Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)

Management Discussion and Analysis

As at and for the Year Ended December 31, 2019

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

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

This management's discussion and analysis of the financial condition and results of operations ("MD&A") of Vibe Bioscience Ltd. (formerly Altitude Resources Inc.) ("Vibe" or the "Company") is dated April 29, 2020 and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019. These consolidated financial statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all financial measures are expressed in U.S. dollars. This MD&A contains forward looking information based on the Company's current expectations and projections.

Additional information relating to the Company is available on the Company's website (www.vibebycalifornia.com) and on SEDAR (www.sedar.com).

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, including 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 the basis of 12 to 1 (the "Consolidation").

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

Before 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 favourable 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 security holders of NGEV Inc. ("NGEV") to acquire all of the issued and outstanding securities of NGEV. However, the acquisition of NGEV was conditional upon NGEV receiving 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. While 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. In March 2020, the Company entered into a revised agreement with NGEV upon its receipt of the NGEV License in December 2019. The acquisition will be completed with the issuance of 600,000 common shares of Vibe and the assumption of approximately $463,000 in term debt. Subject to the terms and conditions of the revised NGEV purchase agreement, the Company anticipates the transaction will close during the second quarter of 2020.

On April 3, 2019, the Company announced that, through its U.S. subsidiary, it has 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"). On December 30, 2019, the Company the closed the Redding Acquisition, and the dispensary opened on February 26, 2020.

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 are as at, and for the three and 12 months ended December 31, 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 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 2019, Vibe enhanced its U.S. operations through the completion of:

- *Redding acquisition*. In December 2019, the Company completed its acquisition of all membership interests in the outstanding securities of EVR Managers LLC, securing a license for an adult-use cannabis retail operation located in Redding, California.

- *Payment methods.* The Company expanded acceptable payment methods in its dispensaries during the second quarter, resulting in higher in-store sales for the second half of 2019.

- *Delivery service commenced.* In June 2019, the Company was granted a delivery license for the City of Sacramento, allowing for door-to-door delivery of cannabis products throughout California's Central Valley. Delivery service operations began on June 7, 2019 and Vibe expects to realize the benefits of the throughout 2020. Customer adoption of Vibe's delivery services has continued to increase as clients adjust to the restrictions resulting from the Covid-19 Pandemic.

- *New extracts product development completed. In 2019,* Vibe completed the development of its "Hype" brand extracts products ("Hype Extracts"), and in October 2019, it entered into a strategic extraction agreement with a local manufacturer to expand its product lines. 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. 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.

- *Improvements and buildout of the Company's cultivation facilities.* In the fourth quarter of 2019, the Company completed improvement to increase its nursery capacity which it expects will: (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). The did determine that the goodwill related to its cultivation operations was impaired due to scaled back expansion plans resulting from capital constraints in the cannabis sector that impacted managements profitability outlook.

(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 California dominant vertically-integrated cannabis retailer 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.

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. The facility upgrade is expected to improve the harvest process, resulting in increases in both yields and the annual volume of harvested cannabis. Management believes that by investing in product development, cultivation, manufacturing and distribution operations, Vibe will increase sales from its existing retail channel and gain market share in the wholesale supply of cannabis.

The Company is also focused on creating efficiency of the point-of-sale process at its dispensary locations and improving on the methods of product delivery, including providing on-line ordering 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 in 2020 especially in light of the Covid-19 pandemic. 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 opened in February 2020. The Company's acquisition of Redding license closed on December 30, 2019. 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.

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(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 December 31, 2019, 2019; and (ii) the Company's head office for the entire twelve months ended December 31, 2019. In 2018, the Company's activities consisted of identifying and evaluating cannabis cultivation, retail dispensary and other ancillary business opportunities with a view to negotiate and enter into letters of intent and definitive agreements with respect to acquiring or developing such assets. The Company's key financial results for the three and twelve months ended December 31, 2019 and for the initial period of incorporation on June 11, 2018 to December 31, 2018 are as follows:

	For the three months ended December 31, 2019	**For the year ended December 31, 2019**	For the period from incorporation on June 11, 2018 to December 31, 2018
Results of operations			
Revenue	$ 4,012,850	$ 12,600,159	$ -
Gross margin	1,178,152	4,617,645	-
Gross margin % [a]	*29.4*	*36.6*	-
G&A - U.S. Targets	310,075	1,082,325	-
G&A - head office	491,387	1,909,972	1,206,257
G&A - total	801,462	2,992,297	1,206,257
Selling, security and marketing	592,685	1,556,673	-
G&A as a percent of revenue [a]	*20.0*	*23.7*	-
Selling and marketing as a percent of revenue [a]	*14.8*	*12.4*	-
Net loss	(3,100,491)	(8,617,911)	-
EBITDA [a]	(185,452)	(2,302,040)	2,180,919
Adjusted EBITDA [a]	(158,313)	293,224	2,180,919
EBITDA % [a]	*(4.6)*	*(18.3)*	-
Adjusted EBITDA % [a]	*(3.9)*	*2.3*	-
Financial position			
Total assets		$ 12,574,080	$ 6,744,863
Total liabilities		$ 5,571,067	$ 944,727
Common shares outstanding (#)		77,577,212	53,535,586
Fully diluted common shares outstanding (#) [b]		82,303,240	57,287,550

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

(b) Includes all outstanding warrants and options

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 41% of revenue. The Alpine Cultivation operations provides the Company with cannabis cultivation and manufacturing assets and supplies products for the Company's Port City and Alpine Alternative dispensaries.

Revenue and gross margin realized by the U.S. Targets for the three month and fiscal period ended December 31, 2019 are as follows:

	Three months ended December 31, 2019				
	Port City	Alpine Alternative	Total dispensaries	Alpine Cultivation	Total
Revenue	**$ 1,910,536**	**$ 1,937,997**	**$ 3,848,533**	**$ 164,317**	**$ 4,012,850**
Cost of good sold	1,229,772	1,350,406	2,580,178	335,768	2,915,946
Net effect of adjustments for biological assets	-	-	-	(81,249)	(81,249)
Gross margin [(a)]	**$ 680,764**	**$ 587,591**	**$ 1,268,355**	**$ (90,202)**	**$ 1,178,153**
Gross margin % [(a)]	*35.6*	*30.3*	*33.0*	*(54.9)*	*29.4*

	Twelve months ended December 31, 2019 (b)				
	Port City	Alpine Alternative	Total dispensaries	Alpine Cultivation	Total
Revenue	**$ 6,098,888**	**$ 5,794,103**	**$ 11,892,991**	**$ 707,168**	**$ 12,600,159**
Cost of good sold	3,532,036	3,482,599	7,014,635	1,047,471	8,062,106
Net effect of adjustments for biological assets	-	-	-	(79,593)	(79,593)
Gross margin	**$ 2,566,852**	**$ 2,311,504**	**$ 4,878,356**	**$ (260,710)**	**$ 4,617,646**
Gross margin % [(a)]	*42.1*	*39.9*	*41.0*	*(36.9)*	*36.6*

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

(b) Results of the U.S. Targets include the period from the date of acquisition on February 18, 2019 to December 31, 2019.

The Port City dispensary comprises approximately 2,500 square feet of leased retail space and generated revenue totaling $1,910,536 and $6,098,888 in the three and twelve months ended December 31, 2019, respectively. For the three and twelve months ended December 31, 2019, the Port City dispensary delivered gross margin of $680,764 (35.6%) and $2,566,852 (42.1%), respectively.

Alpine Alternative's dispensary comprises approximately 2,100 square feet of owned retail space and generated revenue totaling $1,937,997 and $5,797,103 in the three and twelve months ended December 31, 2019, respectively. For the three and twelve months ended December 31, 2019, the Alpine Alternative's dispensary had gross margins of $587,591 (30.3%) and $2,311,504 (39.9%), 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 margins on sale. Accordingly, the gross margin percent realized by Port City and Alpine Alternative will differ slightly period-over-period as a result of their respective product mixes.

Vibe's operations 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, various cannabis festivals and holidays. Conversely, the winter months of October to March 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 decreased when compared to the 2019 third quarter's sales by approximately $111,000 however, gross margins in the fourth 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, the quality of prior infrastructure and timing with respect to the receipt of approvals to commence operations. In addition, Alpine Cultivation revenue was impacted by growth cycles and the timing of plant harvests. Alpine Cultivation realized lower revenue in the three months ended December 31, 2019 due to the timing of the harvest in the quarter.

Management undertook a 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. All approvals were received in December 2019 to commence sales from the expanded cultivation and nursery. Expenditures in 2019 incurred on Phase 1 (including expenditures incurred prior to the February 18, 2019 acquisition date) totaled approximately $994,000.

Phase 2 of the capital investment in the Alpine Cultivation operations will be directed to increasing the Company's cultivation capacity and creating distribution capabilities[a]. The Company plans to add 2,300 square feet of cultivation space, nearly doubling the 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. Management is currently working with an architect on the layout and design of Phase 2. Once commenced, management anticipates 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 strengthening Vibe's vertical integration in its existing retail channel. In 2020, the Company is contemplating the addition of new distribution capabilities and licenses that could provide the greater exposure to the cannabis wholesale market and lower cultivation costs by reducing the Company's reliance on third party distributors.

Both Phase 1 and Phase 2 consist of upgrades to existing structures and facilities with no new green field projects planned. Accordingly, management does not expect any changes to the Company's existing cultivation and retail licenses.

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 twelve months ended December 31, 2019:

	Three months ended December 31, 2019			Twelve months ended December 31, 2019		
	U.S. Targets	Head office	Total	U.S. Targets [a]	Head office [a]	Total
Employee costs	$ 218,846	$ 40,423	$ 259,269	$ 695,166	$ 602,616	$ 1,297,782
Professional and fees	47,218	352,200	399,418	103,302	1,047,645	1,150,947
Rent and utilities	5,716	14,369	20,085	67,101	58,197	125,298
Other	38,295	84,395	122,690	216,756	201,514	418,270
	$ 310,075	**$ 491,387**	**$ 801,462**	**$ 1,082,325**	**$ 1,909,972**	**$ 2,992,297**
As a percent of revenue [b]	*7.7*	*12.2*	*20.0*	*8.6*	*15.2*	*23.7*

(a) Amounts for the U.S. Targets consist of results from the date of acquisition on February 18, 2019 through December 31, 2019. Amounts for the head office consist of results for the entire twelve months ended December 31, 2019. As a percent of revenue amounts are calculated as total general and administrative expense divided by total revenue of $4,012,850 and $12,600,159 in the three and twelve months ended December 31, 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 the 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 2019, the Company rolled out a benefits plan that contributed to the Company's increased salary costs for the three month period ended December 31, 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 December 31, 2019 are reflective of the restructuring costs of the head office employee roles.

Professional and consulting fees largely consist of public company related expenses, directors' fees, third-party legal, tax, accounting and audit services. Professional and consulting fees for the three months ended December 31, 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.

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 officer's 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 various one-time restructuring charges of approximately $200,000 with respect to its Canadian head office resulting in anticipated monthly savings of approximately $30,000[a]. The Company is also monitoring the use of third party professional services and requesting fixed pricing on projects.

(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, security and marketing expenses

The following tables presents the details of selling and marketing expense for the three months and twelve months ended December 31, 2019:

	Three months	Twelve months [(a)]
Employee costs	$ 317,109	$ 890,193
Security services	171,202	443,363
Advertising and promotion	56,544	173,770
Other	47,830	49,347
	$ 592,685	**$ 1,556,673**
As a percent of revenue [(b)]	*14.8*	*12.4*

(a) Amounts include the U.S. Targets results from the date of acquisition on February 18, 2019 through December 31, 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 $4,012,850 and $12,600,159 in the three and twelve months ended December 31, 2019, respectively.

Selling, security 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 and security costs related to patient screening and inventory controls. Consistent with employee costs included in general and administrative expense, selling and marketing employee costs increased in the three months ended December 31, 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.

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. The Company utilizes security services on a 24 hours basis. In April 2020, the Company amended its security protocol and estimates that its annual security costs will decrease by approximately $200,000 which savings are expected to be offset by the security costs relating to the contemplated acquisition of the Redding dispensary[(a)].

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 in the State of California.

Net loss

The Company incurred a net loss of $3,100,491 in the three months ended December 31, 2019 compared to a net loss of $2,440,369 in the three months ended September 30, 2019. In the fourth quarter the Company recognized a $2,314,960 non-cash impairment charge related to goodwill in the Company’s cultivation division. The cultivation impairment charge is due to a change in management’s forecasted sales, scaled back capital expansion plans due to capital constraints in the cannabis sector and profitability outlook. 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 twelve month periods ended December 31, 2019 is income tax expense totaling $24,803 and $697,163, respectively. Total income tax expense for the three months ended December 31, 2019 includes current income taxes and a deferred tax expense of $21,723 and $3,080, respectively. Total income tax expense for the twelve months ended December 31, 2019 includes a current tax expense and a deferred tax recovery of $751,083 and $53,920 respectively. The decrease in the tax expense in the fourth quarter is due to management examining costs subject to 280E with respect to inventory management along with the startup costs related to cultivation operations which are exempt from 280E.

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. The Company estimates the impact of the U.S. Internal Revenue Code Section 280E to be approximately $400,000 in 2019. Accordingly, each of the U.S. Targets that operating as dispensaries 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 annual fiscal period December 31, 2019 is driven by the Port City and Alpine Alternative dispensaries offset by the Company's cultivation operations resulting in 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 months and annual fiscal period December 31, 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 December 31, 2019	
	Three months	Twelve months (a)
Calculation of EBITDA		
Net loss	$ (3,100,491)	$ (8,617,911)
Add back:		
Interest expense	30,554	132,609
Income tax expense	24,803	697,163
Impairment of goodwill	2,314,960	2,314,960
Impairment of intangible assets	455,793	2,336,858
Depreciation and amortization expense	88,929	834,281
EBITDA	**(185,452)**	**(2,302,040)**
Calculation of adjusted EBITDA		
Add back non-cash items:		
Listing fee	-	564,704
Stock-based compensation	(52,772)	708,252
Loss on investment	-	415,000
Unrealized foreign exchange loss	(41,089)	338
Unrealized gain on fair value of financial asset	-	(113,195)
Add back non-recurring expenses:		
Transaction expenses	-	455,644
NGEV funding	-	320,000
Other non-recurring expenses	121,000	244,521
Adjusted EBITDA	**$ (158,313)**	**$ 293,224**
EBITDA % (b)	*(4.6)*	*(18.3)*
Adjusted EBITDA % (b)	*(3.9)*	*2.3*

(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 $4,012,850 and $12,600,159 in the three and twelve months ended December 31, 2019, respectively.

The Company realized EBITDA of ($185,374) and $(2,302,039) in the three months and twelve months ended December 31, 2019. The negative realized EBITDA is due to a number of non-cash, non-operating and non-recurring transactions along with the ramping up of the cultivation operations in the fourth quarter.

Adjusted EBITDA for the three and twelve months ended December 31, 2019 totaled $(158,313) and $293,776, respectively. Positive EBITDA contribution of the Port City and Alpine Alternative dispensaries, 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 along with increased cultivation costs with respect to the start-up of the expanded cultivation facilities.

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 twelve month period ended December 31, 2019 with no adjustment required in the three months ended December 31, 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 twelve months ending December31, 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 twelve months ended December 31, 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.

(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.

Outlook[a]

In the fourth quarter of 2019, the Company continued to build on the positive results realized in the first seven and a half months of operating two dispensaries and a cultivation facility. The U.S. Targets also benefited from positive seasonal effects in both the second and third quarters of 2019, whereas the fourth and first quarters are slower months for the Company. 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.

Management expects the profitability of the U.S. Targets will continue in 2020 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 and ongoing improvements being made to existing dispensaries. Management expects the gross margin[a] realized by Port City and Alpine Alternative to be in the 40 per cent range in 2020. Management also anticipates Alpine Cultivation will operate at a slight loss on a gross margin[a] basis for the remainder for the first quarter of 2020 and then to be a net contributor to the gross margin in 2020 as a result of the improvements completed in late 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 or 2021, 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 and December 31, 2019, largely due to a one-time charges of approximately $200,000 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 2020[b].

In the latter half of 2019, management focused on completing strategic acquisitions and on December 30, 2019 closed on a dispensary in Redding, California. The Redding dispensary did not have any operations in 2019, 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 underwent 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.

(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:

	December 31, 2019	December 31, 2018	Change
Cash and cash equivalents (including restricted cash)	$ 1,637,496	$ 2,680,962	$ (1,043,466)
Cash provided from financing activities	3,634,182	3,634,269	(87)
Cash used in operating activities	(672,275)	(577,303)	(94,972)
Cash used in investing activities	(3,716,449)	(1,453,087)	(2,263,362)
Working capital surplus (deficit) [(a)]	(107,221)	2,257,245	(2,364,466)
Intangible assets and goodwill	5,493,648	2,542,826	2,950,822
Property and equipment	3,599,951	2,134	3,597,817
Capital additions - land and building	1,999,682	-	1,999,682
Capital additions - property and equipment	1,270,850	2,512	1,268,338
Notes payable and lease obligations	1,866,165	-	1,866,165
Share capital and warrants	$ 17,676,240	$ 8,609,567	$ 9,066,673

(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 $3,684,182 from financing activities in the fiscal year ending December 31, 2019 as a result of completing certain private placements for aggregate proceeds of $3,846,171, offset slightly by the repayment of lease obligations and notes payable totaling $168,765 and $43,224, 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 initial period ended December 31, 2018 and was 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 $1,270,850; and (iii) the cash outflow used in operations totaling $672, 275. The Company also used existing cash balances on hand to fund a portion of the cash outflow from operations in the annual fiscal period ended December 31, 2019. Consequently, the Company's cash and cash equivalents, including restricted cash decreased $691,397 from $2,328,893 at December 31, 2018 to $1,637,496 at December 31, 2019.

Working capital deficit[(a)]

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

	December 31, 2019	December 31, 2018	Change
Current assets			
Cash and cash equivalents (including restricted cash)	$ 1,637,496	$ 2,680,962	$ (1,043,466)
Accounts receivable	246,750	20,155	226,595
Inventory	521,592	-	521,592
Biological assets	176,767	-	176,767
Other current assets	227,996	148,786	79,210
	2,810,601	2,849,903	(39,302)
Current liabilities			
Accounts payable	2,358,720	592,658	1,766,062
Income taxes payable	559,102	-	559,102
Working capital deficit	**$ (107,221)**	**$ 2,257,245**	**$ (2,364,466)**

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 December 31, 2019 primarily consists of: (i) $203,321 due from the Company's wholesale cannabis distributor; and (ii) $43,429 in GST and other receivables.

The Company's other current asset balance also increased at December 31, 2019 compared to December 31, 2018 largely due to the prepayment of the annual directors and officer's 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, audit and consulting fees and insurance costs incurred in the annual fiscal period ended December 31, 2019, including amounts related to completing the U.S. Acquisition and the Company's public listing. In addition, income taxes payable increased significantly at December 31, 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 $559,102.

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. In December 2019, the Company acquired the Redding Dispensary license with $234,939 being allocated to the retail license.

(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 $5,507 in the year end December 31, 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 December 31, 2019, the Company recognized a $2,314,960 goodwill impairment in its cultivation operations as previously discussed and a $2,336,858 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 $3,599,951 at December 31, 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 $1,270,850 in property and equipment expenditures through December 31, 2019, consisting largely of expenditures incurred to improve the electrical systems for Alpine Cultivation and Alpine Alternative totaling $242,871, spending on the Phase 1 upgrade of the Alpine Cultivation facilities and other improvements totaling $668,509 and $359,470 on the build out of the Redding dispensary.

The Company incurred depreciation expense on property and equipment totaling $104,230 in in the year ended December 31, 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 $47 (favorable adjustment) in the year ended December 31, 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 $1,162,182 at December 31, 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 $15,316 at December 31, 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 December 31, 2019 total $688,667 and relate to the long-term lease of the dispensaries in Port City ($606,641) and Redding ($82,206). The Company had a warehouse facility in Beiseker, Alberta and upon termination of the lease in October 2019 the Company reduced its lease liability by $118,398.

The Company 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 fiscal year ended December 31, 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
Redding dispensary license acquisition	964,284	55,683
Exercise of stock options	207,951	883
Transfer from contributed surplus	-	80,162
Balance at December 31, 2019	**77,577,212**	**$ 17,651,013**

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.

On December 30, 2019, the Company acquired all the issued and outstanding securities of EVR Managers LLC in exchange for 964,284 common shares of the Company with a calculated value of $0.06 CAD being the closing price of Vibe's shares on that date.

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 December 31, 2019 totaled 4,600,218 (December 31, 2018 – 3,626,154) of which 3,033,398 are exercisable (December 31, 2018 – 1,035,425). The weighted average exercise price of the stock options outstanding and exercisable at December 31, 2019 is $0.62 CAD and $0.79 CAD, respectively (December 31, 2018 - $0.12 CAD and $0.28 CAD, respectively). The Company recognized stock-based compensation expense utilizing the graded option method totaling $708,252 (2018 - $1,966,956).

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements as at and for the year ended December 31, 2019.

RELATED PARTY TRANSACTIONS

The Company's only related party transactions for the fiscal year ended December 31, 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. Key management personnel compensation is comprised of the following:

	December 31, 2019	December 31, 2018
Executive and Executive directors	$ 368,972	$ 41,847
Non-Executive Directors	31,655	-
Share based compensation	516,394	-
Total remuneration	**$ 917,021**	**$ 41,847**

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Vibe prepares its consolidated financial statements in accordance with IFRS. Its significant accounting policies are contained in Note 3 to the annual consolidated financial statements. Some of these policies involve critical accounting estimates because they require the Company to make subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Management has discussed the application of key accounting policies and the critical accounting estimates and assumptions with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosures described in this MD&A and the corresponding consolidated financial statements.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements:

Biological assets and inventory
In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis plants to the point of harvest, harvesting costs, and selling costs. In calculating final inventory values, management is required to determine an estimate of obsolete inventory and an estimate for any inventory for which cost is lower than estimated net realizable value and recognizes inventory provisions accordingly.

Business combinations
Judgement is required when assessing i) whether or not the acquisition of assets meets the criteria of a business combination; ii) the value of the consideration transferred and the net identifiable assets acquired and liabilities assumed in connection with business combinations and iii) determining goodwill or bargain purchase gain.

Discount rate for leases

Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Estimated useful lives and depreciation of property, equipment and intangible assets

Depreciation of property, equipment and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Cash Generating Unit ("CGU")

IFRS requires that the Company's operations be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the properties for impairment. The determination of the Company's CGUs is subject to management's judgment.

Impairment of Property, equipment, intangible assets and goodwill

Indicators of impairment are assessed by management using judgement, considering future plans, market conditions and cannabis prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management used post-tax cash flows covering a five to seven year period based on financial budget/forecast, using an expected average growth rate of 2% and inflation rate of 1% to 3%, a post-tax risk adjusted discount rate of 25% and a terminal growth rate of 3%. Key assumptions also include usual profit margins and growth within the California market determined by past experience.

Income taxes

The Company recognises deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and that sufficient taxable income will be generated in the future to recover such deferred tax assets. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

Provisions and contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Stock-based compensation and warrants
The amounts recorded in respect of share purchase warrants granted and the derivative liability for warrants issued are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time.

Functional currency
Management judgement is required in determining the functional currency that represents the economic environment of underlying transactions, events and conditions.

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 annual 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 2019 annual consolidated financial statements.

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 December 31, 2019 the Company's credit risk exposure was limited to $246,750 in accounts receivable, largely due from third party distributors related to Alpine Cultivation.

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

	Less than one year	Two to Three years	Four to Five years	Thereafter	Total
Financial liability					
Accounts payable	$ 2,358,720	$ -	$ -	$ -	$ 2,358,720
Taxes payable	559,102	-	-	-	559,102
Notes payable	116,496	234,112	223,536	603,342	1,177,486
Lease obligations	257,564	476,362	37,831	9,646	781,403
	$ 3,291,882	**$ 710,474**	**$ 261,367**	**$ 612,988**	**$ 4,876,711**

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 approximately $122,000 of lease obligations.

(v) Concentration Risk
The Company only operates in California. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

SUMMARY OF QUARTERLY RESULTS

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

	Three months ended					
	December 31, 2019	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**	**September 30, 2018**
Operating results						
Revenue	$ 4,012,850	$ 4,176,747	$ 3,096,836	$ 1,313,726	$ -	$ -
Gross margin	1,178,153	1,560,073	1,178,152	583,307	-	-
Gross margin % [(a)]	*29.4*	*37.4*	*38.0*	*44.4*	-	-
Net loss	(3,100,491)	(2,440,369)	(855,080)	(2,221,971)	(3,172,980)	(1,806,638)
Adjusted EBITDA [(a)]	(158,313)	278,879	113,322	59,336	(318,506)	(151,988)
Adjusted EBITDA % [(a)]	*(3.9)*	*6.7*	*3.7*	*4.5*	-	-
Cash used in operating activities	$ (332,604)	(20,004)	$ (585,935)	$ (672,090)	$ (577,303)	$ (151,988)
Financial position						
Working capital deficit [(a)]	(107,221)	879,204	1,500,418	2,160,688	2,430,598	780,476
Total assets	12,574,080	15,314,135	17,665,745	18,341,474	6,744,863	3,575,798
Capital additions	506,566	423,925	296,919	2,043,036	2,512	2,800,165
Total liabilities	5,571,067	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.

The U.S. Targets were acquired on February 18, 2019, and therefore, the three months ended June 30, 2019 and September 30, 2019 and December 31, 2019 are the first quarterly results of the U.S. Targets included for the entire period.

The Company decrease in margins is due to competitive market pressured combined with negative results from the cultivation operations due to the expansion of the facility and timing of plant harvest. The U.S. Targets increase in revenue in the three months ended June 30, 2019 and September 30, 2019 as a result of seasonality in the summer months.

Adjusted EBITDA in the three months ended June 30, 2019, September 30, 2019 and December 31, 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 month period ended December 31, 2019, the Company recognized a $2,314,960 non-cash impairment charge related to goodwill in the Company's cultivation division. The cultivation impairment charge is due to a change in management's forecasted sales, scaled back capital expansion plans due to capital constraints in the cannabis sector and profitability outlook.

During the three months ended September 30, 2019, the Company recognized a $1,881,065 non-cash intangible asset impairment charge and $455,793 in the three month period ended December 31, 2019 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 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 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.

OUTSANDING SHARE DATA

As of the date of this MD&A, the Company has 77,577,212 common shares issued and outstanding and 4,700,218 stock options to acquire common shares outstanding, with an average exercise price of $0.61 CAD per common share. The Company also has 125,810 warrants outstanding at December 31, 2019. Each warrant is exercisable into one common share of the Company at an exercise price of $0.52 CAD and expire in June 2020.

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 December 31, 2019.

Security Risks

The business premises of the Company's operating locations are targets for theft. While the Company has implemented security measures at each location and continues to monitor and improve its security measures, its cultivation, processing and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and the Company fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of the Company.

As the Company's business involves the movement and transfer of cash which is collected from dispensaries or patients/customers and deposited into its bank, there is a risk of theft or robbery during the transport of cash. The Company has engaged a security firm to provide security in the transport and movement of large amounts of cash. Employees sometimes transport cash and/or products and each employee has a panic button in their vehicle and, if requested, may be escorted by armed guards. While the Company has taken robust steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Limited trademark protection

The Company will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

Enforcement of proprietary rights

The Company may be unable to adequately protect or enforce its proprietary rights. Its continuing success will likely depend, in part, on its ability to protect internally developed or acquired, intellectual property and maintain the proprietary nature of its technology through a combination of licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. The Company cannot prove assurance that its intellectual property owned by the Company will be held valid at the state or federal level if challenged, or that other parties will not claim rights in or ownership of its proprietary rights. Moreover, because marijuana is a Schedule I controlled substance under federal law, and because the United States Patent and Trademark Office will not issue federal trademark registrations if the applicant cannot show lawful use of the mark in commerce, it may not be able to adequately protect its intellectual property.

Infringement or misappropriation claims

The Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the Company, could subject the Company to significant liabilities and other costs.

The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of cannabis without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property does not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

Currency Fluctuations

Due to the Company's present operations in the United States, and its intention to continue future operations outside Canada, the Company is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All or substantially all of the Company's revenue will be earned in US dollars, but a significant portion of its general and administrative expenses are incurred in Canadian dollars. The Company does not have currency hedging arrangements in place and there is no expectation that the Company will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the US dollar and the Canadian dollar, may have a material adverse effect on the Company's business, financial position or results of operations.

Lack of access to U.S. bankruptcy protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company, which would have a material adverse effect.

Legality of contracts

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts. The inability to enforce any of the Company's contracts could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

Volatile market price for the Company Shares

The market price for the Company Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which will be beyond the Company's control, including, but not limited to the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company will operate;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Company Shares;
- sales or perceived sales of additional Company Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations both domestically and abroad;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Company Shares may be materially adversely affected.

Liquidity

The Company cannot predict at what prices the Company Shares of the Company will trade and there can be no assurance that an active trading market will develop or be sustained. There is a significant liquidity risk associated with an investment in the Company.

Increased costs as a result of being a public company

As a public issuer, the Company is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company’s legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business, financial condition, and results of operations.

Risks inherent in an agricultural business

The Company's business is expected to involve the growing of cannabis, an agricultural product. Cannabis cultivation has the risks inherent in any agricultural business, including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.

Given the proximity with which commercially farmed cannabis plants are farmed, pest, disease, and crop failures can spread quickly between plants causing material losses. As with any plant crop, quality finished product requires that plants be provided with the correct quantities of clean water, clean air, sunshine, and nutrients, all within a controlled environment. In addition to crop failure due to pest and disease, crop failure can result from sabotage, natural disaster, and human error. Failure of the plant to survive, pass testing requirements or meet industry standards could result in unsaleable finished product. Given the complex series of variables required to produce top quality cannabis, no assurances can be given that production levels will meet estimates or that product will pass required testing or be of a quality that is competitive in the market. Failure to produce marketable cannabis product could have a material adverse financial impact on the Company.

Energy costs

The Company's recreational cannabis growing operations will consume considerable energy, which will make it vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of the Company and its ability to operate profitably.

Unknown environmental risks

There can be no assurance that the Company will not encounter hazardous conditions at the site of the real estate used to operate its businesses, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of the Company may be suspended. If the Company receives notice of a hazardous condition, it may be required to correct the condition prior to continuing construction. The presence of other hazardous conditions will likely delay construction and may require significant expenditure of the Company's resources to correct the condition. Such conditions could have a material impact on the investment returns of the Company.

Reliance on management

A risk associated with the production and sale of recreational cannabis is the loss of important staff members. Success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Insurance and uninsured risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labor disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company may be underinsured and there may be difficulties with acquiring and maintaining insurance coverage in the cannabis industry may reduce the capability of insurance to serve as a reliable and effective risk management tool. Cannabis specific insurance is still a small and specialized market. Consequently, insurance is often unattainable as it is not offered, or it is prohibitively expensive given the scarcity of actuarial data, small number of market participants, which both reduce the ability to share risk across entities. Consequently, many of the risks we face as a Company are uninsured or uninsurable, and we self-insure. Consequently, the Company will be vulnerable to low probability high impact events. If one such event, were to occur it could result in material adverse effects to the financial condition of the Company.

Emerging Industry

The recreational cannabis industry is emerging. There can be no assurance that an active and liquid market for the Company Shares will develop and shareholders may find it difficult to resell their Company Shares. Accordingly, no assurance can be given that the Company or its business will be successful.

Dependence on key inputs, suppliers and skilled labor

The cannabis business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

Difficulty to forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the recreational cannabis industry in the states in which the Company's business will operate. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's internal opinions, assumptions and analyses may prove to be incorrect and could adversely affect the Company's financial condition and operations.

Management of growth

If the Company is able to expand its operations, it may be unable to successfully manage future growth. If the Company is able to continue expanding its operations, it may experience periods of rapid growth, which will require additional resources in numerous regards. Any such growth could place increased strain on the Company's management, operational, financial and other resources, and the Company will need to train, motivate, and manage employees, as well as attract management, sales, finance and accounting, international, technical, and other professionals. In addition, the Company will need to expand the scope of our infrastructure and our physical resources. Any failure to expand these areas and implement appropriate procedures and controls in an efficient manner and at a pace consistent with the Company's business objectives could have a material adverse effect on its business and results of operations.

In addition, there are factors which may prevent the Company from the realization of growth targets. The success of the Company's planned expansion is dependent on a number of variables, many of which are outside the control of the Company. Consequently, there is a substantial possibility that the Company will fail to expand as anticipated and may underperform estimated growth targets which may lead to material deviation from the forward looking statements.

Internal controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Company Shares.

COVID-19

Epidemics or pandemics, such as the newly identified COVID-19 virus pandemic, have the potential to disrupt the Company's dispensary and cultivation operations, projects and financial condition through the disruption of the local supply chain or the loss of manpower resulting from quarantines that affect the Company's labor pools in their local communities or that are instituted by local health authorities as a precautionary measure, any of which may require the Issuer to temporarily reduce or shut down its dispensary and cultivation operations depending on the extent and severity of a potential outbreak and the areas or operations impacted. Depending on the severity, a large-scale global epidemic or pandemic could have a material adverse effect on the Issuer's financial condition.

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 responded on December 2, 2019 and 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 December 31, 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.

Cannabis Related Disclosures

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;
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.

(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.

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.

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;

(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.

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.

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

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

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

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

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

1. Verifying with the appropriate state authorities whether the business is duly licensed and registered;
2. Reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
3. Requesting from state licensing and enforcement authorities available information about the business and related parties;
4. Developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus adult-use customers);
5. Ongoing monitoring of publicly available sources for adverse information about the business and related parties;
6. Ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and
7. Refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

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

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

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

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

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

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

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

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

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.

Potential FDA regulation

If cannabis and/or CBD is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be improved; however, rescheduling cannabis may materially alter enforcement policies across many federal agencies, primarily the U.S. Food and Drug Administration (“FDA”). FDA is responsible for ensuring public health and safety through regulation of food,

(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.

drugs, supplements, and cosmetics, among other products, through its enforcement authority pursuant to the Federal Food Drug and Cosmetic Act ("FFDCA"). FDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce. Because cannabis is federally illegal to produce and sell, and because it has no federally recognized medical uses, the FDA has historically deferred enforcement related to cannabis to the DEA; however, the FDA has enforced the FFDCA with regard to hemp-derived products, especially cannabidiol ("CBD"), sold outside of state-regulated cannabis businesses. If cannabis were to be rescheduled to a federally controlled, yet legal, substance, FDA would likely play a more active regulatory role. Further, in the event that the pharmaceutical industry directly competes with state-regulated cannabis businesses for market share, as could potentially occur with rescheduling, the pharmaceutical industry may urge the DEA, FDA, and others to enforce the CSA and FFDCA against businesses that comply with state but not federal law. The potential for multi-agency enforcement post-rescheduling could threaten or have a materially adverse effect on the operations of existing state-legal cannabis businesses, including the Company.

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 year ended December 31, 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	44%
Sales and marketing	100%
Stock-based compensation	14%
Depreciation and amortization	64%
Imapirment of goodwill	100%
Impairment of intangible assets	0%
Interest expense	96%
Unrealized gain on fair value of financial assets	0%
Other expenses	92%
Income taxes	100%

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.