $1,043,628 (48.9%), respectively.

Alpine Alternative's dispensary comprises approximately 2,100 square feet of owned retail space and generated revenue totaling $1,398,795 and $1,952,566 in the three and six months ended June 30, 2019, respectively, and gross margin of $686,636 (49.1%) and $971,575 (49.8%), respectively.

Over 80% of revenue at both Port City and Alpine Alternative consist of sales of dried cannabis, extracts and edibles. The cost of revenue associated with the dispensary operations consist of direct product costs with each product generating slightly different mark-ups. Accordingly, the gross margin percent realized by Port City and Alpine Alternative will differ slightly period-over-period and compared to each location as a result of variations in product mix.

The operations of the U.S. Targets are seasonal in nature as they are generally impacted by weather conditions. Specifically, higher revenue is generally realized in the warmer summer months of April through September due to increased outdoor activity by recreational adult-use cannabis customers and various cannabis festivals and holidays held in the period. Conversely, the winter months of October to December can see a decrease in revenue arising from the harvest of cannabis plants by individual cannabis users as California law allows an individual over 21 years of age to harvest up to six plants annually for personal use. The harvest for these individual users typically occurs in October to December each year. Accordingly, both Port City and Alpine Alternative realized increased sales volume in the second quarter of 2019, resulting in increased revenue and gross margin in the three months ended June 30, 2019 beyond simply including the results of the dispensaries for an entire three months.

Alpine Cultivation has a nursery, cultivation and production site occupying two buildings owned by the Company. The Company's current annual cultivation volume totals approximately 230,000 grams and is housed in approximately 5,600 square feet of indoor space (including curing/drying and packaging operations). The gross margin reported by Alpine Cultivation includes all variable direct growing costs and related supplies and distribution fees in addition to costs fixed costs associated with cultivation and manufacturing personnel and facility related costs. The Alpine Cultivation operations are currently operating at a loss on a gross margin basis largely due to the existing scale of the operations and the quality of existing infrastructure. In addition, Alpine Cultivation revenue is impacted by growth cycles and the timing of plant harvests. Alpine Cultivation realized lower revenue in the three months ended June 30, 2019 due to the timing of the harvest in the quarter, which carried over into the third quarter of 2019. The Company is currently undertaking upgrades and improvements to the Alpine Cultivation facilities that management anticipates will improve the efficiency of the harvest process, resulting in increased annual cannabis production volumes and improve harvest yields.

Management is undertaking significant capital investment in two phases in order to improve the Alpine Cultivation facilities[a]. Phase 1 of the capital investment includes moving the existing nursery operation into a larger space, adding approximately 2,300 square feet of growing space, and implementing operating efficiencies at the existing cultivation and manufacturing facility. By increasing nursery space, management anticipates the Company will realize improved yield rates in addition to gaining an extra harvest annually, thus increasing overall harvested cannabis volume. Phase 1 was originally planned to be completed by the end of the second quarter of 2019. However, delays in securing contractors and sub-contractors due to supply constraints in the Sacramento market have pushed the completion date for Phase 1 to the fourth quarter of 2019. Expenditures incurred on the Phase 1 through June 30, 2019 (including expenditures incurred prior to the February 18, 2019 acquisition date) total approximately $200,000. Management expects to incur additional capital expenditures totaling approximately $50,000 to $75,000 to complete the Phase 1 upgrades.

Phase 2 of the capital investment in the Alpine Cultivation operations consists of increasing the Company's cultivation capacity and creating distribution capabilities[a]. The Company plans to add 2,300 square feet of cultivation space which almost doubles existing capacity. In addition, the Company expects to build out a 1,000 square foot distribution room and is in the process of securing a distribution license. However, Phase 2 upgrades cannot commence until the Phase 1 upgrades are completed. Once commenced, management expects the Phase 2 upgrades to be completed over a 9 to 12 month period.

(a) Readers are cautioned that this paragraph contains forward looking information that is based on various assumptions and subject to certain risk factors – see discussion of Cautionary Note Regarding Forward Looking Information.

Management believes that the phase 2 investment in the cultivation facilities will further increase annual cultivation volume which will increase the Company's vertical integration into its existing retail channel. In addition, the added distribution capabilities and distribution license are expected to provide the Company with exposure to the cannabis wholesale market in addition to lowering cultivation costs by reducing the Company's reliance on third party distributors.

Both phase 1 and 2 consists of upgrades being made to existing structures and facilities with no new buildings planned. Accordingly, management does not expect any changes to the Company's existing cultivation and retail licenses and operations should continue uninterrupted through completion of the upgrades.

G&A expenses

General and administrative expenses consist largely of employee related costs, professional fees, security costs for the dispensaries and rent and related utility costs. The following table presents the details of G&A expense for the three and six months ended June 30, 2019:

	Three months ended June 30, 2019			**Six months ended June 30, 2019**		
	U.S. Targets	**Head office**	**Total**	**U.S. Targets [a]**	**Head office [a]**	**Total**
Employee costs	$ 191,343	$ 160,236	$ 351,579	$ 277,031	$ 337,256	$ 614,287
Professional and fees	12,020	357,366	369,386	20,724	452,011	472,735
Security services	109,899	-	109,899	148,086	-	148,086
Rent and utilities	16,318	21,730	38,048	27,686	31,590	59,276
Other	61,653	51,600	113,253	85,460	55,352	140,812
	$ 391,233	**$ 590,932**	**$ 982,165**	**$ 558,987**	**$ 876,209**	**$ 1,435,196**
As a percent of revenue [b]	*12.6*	*19.1*	*31.7*	*12.7*	*19.9*	*32.5*

(a) Amounts for the U.S. Targets consist of results from the date of acquisition on February 18, 2019 through June 30, 2019. Amounts for the head office consist of results for the entire six months ended June 30, 2019. As a percent of revenue amounts are calculated as total general and administrative expense divided by total revenue of $3,096,836 and $4,410,562 in the three and six months ended June 30, 2019, respectively.

(b) Readers are cautioned that the amounts presented do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

Employee costs consist of salaries, benefits, employee travel and meals and entertainment. Total employee costs for the U.S. Targets are comprised of costs associated with personnel located in California who oversee the day-to-day management of the dispensaries in addition to managing the accounting and finance functions of the U.S. operations.

(a) Readers are cautioned that this paragraph contains forward looking information that is based on various assumptions and subject to certain risk factors – see discussion of Cautionary Note Regarding Forward Looking Information.

U.S. Target employee costs increased in the three months ended June 30, 2019 beyond simply including the results of the U.S. Targets for an entire three months, largely due to adding staff as a result of the increased sale volume realized in the period. In the second quarter of 2019, the Company added two part-time and one full-time front desk employees to the dispensary operations and one full time and two part-time employees related to back office administration. In addition, in May 2019 the Company implemented a company-wide wage increase for all U.S. Target employees making minimum wage in order to improve employee retention.

Head office employee costs currently consist of the executive management team located in the Calgary, Canada. The executive management team is responsible for managing the Company's capital requirements, corporate and business development, investor communications and financial and regulatory reporting. Head office employee costs for the three months ended June 30, 2019 are reflective of the termination of an employee and reaching the maximum federal payroll withholding requirements.

Professional and consulting fees largely consist of public company related expenses, directors' fees, third-party legal, tax, accounting and audit services. The Company also utilizes consultants on a part-time basis to assist with financial reporting requirements. Professional and consulting fees for the three months ended June 30, 2019 are reflective of additional costs associated with (i) Canadian and U.S. tax structuring and securities matters, (ii) public and investor relations costs – including the retention of KCSA, (iii) public company related filing and compliance costs, and (iv) director fees, all which were not incurred until after the Company's public listing on April 3, 2019.

Security services consist of security provided by third parties at the cultivation and dispensary locations. The Company utilizes the services of third-party security firms who provide security guards at each dispensary. Currently, the Company utilizes security services on a 24 hours basis.

Rent and utilities largely consists of utility and maintenance costs associated with the dispensaries and rent and utilities at the head office. The Company's monthly rent expense is limited to the head office lease which has a six month term, and therefore, is not capitalized under IFRS. The lease for Port City has been capitalized under IFRS and the related monthly lease payments are considered interest expense and principal repayments. The Alpine Cultivation facility and Alpine Alternative dispensary are owned by the Company, and therefore, there are no related rent payments.

Other G&A expenses largely consist of insurance, office supplies and software licensing cost associated with the Company's point-of sale, accounting and cannabis seed-to-sale tracking software. Other expense increased significantly in the three months ended June 30, 2019 largely due to premium payments for directors and officers insurance policy which commenced in April 2019 in connection with the Company's public listing.

Selling and marketing expenses

The following tables presents the details of selling and marketing expense for the three months and six months ended June 30, 2019:

	Three months	Six months [(a)]
Employee costs	$ 184,245	$ 257,161
Advertising and promotion	44,898	68,402
Other	79	1,429
	$ 229,222	**$ 326,992**
As a percent of revenue [(b)]	*7.4*	*7.4*

(a) Amounts include the U.S. Targets results from the date of acquisition on February 18, 2019 through June 30, 2019.

(b) Readers are cautioned that the amounts presented do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures. As a percent of revenue amounts are calculated as total selling and marketing expense divided by total revenue of $3,096,836 and $4,410,562 in the three and six months ended June 30, 2019, respectively.

Selling and marketing expenses are almost entirely incurred by the U.S. Targets. Specifically, employee costs, which consist of salaries, benefits, employee travel and meals and entertainment, largely relate to bud tenders at the dispensaries in addition to front desk and register staff. Consistent with employee costs included in general and administrative expense, selling and marketing employee costs increased in the three months ended June 30, 2019 beyond simply including the results of the U.S. Targets for an entire three months, largely due to adding additional retail personnel at each dispensary location and increasing the minimum wage paid to employees. In the second quarter of 2019, the Company added four part-time bud-tenders and two full time bud tenders who also operate the truck for the Company's new delivery service.

The Company also incurs advertising and promotion expenses directly by the U.S. Targets which implemented a marketing campaign in the second quarter of 2019 focused on promoting the "Vibe by California™" store and "Hype" product brands. The Company has existing policies, procedures and approval processes in place to ensure that all media advertising complies with all existing regulatory requirements both in the U.S. and Canada.

Net loss

The Company incurred a net loss of $(855,080) in the three months ended June 30, 2019 compared to a net loss of $(2,221,971) in the three months ended March 31, 2019 (net loss for the six months ended June 30, 2019 totaling $(3,077,051)). The reduction of the net loss in the second quarter of 2019 is due to (i) inclusion of the U.S. Targets for the full three months of the quarter – including the increase in sales volume resulting from seasonal factors, (ii) elimination of a number of non-cash and non-recurring expenses associated with completing the Altitude Reverse Take-over and the U.S. Acquisition in the first quarter of 2019, (iii) decrease in stock-based compensation resulting from fewer options vesting in the period, partially offset by (iv) increased professional and consulting fees and insurance premiums associated with public company requirements, and (v) lower profitability in the Alpine Cultivation operations due to the timing of plant harvests.

Included in net loss for the three and six months ended June 30, 2019 is income tax expense totaling $298,360 and $401,360, respectively. Total income tax expense for the three months ended June 30, 2019 includes current and deferred income taxes totaling $296,000 and $2,000, respectively. Total income tax expense for the six months ended June 30, 2019 includes a current tax expense and a deferred tax recovery of $434,360 and $(33,000), respectively.

Current income tax expense is measured at the amount expected to be recovered from or paid to the taxation authorities. General and administrative and selling and marketing expenses incurred by the U.S. Targets are not deductible for U.S. federal tax purposes. Specifically, entities that operate in the cannabis industry are subject to the limits of U.S. Internal Revenue Code Section 280E under which only those expenses directly related to sales of cannabis can be deducted. Accordingly, each of the U.S. Targets are effectively taxed at the gross margin level for federal tax purposes. Deferred income taxes are recognized for the income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis.

The entire current income tax expense for the three months and six months ended June 30, 2019 is driven by the Port City and Alpine Alternative dispensaries as they currently have profitable operations. Current income tax expense in the three months ended June 30, 2019 increased beyond simply including the results of the U.S. Targets for an entire three month as a result of the increased gross margin realized by both Port City and Alpine Alternative in the period as a result of seasonal revenue.

Deferred income taxes largely relate to the difference in the accounting and tax basis of the intangible assets acquired in the acquisition of the U.S. Targets in February 2019.

The Company also realized tax losses in the three and six months ended June 30, 2019, largely by incurring head office general and administrative expenses in Calgary, Canada. Management is currently implementing tax structuring policies and procedures focused on optimizing the utilization of tax losses created by Canadian entities.

EBITDA and adjusted EBITDA[(a)]

(Readers are cautioned that EBITDA and adjusted EBITDA – as discussed throughout this section – do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures).

Management analyzes EBITDA and adjusted EBITDA which eliminates the impact of interest, taxes, depreciation and amortization, and other non-cash and non-recurring transactions from net income in order to understand the Company's on-going profitability based on its core principal cannabis business.

(a) Readers are cautioned that EBITDA and adjusted EBITDA does not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures

EBITDA and adjusted EBITDA are calculated as follows:

	Period ended June 30, 2019		Quarter ended
	Three months	Six months [(a)]	March 31, 2019 [(a)]
Calculation of EBITDA			
Net loss	$ (855,080)	$ (3,077,051)	$ (2,221,971)
Add back:			
Interest expense	42,308	57,951	15,643
Income tax expense	298,360	401,360	103,000
Depreciation and amortization expense	273,147	467,778	194,631
EBITDA	**(241,265)**	**(2,149,962)**	**(1,908,697)**
Calculation of adjusted EBITDA			
Add back non-cash items:			
Listing fee	-	564,704	564,704
Stock-based compensation	227,966	651,463	423,497
Loss on investment	-	415,000	415,000
Unrealized foreign exchange loss	1,122	4,858	3,736
Unrealized gain on fair value of financial asset	(73,870)	(113,195)	(39,325)
Add back non-recurring expenses:			
Transaction expenses	41,377	455,644	414,267
NGEV funding	153,000	320,000	167,000
Other non-recurring expenses	4,992	24,146	19,154
Adjusted EBITDA	**$ 113,322**	**$ 172,658**	**$ 59,336**
EBITDA % [(b)]	*(7.8)*	*(48.7)*	*(145.3)*
Adjusted EBITDA % [(b)]	*3.7*	*3.9*	*4.5*

(a) Results include the U.S. Targets only from the date of acquisition on February 18, 2019.

(b) EBITDA and adjusted EBITDA as a percent of revenue is calculated by dividing the respective amounts by total revenue totaling $3,096,836 and $4,410,562 in the three and six months ended June 30, 2019, respectively, and $1,313,726 in the three months ended March 31, 2019.

The Company realized EBITDA of $(241,265) and $(2,149,692) in the three months and six months ended June 30, 2019, respectively and $(1,908,697) in the three months ended March 31, 2019. The negative EBITDA realized by the Company in all periods is due to a number of non-cash, non-operating and non-recurring transactions. In addition, EBITDA for the three months ended March 31, 2019 and the six months ended June 30, 2019 only include the results of the U.S. Targets from the date of acquisition on February 18, 2019.

Adjusted EBITDA for the three and six months ended June 30, 2019 totaled $113,322 (3.7%) and $172,658 (3.9%), respectively, and $59,336 (4.5%) in the three months ended March 31, 2019. Despite the positive EBITDA contribution of the Port City and Alpine Alternative dispensaries, adjusted EBITDA as a percent of revenue in the three and six months ended June 30, 2019 was partially negatively impacted by increased professional and consulting fees and insurance costs associated with the public company listing in April 2019 and the decrease in Cultivation revenue in the second quarter of 2019 due to the timing of the plant harvest.

The amounts added back in calculating adjusted EBITDA are as follows:

(i) Listing fee. This amount represents the difference between the fair value of the shares issued to complete the Altitude Reverse Take-over and the net assets acquired by the Company. The listing expense is both non-cash and non-recurring.

(ii) Stock-based compensation. The Company periodically issues stock options to employees, consultants and Board members as an additional method of compensation and the resulting expense is included in the determination of net income. However, stock-based compensation is non-cash, and therefore, it is added back in determining adjusted EBITDA.

(iii) Loss on investment. Prior to completing the U.S. Acquisition, the Company acquired a 20% non-controlling interest in Port City for which it paid cash totaling $800,000. The fair value of the 20% non-controlling interest was determined to be impaired for accounting purposes upon the acquisition of the remaining 80% of Port City and a loss totaling $415,000 was recorded in net income in the three months ended March 31, 2019. The loss on the original Port City investment is both non-cash and non-recurring.

(iv) Unrealized foreign exchange loss. The amount relates to the proceeds due on the sale of the certain shares arising from the Altitude Reverse Take-over. The receivable amount is denominated in Australian dollars. The receivable is translated into USD at each reporting date. An unrealized foreign currency exchange loss totaling $3,736 and $1,122 related to this receivable was recorded at March 31, 2019 and June 30, 2019, respectively. The unrealized foreign exchange loss is non-cash.

(v) Unrealized gain on fair value of financial asset. The amount relates to the proceeds due on the sale of certain shares arising from the Altitude Reverse Take-over. The underlying shares are traded on the Australian Stock Exchange and are revalued at the share price at each reporting date. An unrealized gain on the change in the fair value of the underlying shares totaling $39,325 and $73,870 was recorded at March 31, 2019 and June 30, 2019, respectively. The unrealized gain on the fair value of the receivable amount is non-cash.

(vi) Transaction expenses. The Company incurred legal, tax, accounting and other related professional and consulting fees in connection with the U.S. Acquisition and the Altitude Reverse Take-over totaling $41,377 and $455,644 in the three and six months ending June 30, 2019, respectively. The transaction expenses incurred in second quarter of 2019 largely relate to legal and other professional fees associated with finalizing the public company listing arising from the Altitude Reverse Take-over and the completing the final working capital adjustment associated with the U.S. Acquisition. The transaction expenses do not relate to the on-going business of the Company, and therefore are considered non-operational.

(vii) NGEV funding. The Company funded NGEV's operating losses totaling $153,000 and $320,000 in the three and six months ended June 30, 2019, respectively. The Company ceased funding NGEV's operating losses when the purchase and sale agreement for the acquisition of NGEV was terminated by the Company in May 2019. Funding of the NGEV losses does not relate to the on-going business of the Company, and therefore is considered non-operational and non-recurring.

(viii) Other non-recurring expenses. Other non-recurring expenses largely consist of professional and consulting fees incurred by the Company that are not expected to be incurred in future period.

The Company's total adjusted EBITDA for the three and six months ended June 30, 2019 is largely driven by the profitability of the U.S. Targets – specifically the dispensaries - as follows:

	Three months ended June 30, 2019			**Six months ended June 30, 2019**		
	U.S. Targets	**Head office**	**Total**	**U.S. Targets [a]**	**Head office [a]**	**Total**
EBITDA	$520,505	$(761,770)	$(241,265)	$ 684,375	$(2,834,337)	$(2,149,962)
Adjusted EBITDA	$673,505	$(560,183)	$ 113,322	$1,004,375	$ (831,717)	$ 172,658
EBITDA %	*16.8*	*(24.6)*	*(8.3)*	*15.5*	*(64.3)*	*(48.7)*
Adjusted EBITDA %	*21.7*	*(18.1)*	*3.9*	*22.8*	*(18.9)*	*3.9*

(a) Amounts for the U.S. Targets consist of results from the date of acquisition of February 18, 2019 through June 30, 2019. Amounts for the head office consist of results for the entire six months ended June 30, 2019.

EBITDA and adjusted EBITDA of the U.S. Targets is included in the Company's consolidated results from the date of acquisition on February 18, 2019 to June 30, 2019. However, the profitability of the U.S. Targets provides sufficient EBITDA to more than offset the expenses incurred by the head office for the entire six months ended June 30, 2019. Management believes that the U.S. Targets will continue to generate positive EBITDA that will be used to fund additional acquisitions and improvements to existing locations.

Outlook[a]

The second quarter of 2019 was very positive for the Company, building from the positive results realized in the first quarter of the year. The results of the U.S. Targets are reflected for an entire three months in the second quarter of 2019, contributing revenue and gross margin[b] of $3,096,836 and $1,296,113, respectively, in the period and contributing adjusted EBITDA[b] of $113,322. The U.S. Targets also benefited from positive seasonal effects in the three months ended June 30, 2019 which are expected to continue into the third quarter of 2019. Alpine Alternative also launched its door-to-door delivery service in June 2019 and improvements to the store layout continue in connection with the first phase of the upgrades and improvements being made to the Alpine Cultivation and Alpine Alternative facilities.

(a) Readers are cautioned that this section contains forward looking information that is based on various assumptions and subject to certain risk factors – see discussion of Cautionary Note Regarding Forward Looking Information.

(b) Readers are cautioned that adjusted EBITDA and gross margin do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

Management expects the profitability of the U.S. Targets will continue through the second half of 2019 with the introduction of the new "Hype" branded extracts product launched in August 2019, continued roll-out of the door-to-door delivery service provided by Alpine Alternative and ongoing improvements being made to existing dispensaries which focus on highlighting the "Vibe by California™" brand. Management expects the gross margin[(a)] realized by Port City and Alpine Alternative for the second half of 2019 to remain strong at 45% to 50%. Management is expecting Alpine Cultivation to operate at a slight loss on a gross margin[(a)] basis for the remainder of 2019 while the investment being made to improve the cultivation and manufacturing facilities is completed which is expected to occur by the end of the fourth quarter of 2019.

In addition, management expects the improvements and expansions currently being undertaken at Alpine Cultivation will increase wholesale revenue in addition to increasing sales of the Company's proprietary "Hype" brand, while lowering product costs at Port City and Alpine Alternative as a result of increased vertical integration. However, the full benefit of the investment in Alpine Cultivation is not expected to be realized until 2020, given the expected timeline to complete the upgrades.

The Company was partially negatively affected by increased general and administrative expenses incurred by the head office in the three months ended June 30, 2019, largely due to on-going tax structuring services, investor relations service, insurance costs and other expenses associated with public company requirements subsequent to the Company's public listing in April 2019. Management expects general and administrative expenses in the second half of the year to be reflective of the expenses incurred in the second quarter of 2019.

The Company is also focused on completing strategic acquisitions during the remainder of 2019 and has an additional dispensary in Redding, California under definitive agreement. The Redding dispensary does not currently have any operations, and therefore, will not be immediately profitable or cash flow positive to the Company. However, management believes the proposed acquisition of the Redding dispensary is a cost-effective means of acquiring a retail license, and therefore, increasing market share in the northern California retail cannabis market. The Redding dispensary is currently undergoing improvements that will result in it being the first location to be fully branded under the "Vibe by California™" store name. The Redding location is also expected to have an industry leading design intended to maximize customer foot traffic and streamline the purchasing process. The Redding location is expected to become fully operational by the end of the fourth quarter of 2019, pending the satisfaction of customary closing conditions associated with the acquisition (including receipt of all necessary third-party consents and approvals).

(a) Readers are cautioned that gross margin does not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents, cash flow balances other available capital are as follows:

	June 30, 2019	December 31, 2018
Cash and cash equivalents (including restricted cash)	$ 2,174,499	$ 2,680,962
Cash provided from financing activities	3,759,129	3,634,269
Cash used in operating activities	(1,258,025)	(577,303)
Cash used in investing activities	(2,676,628)	(1,453,087)
Working capital deficit [(a)]	(674,081)	(423,717)
Intangible assets and goodwill	10,207,999	2,542,826
Property and equipment	2,733,496	2,134
Capital additions - land and building	1,999,682	-
Capital additions - property and equipment	340,273	2,512
Notes payable and lease obligations	2,030,808	-
Share capital	$ 17,595,330	$ 8,584,340

(a) Readers are cautioned that the amounts presented do not have standardized meanings prescribed by IFRS – see discussion of non-IFRS Measures. See below for the calculation of working capital deficit.

Cash and cash equivalents and cash flow amounts

The Company generated cash from financing activities in the six months ended June 30, 2019 totaling $3,759,129 largely due to completing a private placement for aggregate proceeds of $3,845,288, offset slightly by the repayment of lease obligations and notes payable totaling $69,405 and $17,637, respectively. The private placement was completed in February and March 2019 and consisted of the issuance of 9,856,242 common shares of the Company at $0.39 per share. Of the total proceeds received in the private placement, $352,069 was received as a subscription in the three months ended December 31, 2018 and included as restricted cash at December 31, 2018. The restricted cash was released, and the common shares issued in February 2019.

The proceeds of the private placement, net of the repayment of the notes payable and lease obligations, were used to fund (i) the remaining cash portion of the U.S. Acquisition proceeds totaling $2,336,355 (which is net of cash acquired totaling $299,149), (ii) the purchase of property and equipment totaling $340,273, and (iii) the cash outflow from operations totaling $(1,258,026). The Company also used existing cash balances on hand to fund a portion of the cash outflow from operations in the six months ended June 30, 2019. Consequently, the Company's cash and cash equivalents, including restricted cash decreased $506,463 from $2,680,962 at December 31, 2019 to $2,174,499 at June 30, 2019.

Working capital deficit[(a)]

The Company's working capital deficit at June 30, 2019 and December 31, 2018 is calculated as follows:

	June 30, 2019	December 31, 2018
Current assets		
Accounts receivable	$ 934,292	$ 20,155
Inventory	224,081	-
Biological assets	99,204	-
Other current assets	472,040	148,786
	1,729,617	168,941
Current liabilities		
Accounts payable	2,403,698	592,658
Working capital deficit	**$ (674,081)**	**$ (423,717)**

The majority of the Company's working capital balances were acquired through the U.S. Acquisition and the Altitude Reverse Take-over. The Company has minimal trade accounts receivable as credit is not granted on the retail sale of cannabis. The accounts receivable balance at June 30, 2019 primarily consists of (i) $718,740 for proceeds due to the Company related to the Altitude Reverse Take-over (of which approximately $610,617 was received subsequent June 30, 2019) (ii) $162,664 due from the Company's wholesale cannabis distributor, and (iii) $52,888 in GST and other receivables.

The Company's other current asset balance also increased at June 30, 2019 compared to December 31, 2018 largely due to the prepayment of the annual directors and officers insurance premium and annual license and permit renewals for the dispensaries.

In addition to the amounts assumed in the U.S. Acquisition and the Altitude Reverse Take-over, accounts payable increased due to the increase in professional and consulting fees and insurance costs incurred in the six months ended June 30, 2019, including amounts related to completing the U.S. Acquisition and the Company's public listing. In addition, accounts payable increased significantly at June 30, 2019 due to the income tax payable by Port City and Alpine Alternative. The Company's total tax payable balance at June 30, 2019 totaled $1,016,449.

Intangible assets and goodwill

The U.S. Acquisition provided the Company with additional intangible assets related to the acquired retail licenses, cultivation license and trademark totaling $2,620,000, $200,000 and $78,500, respectively at the acquisition date, in addition to aggregate goodwill totaling $5,002,473 (net of the $415,000 impairment loss on the initial Port City investment). The trademark intangible asset consists of the "Hype" brand that is produced by Alpine Cultivation and sold by Port City and Alpine Alternative in addition to third-party dispensaries through the Company's distributor. The "Hype" brand has a loyal local customer following in Stockton and Sacramento and accounts for approximately 10% of total Port City and Alpine Alternative retail cannabis sales.

(a) Readers are cautioned that working capital deficit does not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

The Company incurred amortization expense on its licenses and "Hype" trademark totaling $339,371 in the six months ended June 30, 2019. The Company is also subject to the impact of changes in foreign currency on its CAD denominated intangible assets consisting of software and a Health Canada cultivation license application. The impact of foreign exchange totaled $103,571 (favorable adjustment) in the six months ended June 30, 2019.

Property and equipment and capital additions

The Company's property and equipment increased from $2,134 at December 31, 2018 to $2,733,496 at June 30, 2019 largely due to the purchase of land and buildings totaling $1,999,682 in February 2019. The Company purchased the land and buildings in connection with the acquisition of the U.S. Targets. The acquisition of the land and buildings was financed through cash of $800,000 and a note payable totaling $1,199,682. The Company also acquired property and equipment totaling $431,694 as a result of the acquisition of the U.S. Targets.

Since the acquisition of the land and buildings and the U.S. Targets, the Company has incurred an additional $340,273 in property and equipment expenditures through June 30, 2019, consisting largely of expenditures incurred to improve the electrical systems for Alpine Cultivation and Alpine Alternative totaling $142,176 and spending on the Phase 1 upgrade of the Alpine Cultivation facilities and other improvements totaling $198,097.

The Company incurred depreciation expense on property and equipment totaling $40,375 in the six months ended June 30, 2019. The Company is also subject to the impact of changes in foreign currency on its CAD denominated items of property and equipment. The impact of foreign exchange totaled $88 (favorable adjustment) in the six months ended June 30, 2019.

Notes payable and lease obligations

The Company has a note payable outstanding related to the purchase of the land and buildings note above totals $1,182,843 at June 30, 2019. The note bears interest at 6% per year, requires monthly payments of interest and principal of $9,314 and matures in April 2036.

The Company also has a note payable outstanding related to the acquisition of a delivery truck by Alpine Alternative totaling $18,078 at June 30, 2019. The note bears interest at 4.99% per year, requires monthly payments of principal and interest totaling $395 and matures in March 2023.

Lease obligations outstanding at June 30, 2019 total $829,887 and relate to the long-term lease of the dispensary in Port City ($700,181) and a warehouse facility in Beiseker, Alberta ($129,706). The Company also has right-of-use assets recorded at June 30, 2019 totaling $820,134 related to the leases.

The Company also has a lease for its head office in Calgary with monthly rent totaling CAD $3,000 which expires in September 2019. The lease is not capitalized under IFRS 16 as the term is less than 12 months.

Share capital

The Company is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to participate in dividends when declared by the Company. The common shares issued by the Company in the six months June 30, 2019 are as follows:

	Common shares	
	Number	**Amount**
Balance at December 31, 2018	**53,535,586**	**$ 8,584,340**
Issued in private placement	9,856,242	3,845,288
Issued in acquisition of U.S. Targets	10,815,157	4,234,037
Issued in Altitude Reverse Take-over	2,197,992	850,620
Exercise of stock options	207,952	883
Transfer from contributed surplus	-	80,162
Balance at June 30, 2019	**76,612,929**	**17,595,330**

In February and March 2019, the Company completed a private placement of 9,856,242 common shares at $0.39 for proceeds totaling $3,845,288 (of the total proceeds, $352,069 were received in the three months ended December 31, 2018 and included as restricted cash at December 31, 2018 - the shares were issued in February 2019).

The Company also issued 10,815,157 common shares to complete the acquisition of the U.S. Targets and 2,197,992 common shares to complete the Altitude Reverse Take-over. The fair value calculated for accounting purposes related to the shares issued in connection with the acquisition of the U.S. Targets and the Altitude Reverse Take-over totaled $0.39 per share, consistent with the issue price for the private placement.

The Company issued 207,952 common shares in April and May 2019 through the exercise of stock options with an exercise price of $0.004. Stock-based compensation expense totaling $80,162 previously recognized for the exercised stock option was transferred from contributed surplus to share capital.

The Company has an option plan that grants stock options to officers, employees, directors and certain consultants of the Company up to a maximum of 10% of the outstanding common shares of the Company. Stock options outstanding at June 30, 2019 totaled 5,328,020 (December 31, 2018 – 3,626,154) of which 2,994,333 are exercisable (December 31, 2018 – 998,600). The weighted average exercise price of the stock options outstanding and exercisable at June 30, 2019 is $0.57 and $0.66, respectively (December 31, 2018 - $0.09 and $0.22, respectively). The Company recognized stock-based compensation expense related to vested options totaling $227,966 and $651,463 in the three and six months ended June 30, 2019, respectively.

The Company also has 125,810 warrants outstanding at June 30, 2019 and December 31, 2018 totaling $25,277. Each warrant is exercisable into one common share of the Company at an exercise price of $0.39.

The fully diluted common shares outstanding total 82,066,759 and 57,287,663 at June 30, 2019 and December 31, 2018, respectively. The fully diluted common shares outstanding at the date of the MD&A is 82,066,759 and the total common shares outstanding is 76,612,929.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements as at and for the three and six months ended June 30, 2019.

RELATED PARTY TRANSACTIONS

The Company's related party transactions in the three and six months ended June 30, 2019 largely consist of compensation paid to key management personnel. Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company and include executive officers and members of the Board of Directors. The Company incurred salaries, wages, fees and short-term benefits for these identified key management personnel in the three and six months ended June 30, 2019 totaling $157,394 and $278,049, respectively. In addition, the Company recognized stock-based compensation expense for key management personnel totaling $175,826 and $565,676 in the three months and six months ended June 30, 2019, respectively. Fees due to the Company's Board of Directors totaling $42,500 are included in accounts payable at June 30, 2019. The fees were paid in July 2019.

The Company also paid certain legal fees on behalf of its Chief Executive Officer ("CEO") totaling $11,462 in the three months ended June 30, 2019 and included the related amount due from the CEO in other current assets June 30, 2019.

SUBSEQUENT EVENTS

In July 2019, the Company settled the final working capital adjustments related to the acquisition of each of the U.S. Targets. All amounts held in escrow were released for distribution to the vendors.

In August 2019, the Company received CAD $799,115 for the settlement of certain receivables due to the Company arising from the Altitude Reverse Take-over. In connection with receipt of the proceeds, the Company immediately settled the notes payable assumed and the additional cash proceeds due on the Altitude Reverse Take-over totaling CAD $110,000 and CAD $46,467, respectively. The remaining proceeds received will be used to settle certain accounts payable assumed on the Altitude Reverse Take-over.

In addition, two of the Company's outside members of the Board of Directors resigned in August 2019 as a result of certain regulatory limitations imposed and required by the State of California. The Company subsequently appointed a new outside member of the Board of Directors who is a resident of the State of California.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires management to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The judgements and estimates applied are based on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. However, actual experience may differ from the results achieved by applying significant judgements and estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and applied on a prospective basis.

There were no material changes in the Company's critical accounting judgements and estimates during the three months and six months ended June 30, 2019 compared to the audited consolidated financial statements for the period ended December 31, 2018 and the unaudited interim consolidated financial statements for the three months ended March 31, 2019, with the exception of the fair value of certain receivables due in connection with the Altitude Reverse Take-over (refer to note 3 in the unaudited interim consolidated financial statements for the three and six months ended June 30, 2019).

Additional information on the Company's critical accounting judgements and estimates is provided in the notes to the audited consolidated financial statements for the period ended December 31, 2018 and the unaudited interim consolidated financial statements and related MD&A for the three months ended March 31, 2019 which are available through SEDAR (www.sedar.com).

CHANGES TO ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

Change in Presentation Currency

The audited consolidated financial statements for the period from June 11 to December 31, 2018 were presented in Canadian dollars ("CAD"). However, the comparative results presented in the MD&A and the unaudited interim consolidated financial statements are presented in USD. Assets and liabilities at December 31, 2018 that were denominated in CAD were translated into USD at $0.7330 which was the exchange rate in effect at December 31, 2018. Items of income and expense for the period from June 11 to December 31, 2018 that were denominated in CAD were translated into USD at $0.7609 which was the average exchange rate for the period. The resulting loss on translating CAD denominated balances into USD totals $206,680 and is included in accumulated other comprehensive loss in the consolidated statement of financial position at December 31, 2018.

Adoption of IFRS 16 – Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16 which replaces IAS 17 – *Leases* ("IAS 17") and related interpretations. The Company adopted IFRS 16 using the modified retrospective approach whereby comparative results for the period ended December 31, 2018 are not restated. Comparative results as at and for the period from June 11 to December 31, 2018 remain as previously reported under IAS 17 and related interpretations. On initial application of IFRS 16, the Company elected to record right-of-use assets based on the corresponding lease liability. Accordingly, a right-of-use asset and related lease obligation of $133,304 were recorded as of January 1, 2019, with no net impact on retained earnings. The impact of the adoption of IFRS 16 is further described in the unaudited interim consolidated financial statements for the three months and six months ended June 30, 2019.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loan receivable, accounts payable, subscriptions received in advance, lease obligations and notes payable.

All the Company's financial instruments are initially recognized at fair value. Fair value measurements are categorized based on the level of judgment associated with the inputs used to measure their fair value.

The levels are based on the amount of subjectivity associated with the inputs in the fair value determination and are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date as observable market data is unavailable. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The carrying value of cash and cash equivalents, accounts receivable, loan receivable, accounts payable and subscriptions received in advance approximately their fair values due to the short period to maturity of these instruments.

The fair value of lease obligations and notes payable is based on amounts owed to third parties and estimated internal borrowing rates (in the case of lease obligations) using current market price indicators which are considered Level 2 Inputs in the fair value measurement hierarchy.

The Company's financial instruments are subsequently measured at amortized costs except for the proceeds due on the sale of certain shares related to the Altitude Reverse Take-over which are included in accounts receivable. The proceeds due are measured at fair value with resulting gains or losses recognized in net income. The fair value of the proceeds due on the shares is calculated based Level 1 Inputs as the shares are publicly traded on the Australian Stock Exchange.

The Company is exposed in varying degrees to a variety of financial instrument related risk in the ordinary course of business as follows:

(i) *Interest rate risk (market risk).* Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates of interest. Cash and cash equivalents bear interest at market rates but are short term in nature. The Company's financial liabilities, largely notes payable and lease obligations, have fixed rates of interest. Accordingly, the Company has limited exposure to interest rate risk.

(ii) *Price risk (market risk).* Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company has exposure to price risk in measuring the value of the proceeds due on the sale of the Atrum Shares related to the Altitude Reverse Take-over which is based on the publicly available share price. In addition, the Company's assessment of the fair value of biological assets is based on the estimated market price of cannabis which is based on management estimates and subject to fluctuation.

(iii) *Credit risk.* Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk largely through cash and cash equivalents held at financial institutions as the majority of the Company's retail sales do not involve granting of customer credit. Credit risk exposure on such cash and cash equivalents balances is managed by holding funds in established financial institutions. To the extent the Company does grant credit to customers, management has established credit evaluating and monitoring processes to mitigate credit risk. At June 30, 2019 the Company's credit risk exposure was limited to $173,604 in accounts receivable, largely due from third party distributors related to Alpine Cultivation.

(iv) *Liquidity risk.* Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they become due. The contractual obligations of the Company generally consist of accounts payable, lease obligations and notes payable. The remaining contractual maturities of the Company's financial obligations are as follows:

	Less than one year	**Two to Three years**	**Four to Five years**	**Thereafter**	**Total**
Financial liability					
Accounts payable	$ 2,403,698	$ -	$ -	$ -	$ 2,403,698
Notes payable	46,690	155,360	109,881	888,718	1,200,649
Lease obligations	264,694	634,082	49,388	4,116	952,280
Other lease	4,585	-	-	-	4,585
	$2,719,667	**$ 789,442**	**$159,269**	**$ 892,834**	**$4,561,212**

The Company actively manages its working capital requirements, cash commitments and credit availability to ensure that it can meets its financial obligations as they come due.

SUMMARY OF QUARTERLY RESULTS

The following table presents key operating and financial results for each quarter the Company has previously reported:

	Three months ended		
	June 30, 2019	**March 31, 2019**	**December 31, 2018**
Operating results			
Revenue	$ 3,096,836	$ 1,313,726	$ -
Gross margin	1,296,113	583,307	-
Gross margin % [a]	*41.9*	*44.4*	-
Net loss	(855,080)	(2,221,971)	(3,172,980)
Adjusted EBITDA [a]	113,322	59,336	(318,506)
Adjusted EBITDA % [a]	*3.7*	*4.5*	-
Cash used in operating activities	$ (1,258,025)	$ (672,090)	$ (577,303)
Financial position			
Cash and cash equivalents (including restricted cash)	2,174,499	3,083,889	2,680,962
Working capital deficit [a]	(674,081)	(923,201)	(250,364)
Total assets	17,665,745	18,341,474	6,744,863
Capital additions	296,919	2,043,036	2,512
Total liabilities	5,242,506	5,380,681	944,727

(a) Readers are cautioned that the amounts presented do not have standardized meanings prescribed by IFRS – see discussion of Non-IFRS Measures.

Revenue, gross margin and adjusted EBITDA have increased in the periods presented as a result of the acquisition of the U.S. Targets. The entities were acquired on February 18, 2019, and therefore, the three months ended June 30, 2019 is the first quarter the results of the U.S. Targets are included for the entire period.

The Company also realized increased revenue and gross margin from the U.S. Targets in the three months ended June 30, 2019 as a result of seasonality in the summer months, offset slightly by lower revenue and gross margin from cultivation operations resulting from the timing of plant harvests.

Adjusted EBITDA in the three months ended June 30, 2019 is also partially impacted by increased professional and consulting fees and insurance costs, largely due to the Company's public company requirements arising from the public listing completed in April 2019. Cash flow used in operations is further impacted by the timing of payments of current liabilities, including trade payables and income taxes.

The Company generally operates at a working capital deficit (which does not include cash) as the Company does not grant customer credit for retail sales of cannabis at the dispensary, resulting in minimal accounts receivable at any period end. The Company working capital deficit will fluctuate on a quarterly basis based on timing of payments of current liabilities, including trade payables and income taxes.

The Company's total assets and liabilities at each quarter end are also reflective of the acquisition of the U.S. Targets on February 18, 2019 and the Altitude Reverse Take-over completed on March 25, 2019. The Company acquired intangible assets (licenses and trademark) totaling $2,898,500 and goodwill of $5,002,473 (net of an investment loss of $415,000) in connection with the acquisition of the U.S. Targets. The acquisition of the U.S. Targets was funded through the issuance of the Company's common shares with a calculated value of $4,234,037 in addition to cash proceeds totaling $3,845,288 received from a private placement completed in the first quarter of 2019.

The Company also acquired land and buildings totaling $1,999,682 in the first quarter of 2019 in conjunction with the acquisition of the U.S. Targets. The purchase of the land and buildings were funded by $800,000 paid in cash as a deposit at December 31, 2018 and the issuance of a note totaling $1,199,682 in the February 2019. The Company also incurred capital expenditures on the upgrade of the electrical system for Alpine Cultivation and Alpine Alternative in addition to the Phase 1 upgrades being made to the nursery operation at Alpine Cultivation.

BUSINESS RISK FACTORS

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. Significant business risk factors related to the business of the Company as at June 30, 2019 are consistent with the business risk factors described in detail in the Company's Listing Statement dated March 25, 2019 which is available through SEDAR (www.sedar.com).

Vibe Bioscience Ltd. markets and sells its products in California under the Hype Cannabis Co. and Vibe by California trademarks. The Company has registered Trademarks & Service Marks with the California Secretary of State for both Hype Cannabis Co. and Vibe By California. The Company has not applied for any U.S. Federal trademarks on its hemp or marijuana products. The Company intends to file U.S. federal trademarks for its hemp products, to the extent permitted by U.S. law. The Company is not currently eligible for U.S. Federal trademarks for its marijuana products because they are not permitted in interstate commerce in the United States.

In addition, in accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – *Issuers with U.S. Marijuana-Related Activities* ("Staff Notice 51-352"), below is a discussion of the federal and state-level United States regulatory regimes in those jurisdictions where the Corporation is currently directly involved, through its subsidiaries, in the cannabis industry. In accordance with Staff Notice 51-352, the Corporation will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and amended 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 marijuana regulation.

Federal Regulation of Cannabis in the United States

The United States federal government regulates drugs through the Controlled Substances Act (the "CSA"), which places controlled substances, including cannabis, in one of five different schedules. Cannabis is classified as a Schedule I drug. As a Schedule I drug, the federal Drug Enforcement Agency ("DEA") considers marijuana to have a high potential for abuse; no currently accepted medical use in treatment in the United States; and a lack of accepted safety for use of the drug under medical supervision[(a)].

The scheduling of marijuana as a Schedule I drug is inconsistent with what the Company believes to be many valuable medical uses for marijuana accepted by physicians, researchers, patients, and others. As evidence of this, the federal Food and Drug Administration ("FDA") on June 25, 2018 approved Epidiolex (cannabidiol) ("CBD") oral solution with an active ingredient derived from the cannabis plant for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older. This is the first FDA-approved drug that contains a purified drug substance derived from the cannabis plant. In this case, the substance is CBD, a chemical component of marijuana that does not contain the intoxication properties of tetrahydrocannabinol ("THC"), the primary psychoactive component of marijuana. The Company believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of marijuana or the public perception thereof, and numerous studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered[(b)].

The federal position is also not necessarily consistent with democratic approval of marijuana at the state government level in the United States. Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of marijuana under the Cannabis Act (Canada), marijuana is largely regulated at the state level in the United States. State laws regulating cannabis are in conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the United States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts. Although the Company's activities are compliant with applicable California state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law nor provide a defense to federal criminal charges that may be brought against the Company. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and State law, the federal law shall apply.

(a) 21 U.S.C. 812(b)(1).

(b) (b) See Lachenmeier, DW & Rehm, J. (2015). Comparative risk assessment of alcohol, tobacco, cannabis and other illicit drugs using the margin of exposure approach. Scientific Reports, 5, 8126. doi: 10.1038/srep08126; Thomas, G & Davis, C. (2009). Cannabis,Tobacco and Alcohol Use in Canada: Comparing risks of harm and costs to society. Visions Journal, 5. Retrieved from http://www.heretohelp.bc.ca/sites/default/files/visions_cannabis.pdf; Jacobus et al. (2009). White matter integrity in adolescents with histories of marijuana use and binge drinking. Neurotoxicology and Teratology, 31, 349-355. https://doi.org/10.1016/j.ntt.2009.07.006; Could smoking pot cut risk of head, neck cancer? (2009 August 25). Retrieved from https://www.reuters.com/article/us-smoking-pot/could-smoking-pot-cut-risk-of-head-neck-cancer-idUSTRE57O5DC20090825; Watson, SJ, Benson JA Jr. & Joy, JE. (2000). Marijuana and medicine: assessing the science base: a summary of the 1999 Institute of Medicine report. Arch Gen Psychiatry Review, 57, 547-552. Retrieved from https://www.ncbi.nlm.nih.gov/pubmed/10839332; Hoaken, Peter N.S. & Stewart, Sherry H. (2003). Drugs of abuse and the elicitation of human aggressive behavior. Addictive Behaviours, 28, 1533-1554. Retrieved from http://www.ukcia.org/research/AgressiveBehavior.pdf; and Fals-Steward, W. Golden, J.& Schumacher, JA. (2003). Intimate partner violence and substance use: a longitudinal day-to-day examination. Addictive Behaviors, 28, 1555-1574. Retrieved from https://www.ncbi.nlm.nih.gov/pubmed/14656545.

Nonetheless, 33 states and the District of Columbia in the United States have legalized some form cannabis for medical use, while 10 states and the District of Columbia have legalized the adult use of cannabis for recreational purposes. As more and more states legalized medical and/or adult-use marijuana, the federal government attempted to provide clarity on the incongruity between federal prohibition under the CSA and these state-legal regulatory frameworks. Until 2018, the federal government provided guidance to federal law enforcement agencies and banking institutions through a series of United States Department of Justice ("DOJ") memoranda. The most recent such memorandum was drafted by former Deputy Attorney General James Cole on August 29, 2013 (the "Cole Memorandum")[c]

The Cole Memorandum offered guidance to federal enforcement agencies as to how to prioritize civil enforcement, criminal investigations and prosecutions regarding marijuana in all states. The memo put forth eight prosecution priorities:

1. Preventing the distribution of marijuana to minors;

2. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs and cartels;

3. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;

4. Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;

5. Preventing the violence and the use of firearms in the cultivation and distribution of marijuana;

6. Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;

7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and

8. Preventing marijuana possession or use on federal property.

The Cole Memorandum was seen by many state-legal marijuana companies as a safe harbor – albeit an imperfect one – for their licensed operations that were conducted in full compliance with all applicable state and local regulations.

On January 4, 2018, former United States Attorney General Sessions rescinded the Cole Memorandum by issuing a new memorandum to all United States Attorneys (the "Sessions Memo"). Rather than establish national enforcement priorities particular to marijuana-related crimes in jurisdictions where certain marijuana activity was legal under state law, the Sessions Memo instructs that "in deciding which marijuana activities to prosecute... with the [DOJ's] finite resources, prosecutors should follow the well-established principles that govern all federal prosecutions." Namely, these include the seriousness of the offense, history of criminal activity, deterrent effect of prosecution, the interests of victims, and other principles.

(c) See James M. Cole, Memorandum for All United States Attorneys (Aug. 29, 2013), available at https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf.

In the absence of a uniform federal policy, as had been established by the Cole Memorandum, numerous United States Attorneys with state-legal marijuana programs within their jurisdictions have announced enforcement priorities for their respective offices. For instance, Andrew Lelling, United States Attorney for the District of Massachusetts, stated that while his office would not immunize any businesses from federal prosecution, he anticipated focusing the office's marijuana enforcement efforts on: (1) overproduction; (2) targeted sales to minors; and (3) organized crime and interstate transportation of drug proceeds. Other United States attorneys provided less assurance, promising to enforce federal law, including the CSA in appropriate circumstances.

Former United States Attorney General Sessions resigned on November 7, 2018. He was replaced by William Barr on February 14, 2019. It is unclear what specific impact this development will have on U.S. federal government enforcement policy. However, in a written response to questions from U.S. Senator Cory Booker made as a nominee, Attorney General Barr stated "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum."[d] Nonetheless, there is no guarantee 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. Unless and until the United States government amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

The Company believes it is too soon to determine if any prosecutorial effects will be undertaken by the rescission of the Cole Memorandum, or if Attorney General Barr will reinstitute the Cole Memorandum or a similar guidance document for United States attorneys. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would possibly create unwanted political backlash for the Department of Justice and the Trump administration.

As an industry best practice, despite the rescission of the Cole Memorandum, the Company abides by the following standard operating policies and procedures to ensure compliance with the guidance provided by the Cole Memorandum:

1. Endeavors to ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;

2. Endeavors to ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);

3. Attempts to implement policies and procedures to ensure that cannabis products are not distributed to minors;

4. Attempts to implement policies and procedures in place to ensure that funds are not distributed to criminal enterprises, gangs or cartels;

(d) Questions for the Record William P. Barr Nominee to be United States Attorney General, available at https://www.judiciary.senate.gov/imo/media/doc/Barr%20Responses%20to%20Booker%20QFRs1.pdf.

5. Attempts to implement an inventory tracking system and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;

6. Endeavors to ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and

7. Endeavors to ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company conducts background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

Although the Cole Memorandum has been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has passed a so-called “rider” provision in the FY 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The rider is known as the “Rohrabacher-Farr” Amendment after its original lead sponsors (it is also sometimes referred to as the “Rohrabacher-Blumenauer” or “Joyce-Leahy” Amendment, but it is referred to in this MD&A as “Rohrabacher-Farr”). Most recently, the Rohrabacher- Farr Amendment was included in the Consolidated Appropriations Act of 2019, which was signed by President Trump on February 14, 2019 and funds the departments of the federal government through the fiscal year ending September 30, 2019. In signing the Act, President Trump issued a signing statement noting that the Act “provides that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories,” and further stating “I will treat this provision consistent with the President’s constitutional responsibility to faithfully execute the laws of the United States.” While the signing statement can fairly be read to mean that the executive branch intends to enforce the CSA and other federal laws prohibiting the sale and possession of medical marijuana, the president did issue a similar signing statement in 2017 and no major federal enforcement actions followed.

There is a growing consensus among marijuana businesses and numerous congressmen and congresswomen that guidance is not law and temporary legislative riders, such as the Rohrabacher-Farr Amendment, are an inappropriate way to protect lawful medical marijuana businesses. Numerous bills have been introduced in Congress in recent years to decriminalize aspects of state-legal marijuana trades. For fiscal year 2019, the strategy amongst the bipartisan Congressional Marijuana Working Group in Congress, is to introduce numerous marijuana-related appropriations amendments in the Appropriations Committee in both the House and Senate, similar to the strategy employed in fiscal year 2018. The amendments will include protections for marijuana-related businesses in states with medical and adult-use marijuana laws, as well as protections for financial institutions that provide banking services to state-legal marijuana businesses. The

Company also has observed that each year more congressmen and congresswomen sign on and co-sponsor marijuana legalization bills. These include the CARERS Act, REFER Act and others. While there are different perspectives on the most effective route to end federal marijuana prohibition, Congressman Blumenauer and Senator Wyden have introduced the three-bill package, Path to Marijuana Reform, which would fix the so-called Internal Revenue Service 280E provision that creates tax burdens for marijuana businesses, eliminate civil asset forfeiture and federal criminal penalties for marijuana businesses complying with state law, reduce barriers to banking, de-schedule marijuana from the federal list of controlled substances, and tax and regulate marijuana[(e)]. Senator Booker has also introduced the Marijuana Justice Act, which would de-schedule marijuana, and in 2018 Congresswoman Barbara Lee introduced the House companion. Colorado Republican Senator Cory Gardner has reportedly secured a probable assurance from President Trump that Trump would sign a bill to allow states to legalize and regulate marijuana without federal intervention[(f)].

In light of all of this, it was anticipated that the federal government will eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco. Given current political trends, however, the Company considers these developments unlikely in the near-term. For the time being, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission nor the continued passage of the Rohrabacher-Farr Amendment 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 adult-use marijuana, even if state law sanctions such sale and disbursement. If the United States federal government begins to enforce United States federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially adversely affected.

Additionally, under United States federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of any Schedule I controlled substance. Due to the CSA categorization of marijuana as a Schedule I drug, federal law makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under the United States Currency and Foreign Transactions Reporting Act of 1970 (the "Bank Secrecy Act"). Therefore, under the Bank Secrecy Act, 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 or conspiracy.

While there has been no change in U.S. federal banking laws to accommodate businesses in the large and increasing number of U.S. states that have legalized medical and/or adult-use marijuana, the Department of the Treasury Financial Crimes Enforcement Network ("FinCEN"), in 2014, issued guidance to prosecutors of money laundering and other financial crimes (the "FinCEN Guidance").

(e) Wyden, Blumenauer. (2017 March 30). Wyden, Blumenauer announce bipartisan path to marijuana reform. Retrieved from https://blumenauer.house.gov/media-center/press-releases/wyden-blumenauer-announce-bipartisan-path-marijuana-reform.

(f) Mark. K. Matthews, Donald Trump would "probably" support legalizing Colorado's marijuana industry – through bid by Cory Gardner and Elizabeth Warren, THE DENVER POST (June 8, 2018), available at https://www.denverpost.com/2018/06/08/coloradomarijuana-industry-sanctioning-donald-trump/.

The FinCEN Guidance advised prosecutors not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses so long as that business is legal in their state and none of the federal enforcement priorities referenced in the Cole Memorandum are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The FinCEN Guidance also clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk. The customer due diligence steps include:

1. Verifying with the appropriate state authorities whether the business is duly licensed and registered;

2. Reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;

3. Requesting from state licensing and enforcement authorities available information about the business and related parties;

4. Developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus adult-use customers);

5. Ongoing monitoring of publicly available sources for adverse information about the business and related parties;

6. Ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and

7. Refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

Because most banks and other financial institutions are unwilling to provide any banking or financial services to marijuana businesses, these businesses can be forced into becoming "cash-only" businesses. While the FinCEN Guidance decreased some risk for banks and financial institutions considering serving the industry, in practice it has not increased banks’ willingness to provide services to marijuana businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business they accept as a customer.

The few state-chartered banks and/or credit unions that have agreed to work with marijuana businesses are limiting those accounts to small percentages of their total deposits to avoid creating a liquidity risk. Since, theoretically, the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also keeping sufficient liquid capital on hand to serve their other customers. Those state-chartered banks and credit unions that do have

customers in the marijuana industry charge marijuana businesses high fees to pass on the added cost of ensuring compliance with the FinCEN Guidance.

Unlike the Cole Memorandum, however, the FinCEN Guidance from 2014 has not been rescinded. The Secretary of the U.S. Department of the Treasury, Stephen Mnuchin, has publicly stated that the Department was not informed of any plans to rescind the Cole Memorandum. Secretary Mnuchin stated that he does not have a desire to rescind the FinCEN Guidance[(g)].

As an industry best practice and consistent with its standard operating procedures, the Company adheres to all customer due diligence steps in the FinCEN Guidance as well as guidance published by other federal agencies.

In the United States, a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

An additional challenge to marijuana-related businesses is that the provisions of the Internal Revenue Code, Section 280E, are being applied by the IRS to businesses operating in the medical and adult-use marijuana industry. Section 280E of the Internal Revenue Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

CBD is a product that often is derived from hemp, which contains only trace amounts of THC, the psychoactive substance found in marijuana. On December 20, 2018, President Trump signed the Agriculture Improvement Act of 2018 (popularly known as the "2018 Farm Bill") into law[(g)]. Until the 2018 Farm Bill became law hemp and products derived from it, such as CBD, fell within the definition of "marijuana" under the CSA and the DEA classified hemp as a Schedule I controlled substance because hemp is part of the cannabis plant[(h)].

(g) H.R.2 - 115th Congress (2017-2018): Agriculture Improvement Act of 2018, Congress.gov (2018), https://www.congress.gov/bill/115th-congress/house-bill/2/text.

(h) See, e.g., 21 C.F.R. § 1308.35.

Regulation of the Marijuana Market in California

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). This provided an affirmative defense for defendants charged with the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief. In 2003, Senate Bill 420 was signed into law, decriminalizing the use, possession, and collective cultivation of medical marijuana, and establishing an optional identification card system for medical marijuana patients.

In September 2015, the California legislature passed three bills collectively known as the "Medical Marijuana Regulation and Safety Act" ("MCRSA"). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created testing laboratories, and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the "Adult Use of Marijuana Act" ("AUMA") creating an adult-use marijuana program for adult-use 21 years of age or older. In June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Marijuana Regulation and Safety Act ("MAUCRSA"), which amalgamated MCRSA and AUMA to provide a set of regulations to govern the medical and adult-use licensing regime for marijuana businesses in the State of California. MAUCRSA went into effect on January 1, 2018. The five agencies that regulate marijuana at the state level are BCC, California Department of Food and Agriculture, California Department of Public Health, the California Environmental Protection Agency, and California Department of Tax and Fee Administration.

One of the central features of MAUCRSA is known as "local control." In order to legally operate a medical or adult-use marijuana business in California, an operator must have both express local authority and a state license. This requires license-holders to operate in cities or counties that offer a path to local approval for local approval for marijuana businesses. Cities and counties in California can determine the number and type and type of licenses they will issue to marijuana operators or can choose to outright ban local marijuana activity, except they may not prevent the transportation of marijuana through their jurisdictions.

California License Types

Once an operator obtains local approval, the operator must obtain state licenses before conducting any commercial marijuana activity. There are 12 different license types that cover all commercial activity. License types 1-3 and 5 authorize the cultivation of medical and/or adult-use marijuana plants. Type 4 licenses are for nurseries that cultivate and sell clones and "teens" (immature marijuana plants that have established roots but require further vegetation prior to being sent into the flowering period). Type 6 and 7 licenses authorize manufacturers to process marijuana biomass into certain value-added products such as shatter or marijuana distillate oil with the use of volatile or non-volatile solvents, depending on the license type. Type 8 licenses are held by testing facilities who test samples of marijuana products and generate "certificates of analysis," which include important information regarding the potency of products and whether products have passed or failed certain threshold tests for pesticide and microbiological contamination. Type 9 licenses are issued to "non-storefront" retailers, commonly called delivery services, who bring marijuana products directly to customers and patients at their residences or other chosen delivery location. Type 10 licenses are issued to storefront retailers, or dispensaries, which are open to the public and sell marijuana products onsite. Type 11 licenses are known as "Transport-Only" distribution licenses, and they allow the distributor to transport

marijuana and marijuana products between licensees, but not to retailers. Type 12 licenses are issued to distributors who move marijuana and marijuana products to all license types, including retailers.

California Agencies Regulating the Commercial Cannabis Industry
There are three agencies tasked with issuing and regulating the marijuana license types in California. The California Department of Food and Agriculture (CDFA) oversees nurseries and cultivators; the California Department of Public Health (CDPH) oversees manufacturers, and the newly-created Bureau of Cannabis Control (BCC) oversees distributors, retailers, delivery services, and testing laboratories. Operators must apply to one or more of these agencies for their licenses, and each agency has released regulations specific to the operation of the types of businesses they oversee. The BCC has a number of regulations that apply to all licensees, but generally the CDFA and CDPH regulations only apply to the licensees in their charge.

The Marijuana Supply Chain in California
In California, depending on a local government's own marijuana ordinances, plants may be cultivated outdoors, using mixed-light methods, or fully indoors. Cultivators must initially acquire seeds, clones, teens, or other immature plants from nurseries.

The cultivation, processing, and movement of marijuana within the state is tracked by the METRC system, into which all licensees are required to input their track and trace data (either manually or using another software that automatically uploads to METRC). Immature plants are assigned a Unique Identifier number (UID), and this number follows the flowers and biomass resulting from that plant through the supply chain, all the way to the consumer. Each licensee in the supply chain is required to meticulously log any processing, packaging, and sales associated with that UID.

When marijuana plants mature and complete their life cycle, they are harvested, cured, and trimmed, in preparation of being sold to distributors or manufacturers. Cultivators have two main products: flowers, or "buds," and the biomass, or "trim," which is typically removed from the mature flowers. Trim is commonly sold to Manufacturers for further processing into cannabis extracts. Buds may also be sold to manufacturers, or to distributors for sale to retailers. The cultivator may package and label its marijuana flowers or may sell flower in bulk and the Distributor may package and label the flower.

Manufactured marijuana goods may be sold from a manufacturer to a Distributor but have to be provided to Distributors in their final packaging. Distributors may not package manufactured marijuana goods. Certain tax rates apply to the marijuana flower and biomass, which are assessed per ounce of product sold. The tax is paid by the Cultivator to the Distributor, or alternatively the manufacturer to the distributor, who has the responsibility of tendering the fees to the State of California.

Marijuana in California may only be transported between licensees by a licensed distributor. Some cultivators and manufacturers have their own distribution licenses, and others contract with third-party distributors. Distributors may or may not take possession of the marijuana and marijuana products but ultimately all cannabis goods must be taken to a distributor facility for testing before they can be transported to retail. How this is evolving in California currently is that, similar to the alcohol distribution model, retailers are choosing from a portfolio of products carried by the distributors they work with. Brands are doing some direct marketing to retailers, but many brands target their marketing to distributors.

Distributors are the point in the supply chain where final quality assurance testing is performed on products before they go to a retailer. Retailers may not accept product without an accompanying certificate of analysis

(COA). Distributors must hold product to be tested on their premises in “quarantine” and arrange for an employee of a licensed testing laboratory to come to their premises and obtain samples from any and all goods proposed to be shipped to a retailer. Marijuana and marijuana products are issued either a “pass” or “fail” by the testing laboratory. Under some circumstances, the BCC’s regulations allow for failing product to be “remediated” or to be re-labeled to more accurately reflect the COA.

Retail Compliance in California
California requires that certain warnings, images, and content information be printed on all marijuana packaging. BCC regulations also include certain requirements about tamper-evident and child-resistant packaging. Distributors and retailers are responsible for confirming that products are properly labeled and packaged before they are sold to a customer.

Consumers aged 21 and up may purchase marijuana in California from a dispensary with an “adult-use” license. Some localities still only allow medicinal dispensaries. Consumers aged 18 and up with a valid physician’s recommendation may purchase marijuana from a medicinal-only dispensary or an adult-use dispensary. Consumers without valid physician’s recommendations may not purchase marijuana from a medicinal-only dispensary. All marijuana businesses are prohibited from hiring employees under the age of 21.

Security Requirements
Each local government in California has its own security requirements for cannabis businesses, which usually include comprehensive video surveillance, intrusion detection and alarms, and limited access areas in the dispensary. The State also has similar security requirements, including that there be limited-access areas where only employees and other authorized individuals may enter. All Licensee employees must wear employee badges. The limited access areas must be locked with “commercial-grade, nonresidential door locks on all points of entry and exit to the licensed premises.”

Each licensed premises must have a digital video surveillance system that can “effectively and clearly” record images of the area under surveillance. Cameras must be “in a location that allows the camera to clearly record activity occurring within 20 feet of all points of entry and exit on the licensed premises.” The regulations list specific areas which must be under surveillance, including places where cannabis goods are weighed, packed, stored, loaded, and unloaded, security rooms, and entrances and exits to the premises. Retailers must record point of sale areas on the video surveillance system.

Licensed retailers must hire security personnel to provide on-site security services for the licensed retail premises during hours of operation. All security personnel must be licensed by the California Bureau of Security and Investigative Services.

California also has extensive record-keeping and track and trace requirements for all licensees.

Inspections
All licensees are subject to annual and random inspections of their premises. Cultivators may be inspected by the California Department of Fish and Wildlife, the California Regional Water Quality Control Boards, and the California Department of Food and Agriculture. Manufacturers are subject to inspection by the California Department of Public Health, and Retailers, Distributors, Testing Laboratories, and Delivery services are subject to inspection by the Bureau of Cannabis Control. Inspections can result in notices to correct, or notices of violation, fines, or other disciplinary action by the inspecting agency.

Marijuana sales and excise taxes in California
Several taxes are imposed at the point of sale and are required to be collected by the retailer. The State imposes an excise tax of 15%, and a sales and use tax is assessed on top of that. Cities and counties apply their sales tax along with the State's sales and use tax, and many cities and counties have also authorized the imposition of special cannabis business taxes which can range from 2% to 10% of gross receipts of the business.

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 material compliance with, its respective state's cannabis regulatory program. We seek to 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 state and local laws and regulations 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 agencies and by the respective operating entity to ensure compliance with applicable state laws and regulations; (4) each employee is provided with an employee handbook that outlines internal standard operating procedures in connection 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 using scanners to confirm each customer's legal age using a valid government issued drivers' license or like identification; (5) each room that holds 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.

Disclosure of Internal Controls over Financial Reporting
Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements; and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of the date of and for the periods presented.

In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the

preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

Approval

The Audit Committee has reviewed the unaudited interim consolidated financial statements and this MD&A with management of the Company. The Board of Directors has approved the unaudited interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.