

Vibe Growth Corporation

(formerly Vibe Bioscience Ltd.)

Management Discussion and Analysis

As at and for the Year Ended December 31, 2020
(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 Growth Corporation (formerly Vibe Bioscience Ltd.) (“Vibe” or the “Company”) is dated April 19, 2021 and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2020. 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.

Corporate Strategy^{ab}

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. Over the past seven quarters, Vibe has demonstrated its commitment with the launch of a new "Hype" brand extracts product line in its retail locations and select third-party dispensaries. Vibe has also completed additional acquisitions and a significant expansion and upgrade of its existing cultivation facilities. The 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 delivery licenses in June 2019 and April 2020 and commenced door-to-door delivery service, the benefit of which is being 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. Management believes that investing in a consistent corporate and product brand across all dispensary locations will improve customer recognition of, and loyalty for, the "Vibe by California" and "Hype" brands while maximizing the return on capital invested.

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

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



FINANCIAL RESULTS

Financial and Operational Highlights^{ab}

Vibe's 2020 highlights were:

- *Record dispensary sales.* Dispensary sales for the three and twelve month periods ended December 31, 2020, were \$6,852,851 and \$23,117,411 (December 31, 2019: \$3,848,533 and \$11,892,991) an increase of 78% and 94% when compared to the comparative 2019 periods, respectively;
- *Average basket size.* The average dispensary basket size, net of taxes for three and twelve month periods ended December 31, 2020, were \$54.04 and \$51.23, respectively;
- *E-commerce investment.* The investment in Vibe's e-commerce division began this summer, focusing on curated content creation for its industry-leading e-commerce platform. Vibe's digital marketing team has focused on organizational quality, unified products and promotions across all sales channels, enhanced digital content, improved analytics and insights, and monitored the success of its targeted advertising initiatives. In the 2020 fourth quarter, Vibe commenced the rollout of its e-commerce platform. In the 2020 fourth quarter, 17.4% of the Company's orders came in through its e-commerce platforms.
- *Positive net income and operating cash flow.* The Company had after tax income of \$188,359 during the 2020 fourth quarter and \$728,550 in the 2020 twelve month period. In addition, the Company recorded positive cash flow from operations before changes in non-cash working capital of \$378,428 and \$890,806 for the three and twelve month periods ended December 31, 2020, respectively;
- *Positive EBITDA and Adjusted EBITDA.* The Company recorded EBITDA of \$965,617 and \$3,360,561 and Adjusted EBITDA of \$842,364 and \$2,965,075 for the respective three and twelve month periods ended December 31, 2020;
- *Redding acquisition.* On February 26, 2020, Vibe commenced retail operations at its Redding, California dispensary, following the completion of the acquisition of all membership interests in the outstanding securities of EVR Managers LLC in December 2019;
- *NGEV acquisition.* On June 12, 2020, the Company closed an acquisition agreement with NGEV Inc. to acquire a 13,500 square foot cannabis cultivation facility in Crescent City, California. The acquisition was completed via the issuance of 600,000 common shares of the Company, a cash payment of \$111,184 and the assumption of approximately \$454,000 in term debt. The acquisition resulted in the Company recording a bargain purchase gain of \$344,051 in the second quarter of 2020. In the third quarter, the Company began the expansion of the cultivation facility. The cultivation facility will increase from 13,500 square feet to 18,900 square feet. The expansion cultivation footprint is anticipated to have its first harvest in the second quarter of 2021 while the existing cultivation area is unaffected during construction;
- *Touchless curbside pickup.* In March 2020, the Company obtained local and state approvals to provide compliant touchless pickup options at all locations, enabling Vibe's clients and staff to remain healthy. The Company's priority is on the safety and well-being of its employees and clients;

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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.



- *Delivery service commenced.* In April 2020, Vibe obtained a delivery license from the City of Redding. Customer adoption of Vibe’s delivery services continues to increase as clients adjust to the restrictions resulting from the COVID-19 pandemic;
- *Option to purchase planned retail Store in Ukiah, California.* In July 2020, Vibe entered into a triple net lease agreement with an option to purchase a commercial property in Ukiah, California (the “Property”). In December 2020, the City of Ukiah approved the cannabis operations which is inclusive of a retail cannabis dispensary and non-volatile cannabis manufacturing. Vibe is endeavouring to have the dispensary open in the second quarter of 2021;
- *Distribution and manufacturing assets acquired.* In September 2020, Vibe acquired Cathedral Asset Holding Corp. (CAHC) and its distribution and manufacturing assets in Santa Rosa, California. The Santa Rosa facility is licensed for the distribution and manufacturing of regulated cannabis products. It will allow Vibe to complete logistics and fulfillment from its cultivation facilities to its retail store network, allowing for the transportation, packaging, labelling, testing, storage and transfer of its marijuana products. The manufacturing license will allow Vibe to expand its Hype Cannabis Co. product line and produce a wide variety of all-natural Hype Cannabis Co. products;
- *Corporate name change and continuance.* On October 13, 2020, Vibe completed the continuance from the Province of Ontario to the Province of British Columbia; and, in connection therewith, the Company adopted new articles. The continuance and form of articles were approved by shareholders at Vibe’s annual and special meeting of shareholders held on June 24, 2020. In addition, the Company changed its name to "Vibe Growth Corporation" in accordance with the provisions of the Business Corporations Act (British Columbia) from Vibe Bioscience Ltd;
- *Portland dispensary acquired.* On November 11, 2020, Vibe acquired Portland Asset Holdings Corp. (PAHC) and its retail dispensary in Portland Oregon. As part of the transaction, Vibe acquired cash of \$1,002,476 and assumed a working capital deficit of \$90,660. The Company issued 3,112,092 common shares and 1,200,000 warrants exercisable at CAD \$0.62; and,
- *Sacramento distribution.* On December 23, 2020, Vibe obtained local approval and real property entitlements allowing for the distribution of cannabis at its Sacramento Cannabis Campus (“SCC”). The Sacramento distribution adds a second distribution facility, expanding California logistics and fulfillment capabilities; promotes supply chain integrity and allows for improved delivery speed of fresh clones from the company's SCC to Vibe's retail network.

Results of Operations

The Company's core cannabis business did not commence until February 18, 2019. Consequently, in 2019 the revenue, gross margin, G&A, selling and marketing expense, net loss, EBITDA and adjusted EBITDA amounts include results of the dispensary cultivation operations from February 19, 2019 to December 31, 2019. However, the Company's head office results are for the entire 12 month period ended December 31, 2019. In 2018, the Company's activities consisted of identifying and evaluating cannabis cultivation, retail dispensary and other ancillary business opportunities 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 are as follows:

	For the three month period		For the year		For the period
	ended December 31,		ended December 31,		from
	2020	2019	2020	2019	Incorporation on
					June 11, 2018 to
					December 31,
					2018
Results of operations					
Revenue	\$ 7,048,294	\$ 4,012,850	\$ 24,240,862	\$ 12,600,159	\$ -
Gross margin	2,716,669	1,178,152	8,540,496	4,617,646	-
Gross margin % ^(a)	38.5	29.4	35.2	36.6	-
G&A	913,276	801,462	2,969,783	2,992,297	1,206,257
Selling, security and marketing	800,879	592,685	2,622,756	1,556,676	-
G&A as a percent of revenue ^(a)	13.0	20.0	12.3	23.7	-
Selling and marketing as a percent of revenue ^(a)	11.4	14.8	10.8	12.4	-
Net income (loss)	188,359	(3,100,491)	728,550	(8,617,911)	(3,355,083)
EBITDA ^(a)	965,617	(185,452)	3,360,561	(2,302,040)	(3,141,120)
Adjusted EBITDA ^(a)	842,364	(158,313)	2,965,075	293,224	(1,174,164)
EBITDA % ^(a)	13.7	(4.6)	13.9	(18.3)	-
Adjusted EBITDA % ^(a)	12.0	(3.9)	12.2	2.3	-
Financial position as at December 31, 2020					
Total assets	18,342,190	\$ 12,574,080			
Total liabilities	\$ 8,231,975	\$ 5,571,067			
Common shares outstanding (#)	82,613,028				
Fully diluted common shares outstanding (#) ^(b)	88,775,726				

(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

Acquisitions

On June 12, 2020, Vibe acquired a 13,500-square-foot cannabis cultivation facility in Crescent City, California. Under the NGEV Inc. ("NGEV") purchase agreement with security holders of NGEV, Vibe acquired all issued and outstanding shares of NGEV. The acquisition was completed with the issuance of 600,000 common shares of Vibe and the assumption of working capital of \$75,507, biological assets with a fair value of \$162,749 and assumed \$453,977 in term debt. The acquisition of NGEV resulted in a gain on acquisition of \$344,051 as a consequence of buying the business from a seller intending to leave the cannabis space.

NGEV, a corporation organized under California's laws, owns a production facility and cannabis cultivation equipment and leases land in Crescent City, California. The cultivation facility provides a turnkey operation that has historically produced cannabis flower, clones and seeds. In addition to the immediate synergies with



Vibe's California operations, the leased land offers a future expansion opportunity to increase the cultivation canopy by up to 40% with the expansion completed in the first quarter of 2021. The transaction provides Vibe with a second licensed facility and is expected to enhance Vibe's Hype Cannabis Co. branded products' profitability.

On September 17, 2020, the Company acquired all the existing shares of Cathedral Asset Holding Corporation ("CAHC") in exchange for 669,398 common shares and 800,000 warrants with an exercise price of \$0.60 and expiring 12 months from closing. Vibe acquired licenses for the distribution and manufacturing of regulated cannabis products and a right-of-use asset in Santa Rosa, California. The assets acquired in the CAHC acquisition were not considered a business acquisition. The Santa Rosa facility is licensed for the distribution and manufacturing of regulated cannabis products.

On November 11, 2020, the Company acquired all the existing shares of Portland Asset Holding Corporation ("PAHC") in exchange for 3,112,092 common shares and 1,200,000 warrants with an exercise price of \$0.62 and expiring on November 11, 2021. PAHC operates a cannabis dispensary in Portland, Oregon. The acquisition was treated as a business combination with the allocation of the purchase price is based on the assessment of the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

Proposed Acquisition

On April 4, 2021, Vibe entered into a definitive agreement to purchase Desert Organic Solutions Collective, located in Palm Springs, California. Under the terms of the acquisition, Vibe will purchase the assets, inventory and lease for the 2,838-square-foot licensed, adult-use dispensary for a cash consideration of \$380,000 and assumption of existing and estimated liabilities of \$1.8-million. The closing of the transaction is subject to the satisfaction of certain conditions of the licence ownership transfer.

Revenue and gross margin

The Company's Alpine Alternative, Redding and Port City California dispensaries provide a wide variety of high-quality cannabis flowers, edibles, and extracts. Each generates consistent positive gross margins of approximately 35% of revenue. The Company also acquired the Amberlights dispensary in Portland, Oregon in November 2020. The Alpine Cultivation and recently acquired NGEV operations provide the Company with cannabis cultivation and manufacturing assets and supplies products for the Company's Port City, Alpine Alternative, Redding and third-party dispensaries. In the fourth quarter of 2020, the Company commenced internal distribution operations as a result of the CAHC acquisition.



Revenue and gross margin realized by the Company's dispensary and cultivation operations are as follows:

	For the three months ended December 31, 2020					For the three months ended December 31, 2019 (b)		
	Dispensaries	Cultivation	Other	Consolidating Adjustment	Total	Dispensaries	Cultivation	Total
Revenue	\$ 6,852,851	\$ 956,273	\$ 246,182	\$ (1,007,012)	\$ 7,048,294	\$ 3,848,533	\$ 164,317	\$ 4,012,850
Cost of good sold	4,421,071	523,757	227,316	(758,527)	4,413,617	2,580,178	335,768	2,915,946
Net effect of adjustments for biological assets	-	81,992	-	-	81,992	-	(81,249)	(81,249)
Gross margin ^(a)	\$ 2,431,780	\$ 514,508	\$ 18,866	\$ (248,485)	\$ 2,716,669	\$ 1,268,355	\$ (90,202)	\$ 1,178,153
Gross margin % ^(a)	35.5	53.8	7.7	(24.7)	38.5	33.0	(54.9)	29.4

	For the twelve months ended December 31, 2020					For the twelve months ended December 31, 2019 (b)		
	Dispensaries	Cultivation	Other	Consolidating Adjustment	Total	Dispensaries	Cultivation	Total
Revenue	\$ 23,117,411	\$ 1,884,281	\$ 246,182	\$ (1,007,012)	\$ 24,240,862	\$ 11,892,991	\$ 707,168	\$ 12,600,159
Cost of good sold	15,103,041	1,474,974	227,316	(758,527)	16,046,804	7,014,635	1,047,471	8,062,106
Net effect of adjustments for biological assets	-	346,438	-	-	346,438	-	(79,593)	(79,593)
Gross margin ^(a)	\$ 8,014,370	\$ 755,745	\$ 18,866	\$ (248,485)	\$ 8,540,496	\$ 4,878,356	\$ (260,710)	\$ 4,617,646
Gross margin % ^(a)	34.7	40.1	7.7	(24.7)	35.2	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 dividing gross margin by revenue.

Dispensary revenue for the three and twelve months ended December 31, 2020, were \$3,004,318 and \$11,224,420 higher or 78.1% and 94.4% higher than the respective comparative periods. Same-store sales for the three and twelve months ended December 31, 2020, were \$1,590,246 and \$7,813,229 higher or 41.3% and 65.7% higher than the respective comparative periods. The average dispensary basket size, net of taxes for three and twelve month periods ended December 31, 2020 were \$54.04 and \$51.23, respectively.

Over 80% of the dispensaries' revenue is derived from the sale 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 each of the dispensaries will differ slightly period-over-period due to their respective product mixes. The Company is striving not to be a product discounter but be competitive on product selection and customer service. The Company also expects to increase its margins on sales of its Hype products.

Vibe's operations are seasonal and are generally impacted by weather conditions. Specifically, higher revenue is usually realized in the warmer summer months of April through September due to increased outdoor activity by recreational adult-use cannabis customers, along with 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.

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 that pertain to 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 of approvals to commence operations. In addition, Alpine Cultivation revenue was impacted by growth cycles, the timing of plant harvests and internal transfers of product. Management is closely monitoring the Alpine cultivation operations with the intent of having the division profitable. In



addition, the NGEV cultivation assets, as previously discussed, will add to the cultivation operation profitability. The Company's expansion of the NGEV site was completed in early 2021 with the cultivation facility increasing from 13,500 square feet to 18,900 square feet. The expansion cultivation footprint is anticipated to have its first harvest in the second quarter of 2021 while the existing cultivation area is unaffected during construction.

Biological asset transformation for the three and twelve months ended December 31, 2020, were \$743 and \$266,845 higher than the respective 2019 comparable periods. The increase was primarily due to the increased cultivation operating capacity resulting from the acquisition of NGEV and the corresponding increase in the unrealized fair value gain on the growth of biological assets offset by the amounts realized and included in the cost of goods sold.

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, 2020 and 2019:

	Three months ended December 31, 2020			Three months ended December 31, 2019		
	U.S.	Head	Total	U.S.	Head	Total
	Operations	office		Operations ^(a)	office	
Employee costs	\$ 186,305	\$ 325,471	\$ 511,776	\$ 218,846	\$ 40,423	\$ 259,269
Professional and consulting fees	34,608	90,088	124,696	47,218	352,200	399,418
Rent and utilities	30,916	-	30,916	5,716	14,369	20,085
Other	201,236	44,652	245,888	38,295	84,395	122,690
	<u>\$ 453,065</u>	<u>\$ 460,211</u>	<u>\$ 913,276</u>	<u>\$ 310,075</u>	<u>\$ 491,387</u>	<u>\$ 801,462</u>
<i>As a percent of revenue ^(b)</i>	<u>6.4</u>	<u>6.5</u>	<u>13.0</u>	<u>7.7</u>	<u>12.2</u>	<u>20.0</u>
	Twelve months ended December 31, 2020			Twelve months ended December 31, 2019		
	U.S.	Head	Total	U.S.	Head	Total
	Operations	office		Operations ^(a)	office	
Employee costs	\$ 1,099,383	\$ 552,440	\$ 1,651,823	\$ 695,166	\$ 602,616	\$ 1,297,782
Professional and consulting fees	134,172	212,700	346,872	103,302	1,047,645	1,150,947
Rent and utilities	111,529	-	111,529	67,101	58,197	125,298
Other	610,918	248,641	859,559	216,756	201,514	418,270
	<u>\$ 1,956,002</u>	<u>\$ 1,013,781</u>	<u>\$ 2,969,783</u>	<u>\$ 1,082,325</u>	<u>\$ 1,909,972</u>	<u>\$ 2,992,297</u>
<i>As a percent of revenue ^(b)</i>	<u>8.1</u>	<u>4.2</u>	<u>12.3</u>	<u>8.6</u>	<u>15.2</u>	<u>23.7</u>

(a) Amounts for the U.S. Operations consist of 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 general and administrative expense divided by total revenue totalling \$7,048,294 and \$24,240,862 (2019 -\$4,012,850 and \$12,600,159) in the respective three and twelve month periods ended December 31, 2020 and 2019.



Employee costs consist of salaries, benefits, employee travel and meals and entertainment. Total employee costs for the U.S. Operations 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. Operations employee costs decreased in the three months and increased in the twelve months ended December 31, 2020, by \$32,541 and \$404,217. The overall increase is largely due to adding staff as a result of the increased sales volume realized in the three and twelve month periods ended December 31, 2020, and Covid-19 related incentive payments. In May and June 2019, the Company implemented a company-wide wage increase for all U.S. Operations employees that were previously earning minimum wage to improve employee retention. In 2019, the Company rolled out a benefits plan that contributed to the Company's increased salary costs in 2020.

Head office employee costs currently consist of the executive management team. The executive management team is responsible for managing the Company's capital requirements, corporate and business development, investor communications and financial and regulatory reporting. The decrease in head office employee costs for the twelve months ended December 31, 2020, are reflective of the restructuring costs incurred in the fourth quarter of 2019 offset by \$200,000 related to a bonus expense. The Company is prudently monitoring its general and administrative expenditures whereby all non-essential costs are being eliminated. The Company is also monitoring the use of third-party professional services and requesting fixed pricing on projects.

Professional and consulting fees largely consist of public company-related expenses, directors' fees, third-party legal fees, tax, accounting and audit services. Professional fees for the three and twelve months ended December 31, 2020, are reflective of costs associated with: (i) securities matters; (ii) public company related filing and compliance costs; (iii) annual general meeting costs and (iv) director fees. In the three and twelve months ended December 31, 2019, the Company incurred significant costs concerning Canadian and U.S. tax structuring and securities matters.

Rent and utilities largely consist of utility and maintenance costs associated with the dispensaries and rent and utilities at the US 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 due to premium payments for directors and officer's insurance policy which was renewed in April 2020.



Selling, security and marketing expenses

The following table present the details of selling and marketing expense for the three months and twelve months ended December 31, 2020 and 2019:

	Three months ended		Twelve months ended	
	December 31,		December 31,	
	2020	2019 ^(a)	2020	2019 ^(a)
Employee costs	\$ 650,953	\$ 317,109	\$ 1,813,496	\$ 890,193
Security services	79,377	171,202	464,294	443,363
Advertising and promotion	57,737	56,544	213,531	173,770
Other	12,812	47,830	131,435	49,347
	<u>\$ 800,879</u>	<u>\$ 592,685</u>	<u>\$ 2,622,756</u>	<u>\$ 1,556,673</u>
<i>As a percent of revenue^(b)</i>	<u>11.4</u>	<u>14.8</u>	<u>10.8</u>	<u>12.4</u>

(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 general and administrative expense divided by total revenue totalling \$7,048,294 and \$24,240,862 (2019 -\$4,012,850 and \$12,600,159) in the respective three and twelve month periods ended December 31, 2020, and 2019.

Selling, security and marketing expenses are almost entirely incurred by the dispensaries and cultivation operations. Specifically, employee costs, which consist of salaries, benefits, employee travel and meals and entertainment, largely relate to budtenders at the dispensaries in addition to the front desk and register staff and security costs related to patient screening and inventory controls. The increase other than due to the timing of the acquisitions in 2019 resulting in operations on February 19th 2020, is largely due to adding additional retail personnel at each dispensary location, increasing the minimum wage paid to employees, rolling out a benefits program and adding staff as a result of the Redding dispensary opening in late February 2020.

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 that provide security guards at each dispensary. The Company employs 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 \$160,000. The savings were offset by increased security costs to protect the Company’s assets as a result of the threat of vandalism and looting that occurred in May and June 2020 in Sacramento and Port City.

The Company also incurs advertising and promotion expenses directly by the dispensaries and cultivation operations, which implemented a marketing campaign that commenced in the second quarter of 2019 and 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 earned a net profit of \$188,359 and \$728,550 in the respective three and twelve month periods ended December 31, 2020, compared to a net loss of \$3,100,491 and \$8,617,911 in the corresponding 2019 periods. The Company did not incur any one-time charges in 2020 whereas in 2019 approximately \$5.84 million of one-time costs were incurred primarily related to the closing of the US dispensaries, cultivation



operations, completing the RTO with Altitude and an impairment charge on certain assets. In the twelve month period ended December 31, 2020, the Company recorded a one-time bargain purchase gain of \$344,051 related to the acquisition of NGEV. The fourth quarter of 2020 was the third time in the Company's brief history where net income after taxes was generated.

Included in net income for the three and twelve month periods ended December 31, 2020 is income tax expense totaling \$501,450 and \$1,692,251 (2019 - \$24,803 and \$697,163), respectively. Total income tax expense for the three months ended December 31, 2020 includes current income taxes and a deferred tax recovery of \$525,562 and \$24,112, respectively. Total income tax expense for the twelve month period ended December 31, 2020, includes a current tax expense and a deferred tax recovery of \$1,783,000 and \$90,749 respectively. The increase in the tax expense in 2020 on a percentage basis is due to management not claiming expenses at its dispensaries with respect to inventory management as a result of the May 4, 2020, US Tax Court decision regarding cannabis tax obligations, business tax deductions under 280E, and the calculation of Cost of Goods Sold (COGS) in the case of *Richmond Patients Group v. Commissioner*. The Richmond ruling clarified that additional expenses that cannot be considered direct costs for a reseller include inventory obsolescence, shrinkage, packaging, testing, and inventory security.

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. Operations 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 \$1,042,000 in 2020 (2019 - \$400,000). Accordingly, each of the U.S. Operations 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, 2020 and 2019 is driven by the dispensaries and Crescent City cultivation operations 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 acquisitions completed.

The Company also realized tax losses in the three months and annual fiscal period December 31, 2020 and 2019, largely by incurring head office general and administrative expenses in 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 to understand the Company's ongoing 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:

	For the three month period		For the year	
	ended December 31,		ended December 31,	
	2020	2019 ^(a)	2020	2019 ^(a)
Calculation of EBITDA				
Net income (loss)	\$ 188,359	\$ (3,100,491)	\$ 728,550	\$(8,617,911)
Add back:				
Interest expense	44,066	30,554	147,384	132,609
Income tax expense	501,450	24,803	1,692,251	697,163
Impairment of goodwill	-	2,314,960	-	2,314,960
Impairment of intangible assets	-	455,793	-	2,336,858
Depreciation and amortization expense	<u>231,742</u>	<u>88,929</u>	<u>792,376</u>	<u>834,281</u>
EBITDA	965,617	(185,452)	3,360,561	(2,302,040)
Calculation of adjusted EBITDA				
Add back non-cash items:				
Listing fee	-	-	-	564,704
Stock-based compensation	60,574	(52,772)	134,000	708,252
Bargain purchase gain	-	-	(344,051)	-
Loss on investment	-	-	-	415,000
Unrealized foreign exchange loss	(86,059)	(41,089)	17,118	338
Unrealized gain on fair value of financial asset	-	-	-	(113,195)
Add back non-recurring expenses:				
Transaction expenses	18,000	-	37,700	455,644
NGEV funding	-	-	-	320,000
Other non-recurring expenses (income)	<u>(115,768)</u>	<u>121,000</u>	<u>(240,253)</u>	<u>244,521</u>
Adjusted EBITDA	\$ 842,364	\$ (158,313)	\$ 2,965,075	\$ 293,224
<i>EBITDA % ^(b)</i>	<i>13.3</i>	<i>(4.6)</i>	<i>13.9</i>	<i>(18.3)</i>
<i>Adjusted EBITDA % ^(b)</i>	<i>11.6</i>	<i>(3.9)</i>	<i>12.2</i>	<i>2.3</i>

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

(b) EBITDA and adjusted EBITDA as a percent of revenue is calculated by dividing the respective amounts by total revenue totaling \$7,048,294 and \$24,240,862 in the three and twelve months ended December 31, 2020 (2019 - \$4,012,850 and \$12,600,159), respectively.

The Company realized EBITDA of \$965,617 in the three month period ended December, 2020 compared to negative EBITDA of \$185,452 in the comparative three month period. The positive EBITDA in the fourth quarter of 2020 is primarily due to increased sales, the realization of cost reductions implemented in the third and fourth quarter of 2019, and is offset by the Distribution start-up costs. The realized EBITDA in 2019 was due to several non-cash, non-operating and non-recurring transactions with respect to the Company's public listing.

Adjusted EBITDA for the respective three and twelve month periods ended December 31, 2020 totaled \$842,364 and \$2,965,075 (2019 - (\$158,313) and \$293,224), respectively. Positive EBITDA contribution of the Port City, Alpine Alternative and Redding dispensaries was partially impacted by a loss at Sacramento cultivation and Distribution CGU's along with head office and public company costs.



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 when determining adjusted EBITDA.
- (iii) Bargain purchase gain. The Company recorded a \$344,051 bargain purchase gain on the aforementioned acquisition of NGEV due to the purchase consideration being less than the fair value of the net assets acquired.
- (iv) Loss on investment. Before completing the U.S. Acquisition, the Company acquired a 20% non-controlling interest in Port City, for which it paid cash totalling \$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 totalling \$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.
- (v) Unrealized foreign exchange loss. The amount relates to the expenditures incurred in Canadian dollars and the fluctuation of the US dollar.
- (vi) Unrealized gain on the fair value of a 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 totalling \$113,195 was recorded in the twelve month period ended December 31, 2019. The shares were sold in May 2019.
- (vii) Transaction expenses. The Company incurred legal, tax, accounting and other related professional and consulting fees in connection with the NGEV and CAHC acquisitions and in 2019 fees related to the U.S. Acquisition and the Altitude Reverse Takeover that totalled \$455,644 for the nine months ended September 30, 2019. The transaction expenses incurred in 2019 largely related to legal and other professional fees associated with finalizing the public company listing that arose from the Altitude Reverse Takeover and completing the U.S. Operations Acquisitions, which included completing the final working capital adjustment. The transaction expenses do not relate to the ongoing business of the Company and therefore are considered non-operational.
- (viii) NGEV funding. The Company funded NGEV's operating losses totaled \$320,000 in the twelve months ended December 31, 2019. 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 ongoing business of the Company, and therefore is considered non-operational and non-recurring.
- (ix) Other non-recurring expenses (income). Other non-recurring expenses largely consist of the reorganization of the Canadian head office, professional and consulting fees incurred or debt settlements by the Company that are not expected to be incurred in future periods.

LIQUIDITY AND CAPITAL RESOURCES

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

	December 31, 2020	December 31, 2019	Change
Cash and cash equivalents	\$ 2,412,798	\$ 1,637,496	\$ 775,302
Cash provided (used in) from financing activities	(324,148)	3,634,182	(3,958,330)
Cash provided from (used in) operating activities	724,343	(672,275)	1,396,618
Cash used in investing activities	362,351	(3,716,449)	4,078,800
Working capital surplus (deficit) ^(a)	1,363,022	(107,221)	1,470,243
Intangible assets and goodwill	6,541,457	5,493,648	1,047,809
Property and equipment	4,668,162	3,599,951	1,068,211
Capital additions - land and building	-	1,999,682	(1,999,682)
Capital additions - property and equipment	1,298,333	1,270,850	27,483
Notes payable and lease obligations	2,569,245	1,866,165	703,080
Share capital and warrants	<u>\$ 20,036,100</u>	<u>\$ 17,676,240</u>	<u>\$ 2,359,860</u>

(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 the working capital deficit.

Cash and cash equivalents and cash flow amounts

The Company generated \$378,428 and \$890,806 from operating activities before changes in non-cash working capital in the respective three and twelve month periods ended December 31, 2020, versus a cash utilization of \$331,590 and \$1,610,633 in the respective 2019 comparative periods. The Company acquired \$1,002,476 of cash in the PAHC acquisition. The Company's capital additions in the current period consisted of costs related to the Redding dispensary opening, acquiring delivery vehicles and greenhouse expansion costs at NGEV.

Working capital deficit^a

The Company's working capital deficit at December 31, 2020 and 2019 is calculated as follows:

	December 31, 2020	December 31, 2019	Change
Current assets			
Cash and cash equivalents	\$ 2,412,798	\$ 1,637,496	\$ 775,302
Accounts receivable	21,428	246,750	(225,322)
Inventory	3,162,192	521,592	2,640,600
Biological assets	270,290	176,767	93,523
Other current assets	<u>341,906</u>	<u>227,996</u>	<u>113,910</u>
	6,208,614	2,810,601	3,398,013
Current liabilities			
Accounts payable	2,853,930	2,358,720	495,210
Income taxes payable	<u>1,991,662</u>	<u>559,102</u>	<u>1,432,560</u>
Working capital (deficit)	<u>\$ 1,363,022</u>	<u>\$ (107,221)</u>	<u>\$ 1,470,243</u>

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



The Company's other current asset balance also increased as of December 31, 2020, when compared to December 31, 2019. This is due to increased inventory being held at the Company's dispensaries and the manufacturing of the biological assets into retail products and the prepayment of the annual directors and officer's insurance premium and annual license and permits renewals for the dispensaries in April.

Intangible assets and goodwill

The Company's intangible asset increased due to the closing of the NGEV acquisition where \$200,000 was assigned to the cultivation license, \$339,193 was assigned to the distribution and manufacturing license in the CAHC acquisition and \$205,392 was assigned to licenses along with \$633,952 of goodwill related to the PAHC acquisition.

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 of December 31, 2020, no impairment indicators exist. As of 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, in 2019, management recognized the impairment charges described above.

Property and equipment and capital additions

In 2020, the Company had \$1,298,333 of capital additions primarily related to the completion of the Redding dispensary which opened on February 26, 2020, the acquisition of four delivery vehicles that were financed and the expansion of the NGEV cultivation facilities.

The Company incurred depreciation expense on property and equipment totalling \$230,083 in the year ended December 31, 2020 (December 31, 2019 – \$104,230). 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 totalled \$107 (favourable adjustment) in the year ended December 31, 2020 (December 31, 2019 - \$47).

Notes payable and lease obligations

The Company has a note payable outstanding related to the purchase of the land and buildings note above totals \$1,118,687 on December 31, 2020. The note bears interest at 6% per year, requires monthly payments of interest and principal of \$9,314 and matures in April 2036.

In conjunction with the acquisition of NGEV, the Company assumed a \$158,000 unsecured deferred rent note payable with a balance of \$131,666 outstanding at December 31, 2020. The note is non-interest bearing, requires monthly payments of \$4,389 and matures in July 2023.

Pursuant to the acquisition of NGEV, the Company also assumed a \$295,977 unsecured promissory note. The promissory note bears interest at 12% per annum, requires monthly payments of \$5,000 until December 31, 2020, and then increases to \$7,500 and matures in November 2024. The balance outstanding on December 31, 2020, is \$278,118.

The Company also has five vehicle acquisition notes payable. The notes payable of \$89,849 that bear interest ranging from 0% to 4.99% per year, require monthly payments of principal and interest totalling \$1,864 and mature in January 2023, and June, July and September 2025.



Lease obligations outstanding at December 31, 2020, total \$950,925 and relate to the long-term lease of the dispensaries in Port City (\$407,994), Redding (\$70,029), Portland (\$346,147) and \$126,755 related to the distribution and manufacturing operations.

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, 2020 and 2019, are as follows:

	December 31, 2020	December 31, 2019
Balance, beginning of year	77,577,212	53,535,586
Issued in private placement	-	9,856,242
Issued in acquisitions	3,712,092	10,815,157
Issued in Altitude Reverse Take-over	-	2,197,992
Issued in asset acquisitions	669,398	964,284
Issued in exchange for services rendered	455,036	-
Exercise of stock options	199,290	207,951
Balance, end of year	<u>82,613,028</u>	<u>77,577,212</u>

In February and March 2019, the Company completed a private placement of 9,856,242 common shares at CAD \$0.52 for proceeds totalling \$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 totalled CAD \$0.52 per share, which was 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 CAD \$0.006. Stock-based compensation expense totalling \$80,162 previously recognized for the exercised stock option was transferred from contributed surplus to share capital. In June and September 2020, 203,287 stock options were exercised at \$0.006 (CAD).

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 CAD \$0.06 being the closing price of Vibe's shares on that date.

In May 2020, the Company issued 455,036 common shares as payment for financial advisory services rendered to the Company for \$50,000 (CAD).

On June 12, 2020, the Company acquired all the issued and outstanding securities of NGEV Inc. in exchange for 600,000 common shares of the Company with a calculated value of CAD \$0.30 being the closing price of Vibe's shares on that date.

On September 17, 2020, the Company acquired all the issued and outstanding securities of Cathedral Asset Holdings Corp. in exchange for 669,398 common shares of the Company with a calculated value of CAD \$0.56 being the closing price of Vibe's shares on that date and 800,000 warrants exercisable at CAD\$0.60 for twelve months.



On November 11, 2020, the Company acquired all the issued and outstanding securities of Portland Asset Holdings Corp. in exchange for 3,112,092 common shares of the Company with a calculated value of CAD \$0.62 being the closing price of Vibe's shares on that date and 1,200,000 warrants exercisable at CAD \$0.62 for twelve months.

On March 16, 2021, the Company raised gross proceeds of CAD \$15,954,535 via the issuance of 19,864,750 Units. Each Unit was priced at CAD \$0.82 and is comprised of one common share and one-half share purchase warrant with a whole warrant exercisable at \$1.06 until March 16, 2024. If the volume-weighted average price of the common shares on the Canadian Securities Exchange (or any such other stock exchange in Canada as the common shares may trade at the applicable time) is greater than or equal to CAD \$2.12 per common share for a period of 10 consecutive trading days at any time following the date hereof, the Company may, in its sole discretion and upon giving notice to holders of warrants, accelerate the expiry of the warrants to the date that is 30 days following the date of such notice. The Company issued 1,331,736 broker warrants to the Underwriters and Agents exercisable at CAD \$0.82 until March 16, 2024, and 408,000 Units as partial consideration for their commission.

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, 2020 totaled 4,162,698 (December 31, 2019 – 4,600,218) of which 3,223,105 are exercisable (December 31, 2019 – 3,033,398). The weighted average exercise price of the stock options outstanding and exercisable at December 31, 2020, is CAD \$0.77 and CAD 0\$.83, respectively (December 31, 2019 - CAD \$0.62 and CAD \$0.79, respectively). The Company also issued 150,000 RSU's to an officer of the Company (December 31, 2019 – NIL). The Company recognized stock-based compensation expense utilizing the graded option method totaling \$134,000 (2019 - \$708,252).

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements as at and for the year ended December 31, 2020.

RELATED PARTY TRANSACTIONS

The Company's only related party transactions for the fiscal year ended December 31, 2020 and 2019, not discussed elsewhere in this MD&A, 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, 2020	December 31, 2019
Executive and Executive directors	\$ 558,814	\$ 368,972
Non-Executive Directors	56,528	31,655
Share-based compensation	56,148	516,394
Total remuneration	<u>\$ 671,490</u>	<u>\$ 917,021</u>

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Vibe prepares its consolidated financial statements in accordance with IFRS. Its use of estimates and significant accounting policies are contained in Notes 2 and 3 to the annual consolidated financial statements, respectively. 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 require 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 an inflation rate of 1% to 3%, a post-tax risk-adjusted discount rate of 20% 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 recognizes 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 realize 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 outcome of litigation, assumptions are made about factors including experience with similar matters, 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

Adoption of recent accounting pronouncements

In October 2018, the IASB issued amendments to IFRS 3 "Definition of a Business" that narrowed and clarified the definition of a business. The amendments permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments are effective January 1, 2020, with earlier adoption permitted. The amendments apply to business combinations after the date of

adoption. The Company prospectively adopted the amendments on January 1, 2020, and concluded this standard did not have a material impact on the consolidated financial statements.

In October 2018, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendments make minor changes to the definition of the term "material" and align the definition across all IFRS Standards. Materiality is used in making judgments related to the preparation of financial statements. The amendments are effective January 1, 2020, with earlier adoption permitted. The Company prospectively adopted the amendments on January 1, 2020, and has concluded this standard did not have a material impact on the consolidated financial statements.

Future Accounting Pronouncements

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current and Deferral of Effective Date

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months;
- provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and
- clarify when a liability is considered settled.

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023, and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The new guidance will be effective for annual periods beginning on or after January 1, 2022, and is to be applied to contracts that have unfulfilled obligations as of the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loan receivable, accounts payable, 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 and accounts payable 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 had 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. Also, 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. On December 31, 2020, the Company's credit risk exposure was limited to \$21,428 in accounts receivable, largely due from third-party distributors.

- (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:

	<u>Less than one year</u>	<u>Two to Three years</u>	<u>Four to Five years</u>	<u>Thereafter</u>	<u>Total</u>
Financial liability					
Accounts payable	\$ 2,853,930	\$ -	\$ -	\$ -	\$ 2,853,930
Taxes payable	1,991,662	-	-	-	1,991,662
Notes payable	276,802	530,403	251,243	559,872	1,618,320
Lease obligations	<u>373,135</u>	<u>470,766</u>	<u>214,987</u>	<u>39,000</u>	<u>1,097,888</u>
	<u>\$ 5,495,529</u>	<u>\$ 1,001,169</u>	<u>\$ 466,230</u>	<u>\$ 598,872</u>	<u>\$ 7,561,800</u>

The Company actively manages its working capital requirements, cash commitments and credit availability to ensure that it can meet its financial obligations as they come due. As previously mentioned, the Company completed a CAD \$16 million equity financing in March 2021 that has bolstered the Company's cash resources.

- (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, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Operating results								
Revenue	\$ 7,048,294	\$ 7,236,441	\$ 5,683,529	\$ 4,272,598	\$ 4,012,850	\$ 4,176,747	\$ 3,096,836	\$ 1,313,726
Gross margin	2,716,669	2,311,296	2,044,772	1,467,759	1,178,153	1,560,073	1,296,112	583,307
Gross margin % ^(a)	38.5	31.9	36.0	34.0	29.4	37.4	41.9	44.4
Net income (loss)	188,359	284,708	477,814	(222,331)	(3,100,491)	(2,440,369)	(855,080)	(2,221,971)
Adjusted EBITDA ^(a)	842,364	994,237	792,925	335,549	(158,313)	278,879	113,322	59,336
Adjusted EBITDA % ^(a)	12.0	14.2	14.0	7.9	(3.9)	6.7	3.7	4.5
Cash provided from (used in) operating activities	\$ 550,040	\$ (305,814)	\$ 676,209	\$ (196,092)	\$ (332,604)	(20,004)	\$ (585,935)	\$ (672,090)
Financial position								
Working capital (deficit) ^(a)	1,363,022	358,887	(89,421)	(380,039)	(107,221)	879,204	1,500,418	2,160,688
Total assets	18,342,190	15,228,920	14,759,070	12,134,391	12,574,080	15,314,135	17,665,745	18,341,474
Capital additions	943,039	80,193	142,538	132,563	506,566	423,925	296,919	2,043,036
Total liabilities	8,231,975	7,076,460	7,331,924	5,358,370	5,571,067	5,195,683	5,242,506	5,380,681

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

In the fourth quarter of 2020, the Company continued to achieve positive operating results on both a net income and an Adjusted EBITDA basis. In the fourth quarter, the Company incurred bonuses of \$200,000 that account for the decreased Adjusted EBITDA compared to the third quarter.

During the third quarter of 2020, Vibe achieved record sales and generated a positive after-tax net income of \$284,708. Also, the Company generated an adjusted EBITDA of \$1,028,099 and cash flow from operations before changes in non-cash working capital of \$374,624.

In the second quarter of 2020, the Company recognized a one-time income item of \$344,051 related to a bargain purchase gain and \$88,412 of miscellaneous income from the Canadian operations. The Company did achieve a positive cash flow from operations before changes in non-cash working capital of \$214,397, which is primarily due to record sales at its three dispensaries.

The 2020 quarters reflect the Company's best quarterly EBITDA and Adjusted EBITDA performance, due primarily to higher store sales resulting from increased marketing and is offset by cost-cutting measures implemented in the 2019 third and fourth quarters. Also, during the 2020 quarters, the Company did not incur any one-time charges.

The Company's decrease in margins is due to competitive market pressure combined with negative results from the cultivation operations due to the expansion of the facility and plant harvest timing. The U.S. Operations increased in revenue in the three months ended June 30, 2019, and September 30, 2019, due to 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. In the three month period ended September 30, 2019, the Company recognized \$455,793 in costs 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's working capital will fluctuate on a quarterly basis based on the 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) totalling \$2,898,500 and goodwill of \$5,002,473 (net of an investment loss of \$415,000) connected 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 totalling \$3,845,288 received from a private placement completed in the first quarter of 2019.

The Company also acquired land and buildings totalling \$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 as at December 31, 2018, and the issuance of a note totalling \$1,199,682 in 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.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 102,735,097 common shares issued and outstanding and 2,924,769 stock options to acquire common shares outstanding, with an average exercise price of CAD \$0.62 per common share, 13,206,789 warrants outstanding, with an average exercise price of CAD \$0.97 and 250,000 RSU's.

BUSINESS RISK FACTORS

REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS

In accordance with Staff Notice 51-352, below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly and indirectly involved, through its subsidiaries and investments, in the cannabis industry.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or



amended guidance, laws or regulations regarding marijuana regulation. Any non-compliance, citations or notices of violation which may have an impact on the Company's license, business activities or operations will be promptly disclosed by the Company.

The Company derives its revenues from the cannabis industry in certain states of the U.S., and the industry is illegal under U.S. federal law.

The Company is involved (through its licensed subsidiaries) in the cannabis industry in the U.S. where local state laws permit such activities. Currently, its subsidiaries and managed entities are directly engaged in the manufacture, possession, use, sale or distribution of cannabis and/or hold licenses in the adult-use and/or medicinal cannabis marketplace in the states of California and Oregon.

The Company's Statement of Financial Position and Operating Statement Exposure to U.S. Marijuana Related Activities

As of the date of this MD&A, all of the Company's business was directly derived from U.S. cannabis-related activities. As such, the Company's statement of financial position and statement of profits and losses exposure to U.S. cannabis related activities is 100%.

Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that supports its annual consolidated financial statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

U.S. Federal Overview

The United States federal government regulates drugs through the federal Controlled Substances Act (21 U.S.C. § 811) (the "CSA"), which places controlled substances, including cannabis, in one of five different schedules. Cannabis, except hemp, is classified as a Schedule I drug. As a Schedule I drug, the federal Drug Enforcement Agency considers cannabis 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 classification of cannabis as a Schedule I drug is inconsistent with what the Company believes to be many valuable medical uses for cannabis accepted by physicians, researchers, patients, and others. As evidence of this, the federal Food and Drug Administration ("FDA") on June 25, 2018 approved Epidiolex (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 cannabis that does not contain the intoxication properties of tetrahydrocannabinol ("THC"), the primary psychoactive component of cannabis. The Company believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of cannabis or the public perception thereof, and numerous studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered^b.

The federal position is also not necessarily consistent with democratic approval of cannabis at the state

^a21 U.S.C. 812(b)(1).

^bSee 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; see also 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; see also 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-idUSTRE570SDC20090825>; 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>; see also 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/AggressiveBehavior.pdf>; and see also Fals-Steward, W., Golden, J. & Schumacher, JA. (2003). Intimate partner violence and substance use: a longitudinal day-to-day examination. *Addictive Behaviours*, 28, 1555-1574. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/14656545>.

government level in the United States. Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of cannabis under the Cannabis Act, S.C. 2018, c. 16, (Canada) and the Cannabis for Medical Purposes Regulations, cannabis is largely regulated at the state level in the United States. State laws regulating cannabis 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 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, federal law shall apply.

Nonetheless, 39 U.S. states, the District of Columbia, and the territories of Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands have legalized some form of cannabis for medical use, while 15 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 cannabis, the federal government attempted to provide clarity on the incongruity between federal prohibition under the CSA and these state-legal regulatory frameworks. Notwithstanding the foregoing, cannabis remains illegal under U.S. federal law, with cannabis listed as a Schedule I drug under the CSA. Until 2018, the federal government provided guidance to federal law enforcement agencies and banking institutions regarding cannabis through a series of memoranda from the Department of Justice ("DOJ"). The most recent such memorandum was drafted by former Deputy Attorney General James Cole on August 29, 2013 (the "Cole Memorandum")^a.

The Cole Memorandum offered guidance to federal enforcement agencies as to how to prioritize civil enforcement, criminal investigations and prosecutions regarding cannabis in all states, and acknowledged that, notwithstanding the designation of cannabis as a Schedule I controlled substance at the federal level, several states have enacted laws authorizing the use of cannabis. The Cole Memorandum also noted that jurisdictions that have enacted laws legalizing cannabis in some form have also implemented strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale and possession of cannabis. As such, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the OJ should be focused on addressing only the most significant threats related to cannabis. The Cole Memorandum 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 the drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;

^a See James M. Cole, *Memorandum for all United States Attorneys re: Guidance Regarding Marijuana Enforcement* (Aug. 29, 2013), available at <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.



7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
8. Preventing marijuana possession or use on federal property.

The Cole Memorandum was seen by many state-legal cannabis companies as a form of safe harbor for their licensed operations that were conducted in full compliance with all applicable state and local regulations.

On January 4, 2018, former United States Attorney General Jeff Sessions rescinded the Cole Memorandum by issuing a new memorandum to all United States Attorneys (the "Sessions Memorandum"). Rather than establish national enforcement priorities particular to cannabis-related crimes in jurisdictions where certain cannabis activity was legal under state law, the Sessions Memorandum instructs that "in deciding which cannabis 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 cannabis 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 cannabis 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. One of those United State Attorneys, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources".

Former United States Attorney General Sessions resigned on November 7, 2018 and was replaced by William Barr on February 14, 2019. On December 14, 2020, former President Trump announced that Mr. Barr would be resigning from his post as Attorney General, effective December 23, 2020. President Joseph Biden has nominated Merrick Garland to succeed Mr. Barr as the U.S. Attorney General. It is unclear what specific impact the new Biden administration will have on U.S. federal government enforcement policy. 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 Congress 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 policy at the federal level will be forthcoming in the absence of the Cole Memorandum, or if President Biden's nominee will reinstitute the Cole Memorandum or a similar guidance document for United States attorneys. The sheer size of the cannabis industry, in addition to various level of legalization at the State and local governments, suggests that a largescale enforcement operation would possibly create unwanted political backlash for the DOJ and the new administration. Moreover, State and local tax revenues generated by the cannabis business is an increasingly important source of funding for State and local government programs.

As an industry best practice, despite the recent 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. Ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
2. 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. Implement policies and procedures to ensure that cannabis products are not distributed to minors;
4. Implement policies and procedures to ensure that funds are not distributed to criminal enterprises, gangs or cartels;
5. 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 across any state lines in general;
6. 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. 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, 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. See the "*Risk Factors*" section of the MD&A.

Although the Cole Memorandum has been rescinded, one legislative safeguard for the medical cannabis industry remains in place: Congress has passed a so-called "rider" provision in the FY 2015, 2016, 2017, 2018, 2019, 2020 and 2021 Consolidated Appropriations Acts to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis 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 Amendment"). Most recently, the Rohrabacher-Farr Amendment was included in the Consolidated Appropriations Act of 2021, which was signed by former President Trump on December 27, 2020 and funds the departments of the federal government through the fiscal year ended September 30, 2021.

There is a growing consensus among cannabis businesses and numerous members of Congress that guidance is not law and temporary legislative riders, such as the Rohrabacher-Farr Amendment, are an inappropriate way to protect lawful medical cannabis businesses. Numerous bills have been introduced in Congress in recent years to decriminalize aspects of state-legal cannabis trades. For example, for fiscal year 2019, the strategy amongst the bipartisan Congressional Marijuana Working Group in Congress, was to introduce numerous cannabis-related appropriations amendments in the Appropriations Committee in both the House and Senate, similar to the strategy employed in fiscal year 2018. The amendments included protections for cannabis-related businesses in states with medical and adult-use cannabis laws, as well as protections for financial institutions that provide banking services to state-legal cannabis businesses. The Company also has observed that each year more congressmen and congresswomen sign on and cosponsor cannabis legalization bills. These include the CARERS Act, REFER Act and others. In light of all this, it is 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, cannabis 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 regarding the sale and disbursement of medical or adult-use cannabis, 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 could 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 cannabis 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 cannabis 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.

On September 26, 2019, the U.S. House of Representatives passed the Secured and Fair Enforcement Banking Act of 2019 (commonly known as the "SAFE Banking Act"), which aims to provide safe harbor and guidance to financial institutions that work with legal U.S. cannabis businesses. On May 11, 2020, the U.S. House of Representatives introduced the Health and Economic Recovery Omnibus Emergency Solutions Act (the "HEROES Act"), an economic stimulus package which included the language of the SAFE Banking Act. On September 28, 2020, the House introduced a revised version of the HEROES Act, including the text of the SAFE Act for a second time. The revised bill was passed by the House of Representatives on October 1, 2020 before going to the Senate. On December 21, 2020, Congress reached a deal for a different \$900 billion stimulus package. While Congress may consider legislation in the future that may address these issues, there can be no assurance of the content of any proposed legislation or that such legislation is ever passed. The Company's inability, or limitations on the Company's ability, to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

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 cannabis, in 2014, the Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") issued guidance to prosecutors of money laundering and other financial crimes (the "FinCEN Guidance") and notified banks that it would not seek enforcement of money laundering laws against banks that service cannabis companies operating under state law, provided that strict due diligence and reporting standards are met. The FinCEN Guidance advised prosecutors not to focus their enforcement efforts on banks and other financial institutions that serve cannabis-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 cannabis away from children and out of the hands of organized crime). The FinCEN Guidance also clarifies how financial institutions can provide services to cannabis-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 cannabis 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 cannabis businesses, and most banks continue to decline to operate under the strict requirements provided under the FinCEN Guidance. This is because, as described above, the current law does not provide banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each cannabis business they accept as a customer.

The few state-chartered banks and/or credit unions that have agreed to work with cannabis 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 cannabis 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 cannabis 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 cannabis 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 former Secretary of the U.S. Department of the Treasury, Stephen Mnuchin, publicly stated that he did not have a desire to rescind the FinCEN Guidance.^a The newly nominated Secretary of the Treasury, Janet Yellen, has not yet articulated an official Treasury Department position with regard to the FinCEN Guidance and thus 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.

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.

^a Angell, Tom. (2018 February 6). Trump Treasury Secretary Wants Marijuana Money In Banks, available at <https://www.forbes.com/sites/tomangell/2018/02/06/trump-treasury-secretary-wants-marijuana-money-in-banks/#2848046a3a53>; see also Mnuchin: Treasury is reviewing cannabis policies. (2018 February 7), available at <http://www.scotsmanguide.com/News/2018/02/Mnuchin--Treasury-is-reviewing-cannabis-policies/>.

Another bill, the Marijuana Opportunity Reinvestment and Expungement (MORE) Act, would decriminalize and deschedule cannabis from the CSA, provide for reinvestment in certain persons adversely impacted by the "War on Drugs," and provide for expungement of certain cannabis offenses, among other things. On November 20, 2019 the U.S. House of Representatives Judiciary Committee voted to advance the bill to the full House. Although the House of Representatives voted to pass the MORE Act on December 4, 2020, it failed to pass in the Senate prior to the end of the 2020 legislative session. There can be no assurance that it will be passed in its current form or at all.

An additional challenge to cannabis-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 cannabis industry. Section 280E prohibits businesses from deducting certain expenses associated with the trafficking of controlled substances within the meaning of Schedule I and II of the CSA. The IRS has applied Section 280E broadly in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from under payment of taxes due to the lack of deductibility of otherwise ordinary business expenses the deduction of which is prohibited by Section 280E. Although the IRS issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. Therefore, businesses in the state legal cannabis industry may be less profitable than they would otherwise be.

On December 20, 2018, former President Trump signed the Agriculture Improvement Act of 2018, Pub. L. 115-334, (popularly known as the "2018 Farm Bill") into law⁹. Under the 2018 Farm Bill, industrial and commercial hemp is no longer to be classified as a Schedule I controlled substance in the United States. Hemp includes the plant *cannabis sativa* L and any part of that plant, including seeds, derivatives, extracts, cannabinoids and isomers, which contain no more than 0.3% of delta-9-THC concentration by dry weight. The 2018 Farm Bill 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.

To date, three different hemp seed-derived ingredients have received generally recognized as safe ("GRAS") notices from the FDA: hulled hemp seed, hemp seed protein powder, and hemp seed oil. The hemp seed-derived ingredients that are the subject of these GRAS notices contain only trace amounts of THC and CBD, which the seeds may pick up during harvesting and processing when they are in contact with other parts of the plant. Aside from these three hemp seed ingredients, no other cannabis or cannabis-derived ingredients, including ingredients sourced from hemp, have been the subject of a food additive petition, an evaluated GRAS notification, or have otherwise been approved for use in food by FDA. The FDA's current stated position is that it is a prohibited act under the Federal Food, Drug, and Cosmetic Act to introduce into interstate commerce a food to which CBD or THC has been added, or to market a product containing these ingredients as a dietary supplement.

The results of the 2020 Presidential and Congressional elections may impact the likelihood of any legal developments regarding cannabis at the national level, including the passage of the SAFE Banking Act and the MORE Act, as well as potential executive action to clarify federal policy toward the industry, although it is uncertain whether and in what manner any such federal changes will occur. On a federal level, President Joseph R. Biden campaigned on a platform that included cannabis decriminalization. Democrats, who are generally more supportive of federal cannabis reform than Republicans, maintained their majority in the

⁹ H.R.2 - 115th Congress (2017-2018): Agriculture Improvement Act of 2018, Congress.gov (2018), <https://www.congress.gov/bills/115th-congress/house-bill/2/text>.



House of Representatives, although at a smaller margin than initially expected, and have gained sufficient seats in the Senate to achieve control.

On a state level, the November 2020 elections included multiple initiatives on state ballots regarding cannabis, all of which passed. In Arizona and New Jersey, adult use cannabis ballot initiatives passed. Similarly, adult use passed in Montana, medical use passed in Mississippi, and both adult use and medical use passed in South Dakota. Barring any further legal challenges, these states are expected to adopt governing rules and regulations to expand their cannabis programs accordingly.

Service Providers

As a result of any adverse change to the approach in enforcement of U.S. cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

Ability to Access Capital

Given the current laws regarding cannabis at the federal law level in the United States, traditional bank financing is typically not available to United States cannabis companies. Specifically, the federal illegality of marijuana in the United States means that financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under money laundering statutes, the unlicensed money transmitter statute and the Bank Secrecy Act. As a result, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Banks who do accept deposits from cannabis-related businesses in the United states must do so in compliance with the Cole Memorandum and the FinCEN guidance, both discussed above.

The Company requires equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing through traditional banking to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity or convertible debt securities, existing Company shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to existing holders of the Common Shares.

Restricted Access to Banking

As discussed above, the FinCEN Memorandum remains effective to this day, in spite of the fact that the 2014 Cole Memorandum was rescinded and replaced by the Sessions Memorandum. The FinCen Memorandum does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators, though. Thus, most banks and other financial institutions in the U.S. do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis related businesses. As a result, the Company may have limited or no access to banking or other financial services in the U.S. The inability or



limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

On September 26, 2019, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking Act of 2019 (commonly known as the "SAFE Banking Act"), which aims to provide safe harbor and guidance to financial institutions that work with legal U.S. cannabis businesses. The SAFE Banking Act is currently being reviewed by the U.S. Senate Banking Committee. While the Senate is contemplating the SAFE Banking Act, the passage of which would permit commercial banks to offer services to cannabis companies that are in compliance with state law, if Congress fails to pass the SAFE Banking Act, the Company's inability, or limitations on the Company's ability, to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

Anti-Money Laundering Laws and Regulations

The Company is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the Common Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Heightened Scrutiny by Regulatory Authorities

For the reasons set forth above, the Company's existing operations in the U.S., and any future operations or investments of the Company, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in any other jurisdictions, in addition to those described herein.

Change to government policy or public opinion may also result in a significant influence on the regulation of the cannabis industry in Canada, the United States, or elsewhere. A negative shift in the public's perception of medical or adult-use cannabis in the United States or any other applicable jurisdiction could affect future



legislation or regulation, or enforcement. Such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's business strategy in the states in which the Company currently operates or in the Company's ability to expand its business into new states, may have a material adverse effect on the Company's business, financial condition, and results of operations. See "*Risk Factors*" section of this MD&A.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. Any enforcement action against the Company or any of its licensed operating facilities could have a material adverse effect on (1) the Company's reputation, (2) the Company's ability to conduct business, (3) the Company's holdings (directly or indirectly) of medical or adult-use cannabis licenses in the United States, (4) the listing or quoting of the Company's securities on various stock exchanges, (5) the Company's financial position, (6) the Company's operating results, profitability, or liquidity, or (7) the market price of the Company's publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or their final resolution because the time and resources that may be necessary depend on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "*Risk Factors*" section of this MD&A. The Company's business activities, and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

Further to the indication by CDS Clearing and Depository Services Inc. ("CDS"), Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets that it would refuse to settle trades for cannabis issuers that have investments in the U.S., the TMX Group, the owner and operator of CDS, subsequently issued a statement in August 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S., despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

In February 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with The Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future.

If such a ban were to be implemented at a time when the Common Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to affect a trade of securities through the facilities of the applicable stock exchange.

Vibe has obtained eligibility with DTC for its Common Shares quotation on the OTCQX® Best Market and such eligibility provides another possible avenue to clear the Common Shares in the event of a CDS ban. Revocation of DTC eligibility or implementation by DTC of a ban on the clearing of securities of issuers with cannabis-



related activities in the United States would similarly have a material adverse effect on the ability of holders of the Common Shares to make and settle trades.

Compliance and Monitoring

As of the date of this MD&A, the Company believes that each of its licensed operating entities (a) holds all applicable licenses to cultivate, manufacture, possess, and/or distribute cannabis in its respective state, and (b) is in good standing and in compliance with its respective state's cannabis regulatory program. The Company is in compliance with its obligations under state law related to its cannabis cultivation, processing and dispensary licenses, other than minor violations that would not result in a material fine, suspension or revocation of any relevant license. The Company uses reasonable commercial efforts to ensure that its business is in material compliance with laws and applicable licensing requirements and engages in the regulatory and legislative process nationally and in every state we operate through our compliance department, government relations department, outside government relations consultants, cannabis industry groups and legal counsel.

Although the Company believes that its business activities are materially compliant with applicable and state and local laws of the United States, 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 any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may result in a material adverse effect on the Company. The Company derives 100% of its revenues from the cannabis industry, which industry is illegal under United States federal law. Even where the Company's cannabis-related activities are compliant with applicable State and local law, such activities remain illegal under United States federal law. The enforcement of relevant federal laws is a significant risk.

United States Customs and Border Protection ("CBP") enforces the laws of the United States. Crossing the border while in violation of the CSA and other related United States federal laws may result in denied admission, seizures, fines, and apprehension. CBP officers administer the United States Immigration and Nationality Act to determine the admissibility of travelers who are non-U.S. citizens into the United States. An investment in the Company, if it became known to CBP, could have an impact on a non-U.S. citizen's admissibility into the United States and could lead to a lifetime ban on admission. Medical cannabis has been protected against enforcement by enacted legislation from the United States Congress in the form of the Rohrabacher-Farr Amendment, which prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to the United States Congress restoring such funding. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. Subsequent to the issuance of Sessions Memorandum, the United States Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Farr Amendment language (referred to in 2018 as the Leahy Amendment) and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the Department of Justice. The Rohrabacher-Farr Amendment again was included in the Consolidated Appropriations Act of 2019, which was signed by former President Trump on February 14, 2019 and funds the departments of the federal government through the fiscal year ending September 30, 2019 and was similarly renewed again on November 21, 2019. The fiscal year 2021 omnibus spending bill was ultimately passed on December 20, 2019, making the Rohrabacher-Farr Amendment effective through September 30, 2020, and on October 1, 2020 the amendment was renewed through the signing of a stopgap spending bill, effective through December 11, 2020. Most recently, the Rohrabacher-Farr Amendment was included in the Consolidated Appropriations Act of 2021, which was signed by former President Trump on December 27, 2020 and funds the departments of the federal government through the fiscal year ended September 30, 2021. Notably, such amendments have always applied only to medical cannabis programs and have no effect on pursuit of recreational cannabis activities.



In addition to the above disclosure, please see “*Risk Factors*” for further risk factors associated with the operations of the Company and the Company.

RISK FACTORS

The following are certain factors relating to the business of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company, may also impair the operations of the Company. 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 be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

The acquisition of any of the securities of the Company is speculative, involving a high degree of risk and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Company should not constitute major portion of an individual’s investment portfolio and should only be made by persons who can afford a total loss of their investment. The Company’s shareholders should evaluate carefully the following risk factors associated with the Company’s securities, along with the risk factors described elsewhere in this MD&A.

Business Structure Risks

Status as a Holding Company

The Company is a holding company as substantially all of its assets consist of shares in the capital stock of its subsidiaries in each of the markets the Company operates in and/or holds licenses in the adult-use and/or medicinal cannabis marketplace in California and Oregon and the Company has no material assets other than: (i) cash on hand; and (ii) ownership of its subsidiaries, stakes in joint ventures and minority interests in certain operating companies. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company’s cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. To the extent that the Company requires funds, and its subsidiaries and such other entities are restricted from making such distributions by applicable law, regulation or contract, or are otherwise unable to provide such funds, it could materially adversely affect the Company’s liquidity and financial condition, as well as its ability to make distributions to its shareholders. In the event of a bankruptcy, liquidation or reorganization of any of the Company’s material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

No Dividend Record

The Company has no dividend record, and the ability of its subsidiaries to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. Dividends paid by the Company would be subject to tax and, potentially, withholdings. The Company does not anticipate paying any dividends on the Common Shares in the foreseeable future. Please see “*Risk Factors – Anti-Money Laundering Laws and Regulations*”.



Concentrated Voting Control

The concentrated control by significant shareholders could delay, defer, or prevent a change of control of the Company, an arrangement involving the Company or a sale of all of substantially all of the Company's assets that the Company's other shareholders support. Conversely, this concentrated control could allow the significant holders of the Common Shares to consummate such a transaction that the Company's other shareholders do not support. In addition, the significant holders of Common Shares may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm the Company's business.

Sales of substantial amounts of Common Shares may have an adverse effect on their market price

Sales of a substantial number of Common Shares in the public market could occur at any time either by existing holders of Common Shares or by holders of Warrants, Options and Restricted Share Units that are convertible into Common Shares. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of the Common Shares. If this occurs and continues, it could impair the Company's ability to raise additional capital through the sale of securities

The market price for the Common Shares has been and is likely to continue to be volatile

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which will be beyond our control, including, but not limited to, the following: (i) actual or anticipated fluctuations in our quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of companies in the cannabis industry; (iv) additions or departures of our executive officers and other key personnel; (v) release or expiration of transfer restrictions on our issued and outstanding shares; (vi) regulatory changes affecting the cannabis industry generally and our business and operations; (vii) announcements by us and our competitors of developments and other material events; (viii) fluctuations in the costs of vital production materials and services; (ix) changes in global financial markets and global economies and general market conditions; (x) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; (xi) operating and share price performance of other companies that investors deem comparable to us or from a lack of market comparable companies; (xii) false or negative reports issued by individuals or companies who have taken aggressive short sale positions; and (xiii) regulatory changes and other related issues in our industry or target markets. Financial markets have experienced significant price and volume fluctuations that have 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 those companies. Accordingly, the market price of the Common Shares may decline even if our operating results, underlying asset values or prospects have not changed. 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, our operations could be adversely impacted, and the trading price of the Common Shares may be materially adversely affected.



An investor may face liquidity risks with an investment in the Common Shares

The Common Shares currently trade on the CSE and are quoted on the OTCQX tier of the OTC Markets in the U.S.

The Company cannot predict at what prices the Common Shares will continue to trade, and there is no assurance that an active trading market will be sustained. The Common Shares do not currently trade on any U.S. national securities exchange. In the event Common Shares begin trading on any U.S. national securities exchange, the Company cannot predict at what prices the Common Shares will trade and there is no assurance that an active trading market will develop or be sustained. There is a significant liquidity risk associated with an investment in the Common Shares. Trading in securities quoted on the OTC Markets is often thin and characterized by wide fluctuations in trading prices, due to many factors, some of which may have little to do with the Company's operations or business prospects. This volatility could depress the market price of Common Shares for reasons unrelated to operating performance. Moreover, the OTC Markets is not a U.S. national securities exchange, and trading of securities on the OTC Markets is often more sporadic than the trading of securities listed on a U.S. national securities exchange like the Nasdaq or the NYSE. These factors may result in investors having difficulty reselling Common Shares on the OTC Markets.

Risks Related to Legality of Cannabis

Cannabis is a Controlled Substance under the United States Federal Controlled Substances Act

The Company is engaged directly and indirectly in the medical and adult-use cannabis industry in the U.S. where only state law permits such activities. Investors are cautioned that in the U.S., cannabis is largely regulated at the state level. To the Company's knowledge, some form of cannabis has been legalized in 39 states and Washington, D.C., Puerto Rico and Guam as of March 2021. Additional states have pending legislation regarding the same. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substance Act and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the U.S. Refer to the discussion above under the heading "Regulatory Environment: Issuers with United States Cannabis-Related Assets".

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the U.S., the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Enforcement of Cannabis Laws Could Change

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memorandum acknowledging that notwithstanding

the designation of cannabis as a controlled substance at the federal level in the U.S., several states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain enforcement priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where cannabis had been legalized were not characterized as a high priority. In March 2017, then newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, he disagreed that it had been implemented effectively and, on January 4, 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum effective immediately (the "Sessions Memorandum"). The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by U.S. Congress and to follow well-established principles when pursuing prosecutions related to cannabis activities. U.S. Attorney General Jeff Sessions resigned on November 7, 2018. William Barr was appointed as the U.S. Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's budget 2020, in response to a question about his position on the proposed Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would "much rather... the approach taken by the STATES Act than where we currently are." It is unclear what impact this development will have on U.S. federal government enforcement policy. The inconsistency between federal and state laws and regulations is a major risk factor. The newly nominated Attorney General, Merrick Garland, has views that are unclear on this topic. Refer to the discussion above under the heading "Regulatory Environment: Issuers with United States Cannabis-Related Assets".

As a result of the Sessions Memorandum, federal prosecutors may use their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws permitting such activity. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Under the Rohrabacher-Farr Amendment, federal prosecutors are prohibited from expending federal funds against medical cannabis activities that are in compliance with state law. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed. In Washington, Annette Hayes, U.S. Attorney for the Western District of Washington, released a statement affirming that her office will continue to investigate and prosecute "cases involving organized crime, violent and gun threats, and financial crimes related to marijuana" and that "enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve." However, in California, at least one U.S. Attorney has made comments indicating a desire to enforce the Controlled Substances Act: Adam Braverman, Interim U.S. Attorney for the Southern



District of California, has been viewed as a potential “enforcement hawk” after stating that the rescission of the 2013 Cole Memo “returns trust and local control to federal prosecutors” to enforce the Controlled Substances Act. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would “evaluate violations of those laws in accordance with our district’s federal law enforcement priorities and resources”. There can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have an adverse effect on the Company’s business, revenues, operating results and financial condition as well as the Company’s reputation and prospects, even if such proceedings were concluded successfully in favor of the Company. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company or the seizure of its corporate assets.

Renewal of Rohrabacher-Farr Amendment Would Protect the Medical Cannabis Industry

The Rohrabacher-Farr Amendment, as discussed above, prohibits the Department of Justice from spending funds appropriated by Congress to enforce the tenets of the Controlled Substances Act against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The Rohrabacher-Farr Amendment will remain in effect until September 30, 2021. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes. Should the Rohrabacher-Farr Amendment not be renewed upon expiration in subsequent spending bills, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company’s business, revenues, operating results and financial condition as well as the Company’s reputation, even if such proceedings were concluded successfully in favor of the Company.

Market for Cannabis Could Decline due to Regulatory Changes

There can be no assurance that the number of states that allow the use of either adult use or medicinal cannabis will increase. Furthermore, there can be no assurance that the existing states, districts and territories that permit the use of cannabis will not reverse their position. If either of these things happens at any future time, then growth of the Company’s business may be materially impacted. The Company may not be able to achieve targeted revenue levels and may experience declining revenue as the potential market for its products and services diminishes.

Financing Risks

Risks Related to Additional Financing

The Company may require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company’s inability to raise financing through traditional banking to fund on-going



operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity or convertible debt securities, existing Company shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to existing holders of the Common Shares.

Restricted Access to Banking

In February 2014, the FinCEN bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis businesses, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the U.S. do not appear to be comfortable providing banking services to cannabis related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the U.S. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

General Regulatory and Legal Risks

Risk of Civil Asset Forfeiture

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or were purchased using the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Anti-Money Laundering Laws and Regulations

The Company is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, as amended and the rules and regulations thereunder, the *Criminal Code (Canada)* and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay



dividends on the Common Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

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's U.S. operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

Loss of Foreign Private Issuer Status

The Company is a Foreign Private Issuer as defined in Rule 405 under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and Rule 3b-4 under the United States Exchange Act of 1934, as amended (the "U.S. Exchange Act"). If, as of the last business day of the Company's second fiscal quarter for any year, more than 50% of the Company's outstanding voting securities (as determined under Rule 405 of the U.S. Securities Act) are directly or indirectly held of record by residents of the United States, the Company will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Company's ability to raise capital in private placements or Canadian prospectus offerings. In addition, the loss of the Company's Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs. These increased costs may significantly affect the Company's business, financial condition and results of operations.

The term "Foreign Private Issuer" is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

- (a) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and
- (b) any one of the following:
 - i. the majority of the executive officers or directors are United States citizens or residents, or
 - ii. more than 50 percent of the assets of the issuer are located in the United States, or
 - iii. the business of the issuer is administered principally in the United States.

A "holder of record" is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder. In December 2016, the United States Securities and Exchange Commission (the "SEC") issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding Common Share is counted as one voting security for the purposes of determining the 50 percent U.S. resident threshold and the Company is a "Foreign Private Issuer." Should the SEC's guidance and interpretation change, it is likely the Company will lose its Foreign Private Issuer status.



The Company's Status as an "Emerging Growth Company" under United States securities laws

The Company is an "emerging growth company" as defined in section 3(a) of the U.S. Exchange Act (as amended by the JOBS Act, enacted on April 5, 2012), and the Company will continue to qualify as an emerging growth company until the earliest to occur of: (a) the last day of the fiscal year during which the Company has total annual gross revenues of US\$1.07 billion (as such amount is indexed for inflation every five years by the SEC) or more; (b) the last day of the fiscal year of the Company following the fifth anniversary of the date of the first sale of common equity securities of the Company pursuant to an effective registration statement under the U.S. Securities Act; (c) the date on which the Company has, during the previous three year period, issued more than US\$1 billion in non-convertible debt; and (d) the date on which the Company is deemed to be a "large accelerated filer", as defined in Rule 12b-2 under the U.S. Exchange Act. The Company will qualify as a large accelerated filer (and would cease to be an emerging growth company) at such time when on the last business day of its second fiscal quarter of such year the aggregate worldwide market value of its common equity held by non-affiliates will be US\$700 million or more.

For so long as the Company remains an emerging growth company, it is permitted to and intends to rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the JOBS Act. The Company takes advantage of some, but not all, of the available exemptions available to emerging growth companies. The Company cannot predict whether investors will find the Common Shares less attractive because the Company relies upon certain of these exemptions. If some investors find the Common Shares less attractive as a result, there may be a less active trading market for the Common Shares and the price per Common Share may be more volatile. On the other hand, if the Company no longer qualifies as an emerging growth company, the Company would be required to divert additional management time and attention from the Company's development and other business activities and incur increased legal and financial costs to comply with the additional associated reporting requirements, which could negatively impact the Company's business, financial condition and results of operations.

Risk of Legal, Regulatory or Political Change

The success of the business strategy of the Company depends on the legality of the marijuana industry. The political environment surrounding the marijuana industry in general can be volatile and the regulatory framework remains in flux.

To the Company's knowledge, some form of cannabis has been legalized in 39 states and Washington, D.C., Puerto Rico and Guam as of March 2021; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Company's business, results of operations, financial condition or prospects. Delays in enactment of new state or federal regulations could restrict the ability of the Company to reach strategic growth targets. The growth strategy of the Company is contingent upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Company, and thus, the effect on the return of investor capital, could be detrimental. The Company is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, 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. If the federal government begins to enforce 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. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of marijuana in a manner that will make it extremely difficult or impossible to transact business in that jurisdiction, which may adversely affect the Company's continued operations. Federal actions against individuals or entities engaged in the marijuana industry or a repeal of applicable marijuana legislation could adversely affect the Company and its business, results of operations, financial condition and prospects.

The Company is also aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. Should such special taxes or fees be adopted, this could have a material adverse effect upon the Company's business, results of operations, financial condition or prospects. The commercial medical and adult-use marijuana industry is in its infancy and the Company anticipates that such regulations will be subject to change as the jurisdictions in which the Company does business matures. The Company has in place a robust compliance program who oversees, maintains, and implements the compliance program and personnel. The Compliance personnel are charged with knowing the local regulatory process and monitoring developments with their governing bodies. The compliance personnel and external legal counsel report regulatory developments and enforcement actions taken by regulators. The Company has external legal counsel engaged in every jurisdiction in which it operates. The Company's compliance program emphasizes is designed to provide meaningful advice, oversight and challenge for the Company's operations that includes regular site visits to ensure compliance with Company policies and procedures as well as applicable regulatory requirements, including but not limited to marketing materials review to ensure compliance with State and local regulations, and security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. The Company has implemented a corporate compliance training program for all employees. Additionally, the Company has created comprehensive standard operating procedures that include detailed descriptions and instructions for monitoring inventory at all stages of development and distribution. The Company will continue to monitor compliance on an ongoing basis in accordance with its compliance program, standard operating procedures, and any changes to regulation in the marijuana industry.

Overall, the adult-use marijuana industry is subject to significant regulatory change at both the state and federal level. The inability of the Company to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

General Regulatory and Licensing Risks

The Company's business is subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Achievement of the Company's business objectives are contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

The Company is required to obtain or renew further government permits and licenses for its current and contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, involving public hearings and costly undertakings on the Company's part. The duration and success of the Company's



efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Company may not be able to obtain, amend or renew permits or licenses that are necessary to its operations or to achieve the growth of its business. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Company. To the extent necessary permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Several of the Company's licenses are subject to renewal on an annual or periodic basis; however, they are generally renewed, as a matter of course, if the license holder continues to operate in compliance with applicable legislation and regulations and without any material change to its operations.

While the Company's compliance controls have been developed to mitigate the risk of any material violations of any license it holds arising, there is no assurance that the Company's licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Company could impede the ongoing or planned operations of the Company and have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

The Company 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 Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require Company to pay substantial amounts of money, harming its 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, results of operations or prospects.

Regulatory Action and Approvals from the Food and Drug Administration

The Company's cannabis-based products are not approved by the FDA as "drugs" or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the FDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Food, Drug and Cosmetic Act ("FDCA").

Cannabidiol, a compound referred to as CBD, is one of the non-psychoactive cannabinoids in industrial hemp from the plant species *Cannabis sativa L.* There has been growing interest in CBD in recent years. CBD is increasingly used as an ingredient in food and beverages, as an ingredient in dietary supplements and as an ingredient in cosmetics, thereby generating new investments and creating employment in the cultivation and processing of hemp and hemp-derived products. Pharmaceutical products with CBD as an active ingredient have also been developed, including one product approved by the FDA (Epidiolex®). Foods and beverages, dietary supplements, pharmaceuticals, and cosmetics containing CBD are all subject to regulation under the FDCA. The FDA has asserted that CBD is not a lawful ingredient in foods and beverages, supplements and pharmaceuticals (unless FDA-approved), although FDA has generally refrained from taking enforcement action against those products. CBD-containing products may also be subject to the jurisdiction of state and local health authorities.



In recent years, the FDA has issued letters to a number of companies selling products that contain CBD oil derived from hemp warning them that the marketing of their products violates the FDCA. FDA enforcement action against the Company could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial or total suspension of the Company's production or distribution of its products. Any such event could have a material adverse effect on the Company's business, prospects, financial condition, and operating results.

On December 20, 2018, the Agricultural Improvement Act, H.R. 25 ("2018 Farm Bill"), which included the language of the Hemp Farming Act of 2018, removed industrial hemp and hemp-derived products with a THC concentration of not more than 0.3 percent (dry weight basis) from Schedule I of the Controlled Substances Act. This has the effect of legalizing the cultivation of industrial hemp for commercial purposes, including the production of CBD and other cannabinoids, except for THC, subject to regulations to be developed by the U.S. Department of Agriculture.

The Company sells and distributes certain products containing CBD. The Company's compliance program also includes coverage of the CBD-related business with a focus on reviewing proposed marketing materials related to these products. There is a risk that the FDA or state or local Departments of Health will seek to stop the Company from selling its CBD products or seek to have the claims made for those products revised.

Litigation

The Company may become threatened by a party, or otherwise become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares. Even if the Company is involved in litigation and is successful, such litigation could redirect significant company resources. The Company is currently not involved in any legal proceedings.

The Company is subject to increased costs as a result of being a public company in Canada and the United States

As a public company in Canada and the United States, the Company is subject to the reporting requirements, rules and regulations under the applicable Canadian and American securities laws and rules of stock exchanges on which the Company's securities may be listed. There are increased costs associated with legal, accounting and other expenses related to such regulatory compliance. Securities legislation and the rules and policies of the CSE require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and disclose material information, all of which add to a company's legal and financial compliance costs. The Company may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

Newly established legal regime

The Company's business activities will rely on newly established and/or developing laws and regulations in the states in which it operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal or applicable state or nongovernmental regulatory authorities or self regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital.

Enforcement against directors and officers outside of Canada

Some of the Company's directors and officers reside outside of Canada. Some or all of the assets of such persons may be located outside of Canada. Therefore, it may not be possible for Company shareholders to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for Company shareholders to effect service of process within Canada upon such persons. Courts in the United States may refuse to hear a claim based on a violation of Canadian securities laws on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a United States court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process.

Environmental Risks

Environmental Regulation

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical marijuana or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable



laws or regulations. Amendments to current laws, regulations and permits governing the production of medical marijuana, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

Unknown Environmental Risks

There can be no assurance that the Company will not encounter hazardous conditions at the facilities where it operates its businesses, including, without limitation, its cannabis cultivation and dispensary facilities, 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. The presence of other hazardous conditions 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.

General Business Risks

COVID-19 pandemic

The novel coronavirus commonly referred to as "COVID-19" was identified in December 2019 in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency, and on March 11, 2020, the spread of COVID-19 was declared a pandemic by the World Health Organization. On March 13, 2020, the spread of COVID-19 was declared a national emergency in the United States by former President Donald Trump. The outbreak has spread throughout Europe, the Middle East and North America, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. The rapid development of the COVID-19 pandemic and the measures being taken by governments and private parties to respond to it are extremely fluid. While the Company has continuously sought to assess the potential impact of the pandemic on its financial and operating results, any assessment is subject to extreme uncertainty as to probably, severity and duration of the pandemic as reflected by infection rates at local, state and regional levels. The Company has attempted to assess the impact of the pandemic by identifying risks in the following principle areas:

- **Mandatory Closure:** In response to the pandemic, many states and localities implemented mandatory closure of, or limitations to, business to prevent the spread of COVID-19; this impacted the Company's operations. Subsequently, the Company's business was deemed an "essential service," permitting us to stay open despite the mandatory closure of non-essential businesses. More recently, the mandatory closures that impacted the Company's operations were lifted and the Company resumed full operations, albeit subject to various COVID-19 related precaution. The Company's ability to generate revenue would be materially impacted by any future shut down of its operations.
- **Customer Impact:** While the Company has not experienced an overall downturn in demand for its products in connection with the pandemic, if its customers become ill with COVID-19, are forced to quarantine, decide to self-quarantine or not to visit its stores or distribution points to observe "social distancing", it may have material negative impact on demand for its products while the pandemic continues. While the Company has implemented measures, where permitted, such as "curb side" sales and delivery, to reduce infection risk to our customers, regulators may not permit such measures, or such measures may not prevent a reduction in demand.
- **Supply Chain Disruption:** The Company relies on third party suppliers for inventory, equipment and services to produce its products and keep its operations going. If its suppliers are unable to continue

operating due to mandatory closures or other effects of the pandemic, it may negatively impact its own ability to continue operating. At this time, the Company has not experienced any failure to secure critical supplies or services. However, disruptions in our supply chain may affect our ability to continue certain aspects of the Company's operations or may significantly increase the cost of operating its business and significantly reduce its margins.

- **Staffing Disruption:** The Company is, for the time being, implementing among its staff where feasible "social distancing" measures recommended by such bodies as the Center of Disease Control, the Presidential Administration, as well as state and local governments. The Company has cancelled nonessential travel by employees, implemented remote meetings where possible, and permitted all staff who can work remotely to do so. For those whose duties require them to work on-site, measures have been implemented to reduce infection risk, such as reducing contact with customers, mandating additional cleaning of workspaces and hand disinfection, providing masks and gloves to certain personnel and contact tracing following reports of employee infection. Nevertheless, despite such measures, the Company may find it difficult to ensure that its operations remain staffed due to employees falling ill with COVID-19, becoming subject to quarantine, or deciding not to come to work on their own volition to avoid infection. At certain locations, the Company has experienced increased absenteeism due to the pandemic. If such absenteeism increases, the Company may not be able, including through replacement and temporary staff, to continue to operate at desired levels in some or all locations. The Company continues to address a limited number of complaints about the efficacy of its COVID-related precautions made both directly to the Company or indirectly through complaints to regulatory authorities.
- **Regulatory Backlog:** Regulatory authorities, including those that oversee the cannabis industry on the state level, are heavily occupied with their response to the pandemic. These regulators as well as other executive and legislative bodies in the states in which we operate may not be able to provide the level of support and attention to day-to-day regulatory functions as well as to needed regulatory development and reform that they would otherwise have provided. Such regulatory backlog may materially hinder the development of the Company's business by delaying such activities as product launches, facility openings and approval of business acquisitions, thus materially impeding development of its business.
- **Limited availability of vaccine:** On December 11, 2020, the FDA issued an emergency use authorization (EUA) for the Pfizer BioN-Tech COVID-19 vaccine, the first such approval. Additional EUAs were issued on December 18, 2020 for a vaccine created by Moderna, and on February 27, 2021 for a vaccine created by Janssen Biotech (a Johnson & Johnson affiliate). As of March 2, 2021, approximately 78 million doses of the various vaccines have been administered in the US, although both the Pfizer and Moderna vaccines require the administration of two doses for full effectiveness. On March 2, 2021, President Biden stated that the US will have sufficient vaccine supply for all adults by the end of May 2021. Actual delivery of the vaccines to individuals, however, is controlled by state and local governments using various prioritization criteria and states continue to impose activity limitations and other precautions on businesses during this period until the vaccine is widely disseminated. In addition, there can be no assurance of when the Company's employees in any particular jurisdiction will be able to access the vaccine. Moreover, there can be no assurance that all employees will choose to avail themselves of the vaccine or, if so, when they will choose to do so. The same applies to the Company's patients, customers, regulators, and suppliers. Consequently, the COVID-19 risk factors described above continue to be applicable.

The Company is actively addressing the risk to business continuity represented by each of the above factors through the implementation of a broad range of measures throughout its structure and is re-assessing its



response to the COVID-19 pandemic on an ongoing basis. The above risks individually or collectively may have a material impact on the Company's ability to generate revenue. Implementing measures to remediate the risks identified above may materially increase our costs of doing business, reduce our margins and potentially result in losses. While the Company has not to date experienced any overall material negative impact on its operations or financial results related to the impact of the pandemic, so long as the pandemic and measures taken in response to the pandemic are not abated, substantial risk of such impact remains, which could negatively impact the Company's ability to generate revenue and/or profits, raise capital and complete its development plans.

Failure to Complete Acquisitions

The Company currently expects to complete certain transactions in the future. See "Proposed Acquisition" section of the MD&A. This acquisition is subject to a number of customary closing conditions including in certain instances, regulatory approval and may not close for a variety of reasons including if the closing conditions are not satisfied or waived, some of which may not be within the control of the Company. In addition, even if this transaction was to be completed, it may not close on terms or within the timing currently expected.

Service Providers

As a result of any adverse change to the approach in enforcement of U.S. cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

Enforceability of Contracts

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges may refuse to enforce contracts in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, the lack of which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

Resale of the Common Shares on the CSE

The Company understands that almost all major securities clearing firms in the U.S. refuse to facilitate transactions related to securities of Canadian public companies involved in the marijuana industry. This is due to the fact that marijuana continues to be listed as a controlled substance under U.S. federal law, with the result that marijuana-related practices or activities, including the cultivation, possession or distribution of marijuana, are illegal under U.S. federal law. Accordingly, U.S. residents who acquire Common Shares as "restricted securities" may find it difficult – if not impossible – to resell such shares over the facilities of any Canadian stock exchange on which the Common Shares may then be listed including the CSE. It remains unclear what impact if any, this and any future actions among market participants in the U.S. will have on the ability of U.S. residents to resell any Common Shares that they may acquire in open market transactions.



Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management 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, financial condition or prospects.

News media have reported that U.S. immigration authorities have increased scrutiny of Canadian citizens who are crossing the U.S.-Canada border with respect to persons involved in cannabis businesses in the U.S. There have been a number of Canadians barred from entering the U.S. as a result of an investment in or act related to U.S. cannabis businesses. In some cases, entry has been barred for extended periods of time. Company employees who are not U.S. citizens traveling from Canada to the U.S. for the benefit of the Company may encounter enhanced scrutiny by U.S. immigration authorities that may result in the employee not being permitted to enter the U.S. for a specified period of time. If this happens to Company employees who are not U.S. citizens, then this may reduce our ability to manage effectively our business in the U.S.

Competition

The cannabis industry remains quite nascent, and so what the landscape will be in the future remains largely unknown, which in itself is a risk. Potential competitors, which in the future may include pharmaceutical companies, are also larger and better capitalized than the Company, may have longer operating histories and have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources. The market for the products that the Company offers or intends to offer is competitive. The competition will most likely increase as more U.S. states permit the use of medicinal cannabis and new industry participants emerge. Increased competition may hinder the Company's ability to successfully market its products and services. The Company may not have the resources, expertise or other competitive requirements to compete successfully in the future.

Risks Inherent in an Agricultural Business

The Company's business involves the cultivation of the cannabis plant. The cultivation of this plant is subject to agricultural risks related to insects, plant diseases, unstable growing conditions, water and electricity availability and cost, and force majeure events. Although the Company cultivates its cannabis plants in both indoor, climate controlled rooms and in greenhouses staffed by trained personnel, there can be no assurance that agricultural risks will not have a material adverse effect on the cultivation of its cannabis. The Company may in the future cultivate cannabis plants outdoors, which would also subject it to related agricultural risks.

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 in each state will depend on whether patients view its products as effective and safe for use. Under the laws of the states in which the Company and its affiliates operate, the participation of physicians and health care providers in the certification process is voluntary and therefore depends on a number of variables, including: medical professionals' views as to the use of medical cannabis to treat qualifying conditions; the risks and benefits to individual patients or patient groups; the policies of particular medical practices; and patient demand.



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 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. Any inability to fully implement the Company's expansion strategy 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. Additionally, 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 cannabidiol ("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 and clinical trials may draw opposing conclusions to those stated in this MD&A or 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.

Difficulty Attracting and Retaining Personnel

The Company's success depends to a significant degree upon its ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical personnel, sales and marketing personnel and skilled management could adversely affect the Company's business. If the Company fails to attract, train and retain sufficient numbers of these highly qualified people, its prospects, business, financial condition and results of operations will be materially and adversely affected.

Dependence on Suppliers

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 equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure plans may be significantly greater than anticipated by the Company's management and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the business, financial condition, results of operations or prospects of the Company.

Reliance on Inputs

The marijuana 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. In addition, any restrictions on the ability to secure required supplies or utility services or to do so on commercially acceptable terms could have a materially adverse impact on the business, financial condition and operating results. 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 and/or agreeable terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

Limited Market Data and Difficulty to Forecast

As a result of recent and ongoing regulatory and policy changes in the medical and adult-use marijuana industry, the market data available is limited and unreliable. Federal and state laws prevent widespread participation and hinder market research. Therefore, 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 industry. Market research and projections by the Company of estimated total retail sales, demographics, demand, and similar consumer research are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Company's management team as of the date of this MD&A. 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, financial condition or prospects of the Company.

Intellectual Property Risks

The Company's ability to compete in the future partly depends on the superiority, uniqueness and value of its intellectual property and technology, including both internally developed technology and technology licensed from third parties. To the extent the Company is able to do so, in order to protect its proprietary rights, the Company will rely on a combination of trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions which may prove insufficient to protect the Company's proprietary rights. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level. While many states do offer the ability to protect trademarks independent of the federal government, patent protection is wholly unavailable on a state level, and state-registered trademarks provide a lower degree of protection than would federally-registered marks.

Constraints on Marketing Products

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the U.S. limits companies' abilities to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of



compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and results of operations could be adversely affected.

Fraudulent or Illegal Activity by Employees, Contractors and Consultants

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Information Technology Systems and Cyber-Attacks

The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, information technology ("IT") systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses.

In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.



Security Breaches

Given the nature of the Company's products and its lack of legal availability outside of channels approved by the government of the U.S., as well as the concentration of inventory in its facilities, there remains a risk of shrinkage as well as theft. If there was a breach in security systems and the Company becomes victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment or if there was a failure of information systems or a component of information systems, it could, depending on the nature of any such breach or failure, adversely impact the Company's reputation, business continuity and results of operations. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

Website Accessibility

Internet websites are visible by people everywhere, not just in jurisdictions where the activities described therein are considered legal. As a result, to the extent the Company sells services or products via web-based links targeting only jurisdictions in which such sales or services are compliant with state law, the Company may face legal action in other jurisdictions which are not the intended object of any of the Company's marketing efforts for engaging in any web-based activity that results in sales into such jurisdictions deemed illegal under applicable laws.

High Bonding and Insurance Coverage

There is a risk that a greater number of state regulatory agencies will begin requiring entities engaged in certain aspects of the business or industry of legal marijuana to post a bond or significant fees when applying, for example, for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. The Company is not able to quantify at this time the potential scope for such bonds or fees in the states in which it currently or may in the future operate. Any bonds or fees of material amounts could have a negative impact on the ultimate success of the Company's business.

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 maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does 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 business, results of operations, financial condition or prospects.

Risks of Leverage

Although the Company will seek to use leverage in connection with its investments in a manner it believes is prudent, such leverage will increase the exposure of an investment to adverse economic factors such as downturns in the economy or deterioration in the condition of the investment. If the Company defaults on unsecured indebtedness, the terms of the loan may require the Company to repay the principal amount of the loan and any interest accrued thereon in addition to heavy penalties that may be imposed. Because the Company may engage in financings where several investments are cross collateralized, multiple investments may be subject to the risk of loss. As a result, the Company could lose its interest in performing investments in the event such investments are cross-collateralized with poorly performing or nonperforming investments. In addition to leveraging the Company investments, the Company may borrow funds in its own name for various purposes and may withhold or apply from distributions amounts necessary to repay such borrowings. The interest expense and such other costs incurred in connection with such borrowings may not be recovered by income from investments purchased by the Company. If investments fail to cover the cost of such borrowings, the value of the investments held by the Company would decrease faster than if there had been no such borrowings. Additionally, if the investments fail to perform to expectation, the interests of investors in the Company could be subordinated to such leverage, which will compound any such adverse consequences.

Future Acquisitions or Dispositions

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Company's ongoing business; (ii) distraction of management; (iii) the Company may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; and (v) loss or reduction of control over certain of the Company's assets. Additionally, the Company may issue additional Common Shares in material amounts which would dilute the current shareholders' holding in the Company or indirect holdings in the Company.

The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Performance Not Indicative of Future Results

The prior investment and operational performance of the Company is not indicative of the future operating results of the Company. There can be no assurance that the historical operating results achieved by the Company or its affiliates will be achieved by the Company, and the Company's performance may be materially different.



Financial Projections May Prove Materially Inaccurate or Incorrect

Vibe's financial estimates, projections and other forward-looking information or statements included in this MD&A are based on assumptions of future events that may or may not occur, which assumptions may not be disclosed in this MD&A. Shareholders of the Company should inquire of the Company and become familiar with the assumptions underlying any estimates, projections or other forward-looking information or statements. Projections are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the assumptions upon which these projections are based will be realized. Actual results may differ materially from projected results for a number of reasons including increases in operation expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, and unanticipated competition. Accordingly, the Company's shareholders and prospective investors should not rely on any projections to indicate the actual results the Company might achieve.

Conflicts of Interest

Conflicts of interest may arise as a result of the directors, officers and promoters of the Company also holding positions as directors or officers of other companies. They also invest and may invest in businesses, including in the cannabis sector, that compete directly or indirectly with the Company or act as customers or suppliers of the Company. Some of the individuals that are directors and officers of the Company have been and will continue to be engaged in the identification and evaluation of assets, businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers of the Company will be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies provided under the Business Corporations Act (British Columbia).

To the best of the Company's knowledge, other than as disclosed below and elsewhere in this MD&A, there are no known existing or potential material conflicts of interest among the Company or a subsidiary of the Company and a director or officer of the Company or a subsidiary of the Company as a result of their outside business interests except that: (i) certain of the Company's or its subsidiaries' directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies, and (ii) certain of the Company's or its subsidiaries' directors and officers have portfolio investments consisting of minority stakes in businesses that may compete directly or indirectly with the Company or act as a customer of, or supplier to, the Company.

The Company may be negatively impacted by challenging global economic conditions

The Company's business, financial condition, results of operations and cash flow may be negatively impacted by challenging global economic conditions.

A global economic slowdown would cause disruptions and extreme volatility in global financial markets, increased rates of default and bankruptcy and declining consumer and business confidence, which can lead to decreased levels of consumer spending. These macroeconomic developments could negatively impact the Company's business, which depends on the general economic environment and levels of consumer spending. As a result, the Company may not be able to maintain its existing customers or attract new customers, or it may be forced to reduce the price of its products. The Company is unable to predict the likelihood of the occurrence, duration or severity of such disruptions in the credit and financial markets or adverse global economic conditions. Any general or market-specific economic downturn could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.



Additionally, the U.S. has imposed and may impose additional quotas, duties, tariffs, retaliatory or trade protection measures or other restrictions or regulations and may adversely adjust prevailing quota, duty or tariff levels, which can affect both the materials that the Company uses to package its products and the sale of finished products. For example, the tariffs imposed by the U.S. on materials from China are impacting materials that the Company imports for use in packaging in the U.S. Measures to reduce the impact of tariff increases or trade restrictions, including geographical diversification of the Company's sources of supply, adjustments in packaging design and fabrication or increased prices, could increase its costs, delay its time to market and/or decrease sales. Other governmental action related to tariffs or international trade agreements has the potential to adversely impact demand for the Company's products and its costs, customers, suppliers and global economic conditions and cause higher volatility in financial markets. While the Company reviews existing and proposed measures to seek to assess the impact of them on its business, changes in tariff rates, import duties and other new or augmented trade restrictions could have a number of negative impacts on its business, including higher consumer prices and reduced demand for its products and higher input costs.

Future disruptions and volatility in global financial markets and declining consumer and business confidence, including as a result of COVID-19, could lead to decreased levels of consumer spending. The Company's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and spending and, consequently, impact the Company's sales and profitability. These macroeconomic developments could negatively impact the Company's business, which depends on the general economic environment and levels of consumer spending. As a result, the Company may not be able to maintain its existing customers or attract new customers, or the Company may be forced to reduce the price of its products. The Company is unable to predict the likelihood of the occurrence, duration, or severity of such disruptions in the credit and financial markets and adverse global economic conditions. Any general or market-specific economic downturn could have a material adverse effect on the Company's business, financial condition, results of operations, and cashflow.

Tax Risks

Change in tax law

There can be no assurance that the Canadian and U.S. federal income tax treatment of the Company or an investment in the Company will not be modified, prospectively or retroactively, by legislative, judicial or administrative action, in a manner adverse to the Company or shareholders.

Application of Section 280 of the Code

Section 280E of the Code, as amended prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Given these facts, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Company.



Dividends on the Common Shares may be subject to Canadian and/or United States withholding tax

It is unlikely that the Company will pay any dividends on the Common Shares in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purposes of the Income Tax Act will be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-United States tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by U.S. shareholders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Company will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Internal Revenue Code. Accordingly, U.S. shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor U.S. shareholders will be, subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to a shareholder of the Company, subject to examination of the relevant treaty. These dividends may, however, qualify for a reduced rate of Canadian withholding tax under any income tax treaty otherwise applicable to a shareholder of the Company, subject to examination of the relevant treaty.

There can be no assurance that the Company will be able to make returns to shareholders in a tax efficient manner

The Company will endeavour to establish a tax efficient structure for its operations. The Company has made certain assumptions regarding taxation as part of this planning and existing work to structure the business. However, if these assumptions are not correct, taxes may be imposed with respect to the Company's assets, or the Company may be subject to tax on its income, profits, gains or distributions (either on a liquidation and dissolution or otherwise) in a particular jurisdiction or jurisdictions in excess of taxes that were anticipated. This could alter the post-tax returns for Shareholders (or shareholders in certain jurisdictions). Any change in laws or tax authority practices could also adversely affect any post-tax returns of capital to shareholders or payments of dividends (if any, which the Company does not envisage the payment of, at least in the short to medium term). In addition, the Company may incur costs in taking steps to mitigate any such adverse effect on the post-tax returns for shareholders.

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 a 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.