Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)

Management Discussion and Analysis

As at and for the Three and Nine Months Ended September 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.) ("Vibe" or the "Company"). The MD&A discusses the operating and financial results for the three and nine months ended September 30, 2019, is dated November 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 nine months ended September 30, 2019. The MD&A should be read in conjunction with (i) the unaudited consolidated interim financial statements for the three and nine months ended September 30, 2019, prepared in accordance with IFRS applicable to preparation of interim financial statements, including International Accounting Standard ("IAS") 34 - Interim Financial Reporting, (ii) the interim financial statements for the three months ended March 31, 2019 and (iii) 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 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 in 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 Takeover of Altitude (the "Altitude Reverse Takeover"). The Altitude Reverse Takeover was completed by issuing 6.883 common shares of Altitude in exchange for each Class A common share of Vibe (the "Share Exchange"), 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 Takeover, 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 (the "Consolidation").

Prior to the Altitude Reverse Takeover, 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" or "Operations". 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, Vibe also entered into a purchase and sale agreement with the securityholders of NGEV Inc. ("NGEV") to acquire all of the issued and outstanding securities of 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 pursuant to a settlement and release agreement.

On April 3, 2019, the Company also announced that, through its U.S. subsidiary, it entered into a purchase agreement to acquire all of the membership interests in the outstanding securities of EVR Managers, LLC (the "Redding Acquisition"), which holds a license for an adult use cannabis retail operation located in Redding, California (the "Redding Site"). Closing of the Redding Acquisition is expected to occur in the fourth quarter of 2019, subject to customary closing conditions and the receipt of all necessary approvals (including receipt of all necessary third-party consents and approvals).

In addition to Share Exchange and Consolidation related to the Altitude Reverse Takeover noted above, Vibe completed a share split on a 1 to 1.511 basis in the first quarter of 2019 prior to the completion of the Altitude Reverse Takeover (the "Share Split"). All results presented as at and for the three and nine months ended September 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 noted Share Exchange, Consolidation and Share 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 third quarter of 2019, the Company continued to build on the positive results realized in the first half of 2019:

- *U.S. Targets generated revenue and adjusted EBITDA[(b)] of $8,587,309 and $1,718,092, respectively*. The Company's U.S. dispensary and cultivation operations continued their positive results in the three months ended September 30, 2019, generating revenue and adjusted EBITDA of $4,176,747 and $713,717, respectively, compared to revenue and adjusted EBITDA of $3,096,836 and $673,505, respectively in the second quarter of 2019. The U.S. operations benefited from the seasonality of the retail cannabis business, which experiences higher revenue during the summer months. In addition, the Company expanded its acceptable payment methods in the dispensaries, which have resulted in increased sales.

- *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.

- *New extracts product development completed.* In the second quarter of 2019, the Company completed the development of its new "Hype" brand extracts products ("Hype Extracts"). In October 2019, the Company entered into a strategic extraction agreement with a Sacramento-area manufacturer to expand its Hype Extracts line of products. Under the terms of the agreement, Vibe and the Sacramento manufacturer have agreed to procure bulk quantities of fresh-frozen and/or premium dried cannabis for an initial six-month term that commenced on October 23, 2019. Under the terms of the agreement, the manufacturer will provide extraction, formulation and production services for the development of distillate, live resin, wax and other cannabis oil derivatives to be sold under the Hype Extracts brand on a fee-for-service basis.

- *Planned Improvements and buildout of the Company's cultivation facilities were completed in Q4.* The increased nursery capacity is expected to: (i) extend vegetation growth phases; (ii) increase Vibe's potential harvest schedule from 4 to 5 cycles per year; (iii) increase production yield by 20-25%; (iv) while decreasing operational costs per gram produced; expand production capabilities allowing Vibe to better supply its clientele with high-quality, reliable Hype Cannabis branded products; (v) facilitate the wholesale production of high demand, clones available for sale to the retail market; and (vi) provide research and development space for the Company's cultivation team, giving them the ability to produce new strains and increase Vibe's in-store product offering (a).

(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 $1,718,092 of adjusted *EBITDA[b]* on revenue of $8,587,309 since the acquisition date through September 30, 2019.

Management remains focused on generating revenue growth organically through investment in product development, existing cultivation and retail infrastructure. In the second quarter of 2019, the Company completed the development of its new "Hype" brand extracts product line which commenced sales through the Company's retail dispensaries in August 2019. The Company completed the expansion and upgrade of its existing cultivation facilities in the fourth quarter of 2019, which 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 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 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 which 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 in the first week of December 2019. The Company's acquisition of Redding is expected to close in the fourth quarter 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'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 September 30, 2019; and (ii) the Company's head office for the entire nine months ended September 30, 2019. Amounts presented for the three months ended September 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 nine months ended September 30, 2019 are as follows:

	For the period ended September 30, 2019		Quarter ended	
	Three months	Nine months	June 30, 2019	March 31, 2019
Results of operations				
Revenue	$ 4,176,747	$ 8,587,309	$ 3,096,836	$ 1,313,726
Gross margin	1,560,073	3,439,493	1,296,113	583,307
Gross margin % [a]	*37.4*	*40.1*	*41.9*	*44.4*
G&A - U.S. Targets	485,424	1,044,411	391,233	167,754
G&A - head office	542,376	1,418,585	590,932	285,277
G&A - total	1,027,800	2,462,996	982,165	453,031
Selling and marketing	364,835	691,827	229,222	97,770
G&A as a percent of revenue [a]	*24.6*	*28.7*	*31.7*	*34.5*
Selling and marketing as a percent of revenue [a]	*8.7*	*8.1*	*7.4*	*7.4*
Net loss	(2,440,369)	(5,517,420)	(855,080)	(2,221,971)
EBITDA [a]	33,374	(2,116,588)	(241,265)	(1,908,697)
Adjusted EBITDA [a]	278,879	451,537	113,322	59,336
EBITDA % [a]	*0.8*	*(24.6)*	*(7.8)*	*(145.3)*
Adjusted EBITDA % [a]	*6.7*	*5.3*	*3.7*	*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 each generate consistent positive gross margins of approximately 40% 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 nine months ended September 30, 2019 are as follows:

	Three months ended September 30, 2019				
	Port City	Alpine Alternative	Total dispensaries	Alpine Cultivation	Total
Revenue	**$ 2,055,847**	**$ 1,903,540**	**$ 3,959,387**	**$ 217,360**	**$ 4,176,747**
Cost of good sold	1,213,387	1,151,202	2,364,589	240,719	2,605,308
Net effect of adjustments for biological assets	-	-	-	11,366	11,366
Gross margin [(a)]	**$ 842,460**	**$ 752,338**	**$ 1,594,798**	**$ (34,725)**	**$ 1,560,073**
Gross margin % [(a)]	*41.0*	*39.5*	*40.3*	*(16.0)*	*37.4*

	Nine months ended September 30, 2019 (b)				
	Port City	Alpine Alternative	Total dispensaries	Alpine Cultivation	Total
Revenue	$ 4,188,352	**$ 3,856,106**	**$ 8,044,458**	**$ 542,851**	**$ 8,587,309**
Cost of good sold	2,302,264	2,132,193	4,434,457	711,703	5,146,160
Net effect of adjustments for biological assets	-	-	-	1,656	1,656
Gross margin	**$ 1,886,088**	**$ 1,723,913**	**$ 3,610,001**	**$ (170,508)**	**$ 3,439,493**
Gross margin % [(a)]	*45.0*	*44.7*	*44.9*	*(31.4)*	*40.1*

(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 September 30, 2019.

The Port City dispensary comprises approximately 2,500 square feet of leased retail space and generated revenue totaling $2,055,847 and $4,188,352 in the three and nine months ended September 30, 2019, respectively, and gross margin of $842,460 (41%) and $1,886,088 (45%), respectively.

Alpine Alternative's dispensary comprises approximately 2,100 square feet of owned retail space and generated revenue totaling $1,903,540 and $3,856,106 in the three and nine months ended September 30, 2019, respectively, and gross margin of $752,338 (39.5%) and $1,723,913 (44.7%), respectively.

Over 80% of revenue at both Port City and Alpine Alternative consists of sales of dried cannabis, extracts and edibles. The cost of revenue associated with the dispensary operations consists 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 the product mix.

The operations of the U.S. Targets are seasonal and 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 from October to December each year. The Company's sales volumes have increased when compared to the 2019 second quarter's sales however, gross margins in the third quarter of 2019 decreased due to competitive market pressures.

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 primarily 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 September 30, 2019 due to the timing of the harvest in the quarter. The Company has completed 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 September 30, 2019 (including expenditures incurred prior to the February 18, 2019 acquisition date) total approximately $247,000. Management expects to incur additional capital expenditures totaling approximately $50,000 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 nine months ended September 30, 2019:

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	U.S. Targets	Head office	Total	U.S. Targets (a)	Head office (a)	Total
Employee costs	$ 199,289	$ 224,937	$ 424,226	$ 476,320	$ 562,193	$ 1,038,513
Professional and fees	35,360	243,434	278,794	56,084	695,445	751,529
Security services	124,075	-	124,075	272,161	-	272,161
Rent and utilities	33,699	12,238	45,937	61,385	43,828	105,213
Other	93,001	61,767	154,768	178,461	117,119	295,580
	$ 485,424	**$ 542,376**	**$ 1,027,800**	**$ 1,044,411**	**$ 1,418,585**	**$ 2,462,996**
As a percent of revenue (b)	*11.6*	*13.0*	*24.6*	*12.2*	*16.5*	*28.7*

(a) Amounts for the U.S. Targets consist of results from the date of acquisition on February 18, 2019 through September 30, 2019. Amounts for the head office consist of results for the entire nine months ended September 30, 2019. As a percent of revenue amounts are calculated as total general and administrative expense divided by total revenue of $4,176,747 and $8,587,309 in the three and nine months ended September 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.

U.S. Target employee costs increased in the three months ended September 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 sales volume realized in the period. In May and June 2019, the Company implemented a company-wide wage increase for all U.S. Target employees that were previously earning minimum wage in order to improve employee retention. In addition, the Company also proceeded with rolling out a benefits plan that contributed to the Company's increased salary costs for the three month period ended September 30, 2019.

(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.

Head office employee costs currently consist of the executive management team located in 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 September 30, 2019 are reflective of the restructuring costs of the head office employee roles 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 September 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 Strategic Communications, with the engagement cancelled in September by the Company; (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. In November 2019, the Company changed security providers and estimates that its annual security costs will decrease by approximately $120,000 which savings are expected to be offset by the security costs relating to the contemplated acquisition of the Redding dispensary[a].

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 is currently on a month-to-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 expenses increased significantly largely due to premium payments for directors and officers insurance policy which commenced in April 2019 in connection with the Company's public listing.

The Company is prudently monitoring its general and administrative expenditures whereby all non-essential costs are being eliminated. Commencing in September and into October, the Company incurred a one-time $100,000 restructuring charge with respect to its Canadian head office resulting in anticipated monthly savings of approximately $30,000[a].

(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.

Selling and marketing expenses

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

		Three months		Nine months [(a)]
Employee costs	$	315,923	$	573,084
Advertising and promotion		48,824		117,226
Other		88		1,517
	$	**364,835**	**$**	**691,827**
As a percent of revenue [(b)]		*8.7*		*8.1*

(a) Amounts include the U.S. Targets results from the date of acquisition on February 18, 2019 through September 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 $4,176,747 and $8,587,309 in the three and nine months ended September 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 September 30, 2019, largely due to adding additional retail personnel at each dispensary location and increasing the minimum wage paid to employees and rolling out a benefits program to all employees.

The Company also incurs advertising and promotion expenses directly by the U.S. Targets which implemented a marketing campaign that commenced 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 $2,440,369 in the three months ended September 30, 2019 compared to a net loss of $855,080 in the three months ended June 30, 2019. The increase in the net loss in the third quarter of 2019 was primarily due to the a $1,881,065 one-time impairment charge related to certain Canadian intangible assets, increased professional and consulting fees and insurance premiums associated with public company requirements, Canadian head office reorganization costs of approximately $100,000 and lower profitability in the Alpine Cultivation operations due to the timing of plant harvests.

Included in net loss for the three and nine months ended September 30, 2019 is income tax expense totaling $271,000 and $672,360, respectively. Total income tax expense for the three months ended September 30, 2019 includes current income taxes and a deferred tax recovery of $295,000 and $24,000, respectively. Total income tax expense for the nine months ended September 30, 2019 includes a current tax expense and a deferred tax recovery of $729,360 and $57,000 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 nine months ended September 30, 2019 is driven by the Port City and Alpine Alternative dispensaries and the Company's cultivation operations all of which currently have combined profitable operations.

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 nine months ended September 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 September 30, 2019		Quarter ended	
	Three months	Nine months (a)	June 30, 2019	March 31, 2019 (a)
Calculation of EBITDA				
Net loss	$ (2,440,369)	$ (5,517,420)	$ (855,080)	$ (2,221,971)
Add back:				
Interest expense	44,104	102,055	42,308	15,643
Income tax expense	271,000	672,360	298,360	103,000
Impairment of Intangibles	1,881,065	1,881,065	-	-
Depreciation and amortization expense	277,574	745,352	273,147	194,631
EBITDA	**33,374**	**(2,116,588)**	**(241,265)**	**(1,908,697)**
Calculation of adjusted EBITDA				
Add back non-cash items:				
Listing fee	-	564,704	-	564,704
Stock-based compensation	109,561	761,024	227,966	423,497
Loss on investment	-	415,000	-	415,000
Unrealized foreign exchange loss	36,569	41,427	1,122	3,736
Unrealized gain on fair value of financial asset	-	(113,195)	(73,870)	(39,325)
Add back non-recurring expenses:				
Transaction expenses	-	455,644	41,377	414,267
NGEV funding	-	320,000	153,000	167,000
Other non-recurring expenses	99,375	123,521	4,992	19,154
Adjusted EBITDA	**$ 278,879**	**$ 451,537**	**$ 113,322**	**$ 59,336**
EBITDA % (b)	*0.8*	*(24.6)*	*(7.8)*	*(145.3)*
Adjusted EBITDA % (b)	*6.7*	*5.3*	*3.7*	*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 $4,176,747 and $8,587,309 in the three and nine months ended September 30, 2019, respectively, $3,096,836 in the three months ended June 30, 2019 and $1,313,726 in the three months ended March 31, 2019.

The Company realized EBITDA of $33,374 and $(2,116,588) in the three months and nine months ended September 30, 2019, respectively, $(241,265) in the three months ended June 30, 2019 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 nine months ended September 30, 2019 and three months ended March 31, 2019 only includes the results of the U.S. Targets from the date of acquisition on February 18, 2019.

Adjusted EBITDA for the three and nine months ended September 30, 2019 totaled $278,879 (6.7%) and $451,537 (5.3%), respectively, $113,322 (3.7%) in the three months ended June 30, 2019, 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 nine months ended September 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 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 Takeover 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 first quarter of 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 expenditures incurred in Canadian dollars and the fluctuation of the US dollar.

(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 Takeover. Such 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 $113,195 was recorded in the nine month period ended September 30, 2019 with no adjustment required in the three months ended September 30, 2019 due to the sale of the shares in May 2019.

(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 Takeover totaling $455,644 in the nine months ending September 30, 2019. The transaction expenses incurred in 2019 largely relate to legal and other professional fees associated with finalizing the public company listing arising from the Altitude Reverse Takeover and the completing the U.S. Acquisition, including completing the final working capital adjustment. 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 $320,000 in the nine months ended September 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 the reorganization of the Canadian head office and 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 nine months ended September 30, 2019 is largely driven by the profitability of the U.S. Targets – specifically the dispensaries - as follows:

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	U.S. Targets	Head office	Total	U.S. Targets [(a)]	Head office [(a)]	Total
EBITDA	$ 713,717	$ (680,343)	$ 33,374	$ 1,398,092	$ (3,514,680)	$ (2,116,588)
Adjusted EBITDA	$ 713,717	$ (434,838)	$ 278,879	$ 1,718,092	$ (1,266,555)	$ 451,537
EBITDA %	*17.1*	*(16.3)*	*0.8*	*16.3*	*(68.3)*	*(24.6)*
Adjusted EBITDA %	*17.1*	*(10.4)*	*6.7*	*20.0*	*(14.7)*	*5.3*

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

In the third quarter of 2019, the Company continued to build on the positive results realized in the first half of the year. The results of the U.S. Targets are reflected for an entire three months in the third quarter of 2019, contributing revenue and gross margin[(b)] of $4,176,747 and $1,560,073, respectively, in the period and contributing adjusted EBITDA[(b)] of $713,717. The U.S. Targets also benefited from positive seasonal effects in both the second and third quarters 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 remainder of 2019 with the introduction of the new Hype Extracts line of products 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 fourth quarter of 2019 to remain at 40% to 45%. Management also expects Alpine Cultivation to operate at a slight loss on a gross margin[(a)] basis for the remainder of 2019 as investments are being made to improve the cultivation and manufacturing facilities that were completed in November 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[(b)]. 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 September 30, 2019, largely due to a one-time $100,000 charge in the restructuring of the Canadian head office, 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 to be lower in the fourth quarter of 2019[(b)].

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. Closing of the Reding Acquisition is expected to occur in 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.

(b) 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.

LIQUIDITY AND CAPITAL RESOURCES

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

	September 30, 2019	December 31, 2018	Change
Cash and cash equivalents (including restricted cash)	$ 1,686,557	$ 2,680,962	$ (994,405)
Cash provided from financing activities	3,699,116	3,634,269	64,847
Cash used in operating activities	(1,278,029)	(577,303)	(700,726)
Cash used in investing activities	(3,100,553)	(1,453,087)	(1,647,466)
Working capital deficit [(a)]	(807,373)	(423,717)	(383,656)
Intangible assets and goodwill	8,101,282	2,542,826	5,558,456
Property and equipment	3,127,597	2,134	3,125,463
Capital additions - land and building	1,999,682	-	1,999,682
Capital additions - property and equipment	764,113	2,512	761,601
Notes payable and lease obligations	1,967,210	-	1,967,210
Share capital	$ 17,595,330	$ 8,584,340	$ 9,010,990

(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 nine months ended September 30, 2019 totaling $3,699,116 largely due to completing certain private placements for aggregate proceeds of $3,845,288, offset slightly by the repayment of lease obligations and notes payable totaling $120,051 and $27,004, respectively. The private placement was completed in February and March 2019 and consisted of the issuance of 9,856,242 Class A common shares of Vibe at $0.39 ($0.52 CAD) 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 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 $764,113; and (iii) the cash outflow used in operations totaling $1,278,029. The Company also used existing cash balances on hand to fund a portion of the cash outflow from operations in the nine months ended September 30, 2019. Consequently, the Company's cash and cash equivalents, including restricted cash decreased $642,336 from $2,328,893 at December 31, 2018 to $1,686,557 at September 30, 2019.

Working capital deficit[(a)]

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

		September 30, 2019		December 31, 2018		Change
Current assets						
Accounts receivable	$	265,220	$	20,155	$	245,065
Inventory		688,901		-		688,901
Biological assets		95,519		-		95,519
Other current assets		587,460		148,786		438,674
		1,637,100		168,941		1,468,159
Current liabilities						
Accounts payable		1,899,716		592,658		1,307,058
Income taxes payable		544,757		-		544,757
Working capital deficit	**$**	**(807,373)**	**$**	**(423,717)**	**$**	**(383,656)**

The majority of the Company's working capital balances were acquired through the U.S. Acquisition and the Altitude Reverse Takeover. The Company has minimal trade accounts receivable as credit is not granted on the retail sale of cannabis. The accounts receivable balance at September 30, 2019 primarily consists of: (i) $235,589 due from the Company's wholesale cannabis distributor; and (ii) $29,631 in GST and other receivables.

The Company's other current asset balance also increased at September 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 Takeover, accounts payable increased due to the increase in professional and consulting fees and insurance costs incurred in the nine months ended September 30, 2019, including amounts related to completing the U.S. Acquisition and the Company's public listing. In addition, income taxes payable increased significantly at September 30, 2019 due to the income tax payable by Port City and Alpine Alternative. The Company's total tax payable balance at September 30, 2019 totaled $544,257.

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 $4,842 in the nine months ended September 30, 2019.

The Company assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of any of its reporting units below their carrying values and therefore, require goodwill and intangibles to be tested for impairment at the end of each period. As at September 30, 2019, the Company recognized a $1,881,065 intangible asset impairment charge related to certain Health Canada permits and certain licenses and software that is no longer being utilized. Given the Company's focus on its United States operations no capital has been allocated to the aforementioned assets to support the operations and therefore it is not likely to be recoverable from future related cash flows. As a result, management has recognized the impairment charges described above.

Property and equipment and capital additions

The Company's property and equipment increased from $2,134 at December 31, 2018 to $3,127,597 at September 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 $143,329 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 $764,113 in property and equipment expenditures through September 30, 2019, consisting largely of expenditures incurred to improve the electrical systems for Alpine Cultivation and Alpine Alternative totaling $242,871 and spending on the Phase 1 upgrade of the Alpine Cultivation facilities and other improvements totaling $445,402.

The Company incurred depreciation expense on property and equipment totaling $70,088 in the nine months ended September 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 $11 (favorable adjustment) in the nine months ended September 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 $1,172,590 at September 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 $16,895 at September 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 September 30, 2019 total $777,725 and relate to the long-term lease of the dispensary in Port City ($653,877) and a warehouse facility in Beiseker, Alberta ($123,848). The Company also has right-of-use assets recorded at September 30, 2019 totaling $123,513 related to the leases. The warehouse lease was cancelled by the Company in October 2019.

The Company also had a lease for its head office in Calgary with monthly rent totaling CAD $3,000 which expired on September 30, 2019 and was subsequently cancelled in October 2019. As the lease was on a month-to-month term and is not capitalized under IFRS 16.

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 nine months ended September 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	207,951	883
Transfer from contributed surplus	-	80,162
Balance at September 30, 2019	**76,612,928**	**17,595,330**

In February and March 2019, the Company completed a private placement of 9,856,242 common shares at $0.52 CAD 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 Takeover. 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 Takeover totaled $0.52 CAD per share, consistent with the issue price for the private placement.

The Company issued 207,951 common shares in April and May 2019 through the exercise of stock options with an exercise price of $0.006 CAD. 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 September 30, 2019 totaled 4,756,036 (December 31, 2018 – 3,626,154) of which 3,066,258 are exercisable (December 31, 2018 – 998,600). The weighted average exercise price of the stock options outstanding and exercisable at September 30, 2019 is $0.62 CAD and $0.86 CAD, respectively (December 31, 2018 - $0.12 CAD and $0.22 CAD, respectively). The Company recognized stock-based compensation expense related to vested options totaling $109,561 and $761,024 in the three and nine months ended September 30, 2019, respectively.

In October 2019, the Company granted 450,000 options with an exercise price of $0.20 CAD and in October and November, 119,985 options with a weighted average exercise price of $0.65 CAD expired.

The Company also has 125,810 warrants outstanding at September 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 $0.52 CAD.

Pursuant to the Redding acquisition agreement and a consulting agreement the Company has committed to issue 1,182,148 common shares. Assuming these shares have been issued as of the date of the MD&A the Company will have 77,795,077 common shares outstanding, 125,810 warrants exercisable at $0.52 CAD and 5,613,066 options outstanding with a weighted average exercise price of $0.72 CAD.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

The Company's only related party transactions for the three and nine months ended September 30, 2019, not discussed elsewhere in these notes, relates to 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. The Company has identified key management personnel as 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 nine months ended September 30, 2019 totaling $343,884 (nine months ended September 30, 2018 - $nil) which are included as general and administrative expenses in the unaudited condensed consolidated statement of operations and comprehensive loss. In addition, the Company recognized stock-based compensation expense for these individuals totaling $495,787 in the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $nil). Fees due to the Company's Board of Directors totaling $31,600 are included in general and administrative expenses for the nine month period ended September 30, 2019.

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 nine months ended September 30, 2019 compared to the audited consolidated financial statements for the period ended December 31, 2018 and the unaudited condensed consolidated financial statements for the three months ended March 31, 2019 and the three and six months ended June 30, 2019 with the exception of the $1,881,065 intangible asset impairment provision related to the Canadian assets. The impairment assessment was based on estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

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 and the condensed consolidated three and nine months ended September 30, 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 condensed consolidated financial statements for the three months and nine months ended September 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 approximate 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 Takeover 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 shares were sold in May 2019 and the resulting proceeds were remitted to the Company in August 2019.

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 Takeover 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 September 30, 2019 the Company's credit risk exposure was limited to $265,220 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	$ 1,899,716	$ -	$ -	$ -	$ 1,899,716
Taxes payable	544,757	-	-	-	544,757
Notes payable	116,496	232,992	226,187	613,810	1,189,485
Lease obligations	242,063	529,500	69,500	20,625	861,688
	$ 2,803,032	**$ 762,492**	**$ 295,687**	**$ 634,435**	**$ 4,495,646**

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. In October 2019, the Canadian warehouse lease was cancelled by the Company eliminating $123,848 of lease obligations.

SUMMARY OF QUARTERLY RESULTS

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

	Three months ended				
	September 30, 2019	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**	**September 30, 2018**
Operating results					
Revenue	$ 4,176,747	$ 3,096,836	$ 1,313,726	$ -	$ -
Gross margin	1,560,073	1,296,113	583,307	-	-
Gross margin % [(a)]	*37.4*	*41.9*	*44.4*	-	-
Net loss	(2,440,369)	(855,080)	(2,221,971)	(3,172,980)	(1,806,638)
Adjusted EBITDA [(a)]	278,879	113,322	59,336	(318,506)	(151,988)
Adjusted EBITDA % [(a)]	*6.7*	*3.7*	*4.5*	-	-
Cash used in operating activities	(20,004)	$ (585,935)	$ (672,090)	$ (577,303)	$ (151,988)
Financial position					
Cash and cash equivalents (including restricted cash)	1,686,577	2,174,499	3,083,889	2,680,962	844,872
Working capital deficit [(a)]	(807,373)	(674,081)	(923,201)	(250,364)	(64,396)
Total assets	15,314,135	17,665,745	18,341,474	6,744,863	3,575,798
Capital additions	423,925	296,919	2,043,036	2,512	2,800,165
Total liabilities	5,195,683	5,242,506	5,380,681	944,727	117,922

(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 and September 30, 2019 are the first quarterly results of the U.S. Targets 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 and September 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 and September 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.

During the three months ended September 30, 2019, the Company recognized a $1,881,065 non-cash intangible asset impairment charge related to the Health Canada permits and licenses, and software that is no longer being utilized. Given the Company's focus on the United States operations, no capital has been allocated to the aforementioned assets to support the operations.

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 Takeover 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 September 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 on SEDAR (www.sedar.com).

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].

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

(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.

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.

Nonetheless, 33 states and the District of Columbia in the United States have legalized some form of 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;

(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.

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.

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.

(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.

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;

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.

(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/.

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").

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.

(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.

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].

The 2018 Farm Bill defines hemp as the plant Cannabis sativa L. and any part of the plant with a delta-9 THC concentration of not more than 0.3 percent by dry weight and removes hemp from the CSA. The 2018 Farm Bill also allows states to create regulatory programs allowing for the licensed cultivation of hemp and production of hemp-derived products. Hemp and products derived from it, such as CBD, may then be sold into commerce and transported across state lines provided that the hemp from which any product is derived was cultivated under a license issued by an authorized state program approved by the U.S. Department of Agriculture and otherwise meets the definition of hemp removed from the CSA. The introduction of hemp and products derived from it, such as CBD, in foods, beverages, and dietary supplements has not – except in limited circumstances – been approved by the FDA. FDA expects to engage in rulemaking on this subject.

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.

(h) See, e.g., 21 C.F.R. § 1308.35.

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%, a sales tax 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.

New well-capitalized entrants may develop large-scale operations

Currently, the marijuana industry generally is comprised of individuals and small to medium-sized entities, however, the risk exists that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger or a larger number of dispensaries and cultivation and production facilities, which trend is now being observed by the Company. These potential competitors may have longer operating histories, significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources, and be larger and better capitalized. Larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use marijuana industry. While the approach in most state laws and regulations seemingly deters this type of takeover, this industry remains nascent and as indicated above this trend is being observed, so what the landscape will be in the future remains largely unknown.

The Company's proposed business plan is subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Company operates. It is possible that the Company will incur losses in the future. There is no guarantee that the Company will be profitable.

Competition from synthetic production and technological advances

The pharmaceutical industry may attempt to dominate the marijuana industry through the development and distribution of synthetic products which emulate the effects and treatment of organic marijuana. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the marijuana industry. This could adversely affect the ability of the Company to secure long-term profitability and success through the sustainable and profitable operation of its business. There may be unknown additional regulatory fees and taxes that may be assessed in the future.

Risks related to vaping and vaping products

On October 4, 2019, the U.S. Food and Drug Administration issued a warning to the public to stop using vaping liquids containing cannabis derivatives and ingredients, such as CBD and THC, in light of a potential but unconfirmed link to lung injuries such as severe pulmonary illness. Such warnings appear to be particularly focused on the use of vaping liquids purchased from unlicensed or unregulated retailers.

There may be governmental and private sector actions aimed at reducing the sale of cannabis containing vaping liquids and/or seeking to hold manufacturers of cannabis containing vaping liquids responsible for the adverse health effects associated with the use of these vaping products. These actions, combined with potential deterioration in the public's perception of cannabis containing vaping liquids, may result in a reduced market for vaporizer products. Regulations or actions that prohibit or restrict the sale of vaporizer products including cannabis derivative vaping liquids, or that decrease consumer demand for the Company's products by prohibiting their use, raising the minimum age for their purchase, raising the purchase prices to unattractive levels via taxation, or banning their sale, could adversely impact the financial condition and results of operations of the Company.

Unfavorable Publicity or Consumer Perception

The Company believes the adult-use and medical marijuana industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced. In particular, the Company's financial performance will depend on whether patients and physicians view its products as effective and safe for use. Under California law, the participation of physicians and health care providers in the certification process is voluntary and therefore depends on a number of variables, including: (i) medical professionals' views as to the use of medical cannabis to treat qualifying conditions; (ii) the risks and benefits to individual patients or patient groups; and (iii) the policies of particular medical practices; and patient demand. If physicians and other medical professionals do not certify patients where certification is required under State law, the Company's business, financial position and results of operations may be negatively affected. Public perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for adult-use or medical marijuana and on the business, results of operations, financial condition, cash flows or prospects of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or associating the consumption of adult-use and medical marijuana with illness or other negative effects or events, could have such a material adverse effect. There is no assurance that such adverse publicity reports or other media attention will not arise. A negative shift in the public's perception of cannabis, including vaping or other forms of cannabis administration, in the U.S. or any other applicable jurisdiction could cause State jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new State jurisdictions into which the Company could expand. Recent medical alerts by the CDC and state health agencies on vaping related illness and other issues directly related to cannabis consumption could potentially create an inability to fully implement the Company's expansion strategy and may have a material adverse effect on the Company's business, results of operations or prospects.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of marijuana alone or in combination with other medications or substances could occur. As a manufacturer, distributor and retailer of adult-use and medical marijuana, or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use or medical marijuana, the Company may be subject to various product liability claims, including, among others, that the marijuana product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of that product and the Company could be harmed. Product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Results of Future Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC) and future research and clinical trials may discredit the medical benefits, viability, safety, efficacy, and social acceptance of cannabis or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Company's securities should not place undue reliance on such articles and reports. Future research studies may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects

Uncertainty Related to the Regulation of Vaporization Products and Certain Other Consumption Accessories

Should the Company become engaged in the development, manufacturing and distributing vaporizer hardware and cannabis-related accessories, there is uncertainty regarding whether, in what circumstances, how and when the FDA will seek to enforce regulations under the Tobacco Control Act (United States) relative to vaporizer hardware and accessories that can be used to vaporize cannabis and other material, including electronic cigarettes, rolling papers and glassware, in light of the potential for dual use with tobacco. The Tobacco Control Act, enacted in 2009, established, by statute, that the FDA has oversight over specific types of tobacco products (cigarettes, cigarette tobacco, roll-your-own tobacco, and smokeless tobacco) and granted the FDA the authority to “deem” other types of tobacco products as subject to the statutory requirements. In addition to establishing authority, defining key terminology, and setting adulteration and misbranding standards, the Tobacco Control Act established authority over tobacco products in a number of areas such as: submission of health information to the FDA; registration with the FDA; requirements prior to marketing products; good manufacturing practice requirements; tobacco product standards; notification, recall, corrections, and removals; records and reports; marketing considerations and restrictions; post-market surveillance and studies; labeling and warnings; and record keeping and tracking. In December 2010, the U.S. Court of Appeals for the D.C. Circuit held that the FDA is permitted to regulate vaporizer devices containing tobacco-derived nicotine as “tobacco products” under the Tobacco Control Act. In a final rule effective August 8, 2016, the FDA “deemed” all products that meet the Tobacco Control Act’s definition of “tobacco product,” including components and parts but excluding accessories of the newly deemed products, to be subjected to the tobacco control requirements of the Food, Drug, and Cosmetic Act and the FDA’s implementing regulations. This includes among other things: products such as electronic cigarettes, electronic cigars, electronic hookahs, vape pens, vaporizers and e-liquids and their components or parts (such as tanks, coils and batteries) (hereinafter, referred to as “Electronic Nicotine Delivery Systems”).The FDA’s interpretation of components and parts of a tobacco product includes any assembly of materials intended or reasonably expected to be used with or for the human consumption of a tobacco product. In a 2017 decision of the D.C. Circuit, the court upheld the FDA’s authority to regulate Electronic Nicotine Delivery Systems even though they do not actually contain tobacco, and even if the products could be used with nicotine-free e-liquids. The Tobacco Control Act and implementing regulations restrict the way tobacco product manufacturers, retailers, and distributors can advertise and promote tobacco products, including a prohibition against free samples or the use of vending machines, requirements for presentation of warning information, and age verification of purchasers. In light of the laws noted above, management of the Company anticipates that authorizations will be necessary in order for the Company to continue its distribution of certain vaporizer hardware and accessories that can be used to vaporize cannabis and other material. Tobacco Control Act compliance dates vary depending upon type of application submitted, but all newly-deemed products that were marketed before August 8, 2016 will require an application no later than August 8, 2021, for “combustible” products (e.g. cigar and pipe) and August 8, 2022, for “non-combustible” products (e.g. vapor products) with the exception of “grandfathered” products (products in commerce as of February 15, 2007) that are already authorized, unless the FDA grants extensions to these compliance periods. Since there were virtually no e-liquid, e-cigarettes or other vaping products on the market as of February 15, 2007, there is no way to utilize the less onerous substantial equivalence or substantial equivalence exemption pathways that traditional tobacco corporations can utilize. Products entering the market after August 8, 2016 are not covered by the FDA compliance policy described above, and will be subject to enforcement if marketed without authorization. Management of the Company expects the Company’s suppliers to timely file for the appropriate authorizations to allow the Company to sell their products in the U.S. There are no assurances that the outcome of such processes will result in these products receiving marketing authorizations from the FDA. If the FDA establishes regulatory processes that the Company’s suppliers are unable or unwilling to comply with, the Company’s business, results of operations, financial condition and prospects could be adversely affected. The anticipated costs to the Company’s suppliers of complying with future FDA regulations will be dependent on the rules issued by the FDA, the timing and clarity of any new rules or guidance documents, incorporating these rules, the reliability and simplicity (or complexity) of the electronic systems utilized by the FDA for information and reports to be submitted, and the details required by the FDA for such information and reports with respect to each regulated product (which have yet to be issued by the FDA). Any failure to comply with existing or new FDA regulatory requirements could result in significant financial penalties to the Company or its suppliers, which could ultimately have a material adverse effect on the Company’s business, results of operations, financial condition and ability to market and sell the Company’s products. Compliance and related costs could be substantial and could significantly increase the costs of operating in the vaporization products and certain other consumption accessories markets. In addition, failure to comply with the Tobacco Control Act and with FDA regulatory requirements could result in litigation, criminal convictions or significant financial penalties and could impair the Company's ability to market and sell some of the Company's vaporizer products. At present, management of the Company is not able to predict whether the Tobacco Control Act will impact the Company's business to a greater degree than competitors in the industry, thus affecting the Company's competitive position. There has also been increasing activity on the state local levels with respect to scrutiny of vaporizer products. State and local governmental bodies across the U.S. have indicated that vaporization products and certain other consumption accessories may become subject to new laws and regulations at the state and local levels. For example, in January 2015, the California Department of Health declared electronic cigarettes and certain other vaporizer products a health threat that should be strictly regulated like tobacco products. Further, some states and cities, including the State of Iowa, have enacted regulations that require retailers to obtain a tobacco retail license in order to sell electronic cigarettes and vaporizer products. Many states and cities have passed laws restricting the sale of electronic cigarettes and certain other vaporizer products. If one or more states from which the Company generates or anticipates generating significant sales of vaporizer products move to regulate the sale of vaporizer products such that the Company is required obtain certain licenses, approvals or permits, and if the Company is not able to obtain the necessary licenses, approvals or permits for financial reasons or otherwise and/or any such license, approval or permit is determined to be overly burdensome to us, then the Company may be required to cease sales and distribution of the Company's products to those states, which could have a material adverse effect on the Company's business, results of operations and financial condition.

Certain states and cities have already restricted the use of electronic cigarettes and vaporizer products in smoke-free venues. Additional city, state and federal regulators may enact rules and regulations restricting the use of electronic cigarettes and vaporizer products in those same places where cigarettes cannot be smoked. Because of these restrictions, the Company's customers may reduce or otherwise cease using the Company's vaporization products or certain other consumption accessories, which could have a material adverse effect on the Company's business, results of operations and financial condition. It has not been conclusively determined whether the Prevent All Cigarette Trafficking Actor the Federal Cigarette Labeling and Advertising Act currently apply to vaporization products and certain other consumption accessories. At the state level, over 25 states have implemented statewide regulations that prohibit vaping in public places. Some cities have also implemented more restrictive measures than their state counterparts, such as San Francisco, which in June 2018, approved a new ban on the sale of flavored tobacco products, including vaping liquids and menthol cigarettes. There may, in the future, also be increased regulation of additives in smokeless products and internet sales of vaporization products and certain other consumption accessories. The application of either or both of these federal laws, and of any new laws or regulations which may be adopted in the future at a state, provincial or local level, to vaporization products, consumption accessories or such additives could result in additional expenses and require the Company to change its advertising and labeling, and methods of marketing and distribution of its products, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

If the Company's vaporizer products become subject to increased taxes it could adversely affect the Company's business

Supply to the Company's customers is sensitive to increased sales taxes and economic conditions affecting their disposable income. Discretionary consumer purchases, such as of vaporization products and consumption accessories, may decline during recessionary periods or at other times when disposable income is lower and taxes may be higher. Presently, the sale of vaporization products and certain other consumption accessories is, in certain jurisdictions, subject to federal, state, provincial and local excise taxes like the sale of conventional cigarettes or other tobacco products, all of which generally have high tax rates and have faced significant increases in the amount of taxes collected on their sales. Other jurisdictions are contemplating similar legislation and other restrictions on electronic cigarettes and certain other vaporizer products. Should federal, state, provincial and local governments and/or other taxing authorities begin or continue to impose excise taxes similar to those levied against conventional cigarettes and tobacco products on vaporization products or consumption accessories, it may have a material adverse effect on the demand for those products, as consumers may be unwilling to pay the increased costs, which in turn could have a material adverse effect on the Company's business, results of operations and financial condition. The Company may become involved in regulatory or agency proceedings, investigations and audits. The Company's business, and the business of the suppliers from which it acquires the products it sells, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company or such suppliers to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company or such suppliers may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the reputation of the Company or the reputations of the brands that it sells, require the Company to take, or refrain from taking, actions that could harm the Company's operations or require it to pay substantial amounts of money, harming the Company's financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operations.

Operations related to United States Cannabis Activities

The following represents the operating exposure on Vibe's condensed consolidated statements of loss and comprehensive loss that pertain to US cannabis activities for the nine months ended September 30, 2019:

Statement of Net Loss and Comprehensive Loss	**Percentage which related to holdings with US marijuana-related activities**
Revenue	100%
Cost of goods sold	100%
Changes in fair value of biological assets	100%
General and administrative expenses	42%
Sales and marketing	97%
Stock-based compensation	14%
Depreciation and amortization	53%
Impairment of intangible assets	0%
Interest expense	84%
Unrealized gain on fair value of financial assets	0%
Other expenses	97%
Income taxes	100%

Contingencies
From time to time, the Company may be involved in litigation or has claims sought against it in the normal course of business operations. On November 22, 2019, the Company received communication of a potential litigation claim and a proposed settlement amount of $550,000 CAD. The Company is of the view that the potential claim is entirely without merit and will vigorously defend any action brought forth. No provision for the potential claim has been recorded as at September 30, 2019.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

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 condensed 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 condensed 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 condensed 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 on November 27, 2019.