



EMERALD HEALTH THERAPEUTICS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three months ended March 31, 2017

Dated: May 25, 2017

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Forward-Looking Statements

Certain statements contained in this Management Discussion and Analysis (“MD&A”) constitute forward-looking information or forward-looking statements under applicable securities laws (collectively, “forward-looking statements”). These statements relate to future events or future performance, business prospects or opportunities of Emerald Health Therapeutics Inc. (the “Company”). Forward-looking statements include, but are not limited to, statements in respect of: potential increases in the number of registered patients of Emerald Health Botanicals Inc. (“Botanicals”), the Company’s wholly-owned subsidiary, and increases in the Company’s sales as a result; the Company’s intention to scale up production; the eventual profitability of the business of the Company; benefits received by the Company from its transactions with Emerald Health Sciences Inc. (“Sciences”), a control person of the Company, and the opportunities that such transactions will provide including loans from Sciences to the Company; the expansion of Botanicals’ current production facility and the development of a new production facility; the purchasing by Botanicals of additional strains of dried medical marijuana from another producer who is licensed (a “Licensed Producer”) under the Access to Cannabis for Medical Purposes Regulations (“ACMPR”); the expectation of the impact of the ACMPR; the launch of additional cannabis oil products and introduction of new oils; Botanicals’ longer term strategy to become a leading provider of quality products for the broader marijuana market; Botanicals’ intention to continue to communicate with and provide education and services to medical doctors and other healthcare professionals; the continued increase of the client base and revenue as a result of the introduction of cannabis oils; the Company’s and Botanicals’ continued research and development of strains and products; clinical trials to be undertaken by Botanicals; the acquisition by Botanicals’ of pre-approval applications from other ACMPR applicants; the expansion at Botanicals’ current facility and the potential resulting increase to Botanicals’ production capacity of dried product and oils; the use and funding of Botanicals research and development project related to strains of medical cannabis; and the effect that each risk factor will have on the Company.

These forward-looking statements involve risks and uncertainties relating to, among others, market price; continued availability of capital financing and general economic, market or business conditions; Botanicals’ reliance on the Current Licence (as defined herein) to produce and sell medical marijuana and cannabis oils issued to it under the ACMPR and its ability to maintain the Current Licence; Botanicals’ ability to increase registered patients and sales and to make the Company profitable; whether Sciences will continue to provide loans to the Company and the terms of such loans; regulatory risks relating to Botanicals’ compliance with the ACMPR; regulatory approvals for expansion of Botanicals’ current production facility and development of new production facilities; changes in laws, regulations and guidelines relating to medical marijuana and the possible legalization of marijuana by the Federal government; changes in government; changes in government policy; increased competition in the marijuana market; the limited operating history of the Company; Botanicals’ reliance on a single production facility; the Company’s reliance on management; difficulties in securing additional financing; unfavourable publicity or consumer perception of the medical marijuana industry; the impact of any negative scientific studies on the effects of cannabis; changes in the Company’s over-all business strategy; and restrictions of the TSX Venture Exchange on the Company’s business. See “Risks and Uncertainties” in this MD&A and other factors described the Company’s Annual Information Form under the heading “Risk Factors”.

The Company believes that the expectations reflected in any forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. Actual results may differ materially from those expressed or implied by such forward-looking statements.

The following MD&A is prepared as of May 25, 2017 and is intended to assist the understanding of the results of operations and financial condition of Emerald Health Therapeutics, Inc.

This MD&A should be read in conjunction with the condensed interim consolidated financial statements and accompanying notes of the Company for the three months ended March 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. This MD&A contains “forward-looking statements” that are subject to risk factors set out in a cautionary note contained herein. All figures are in Canadian dollars unless otherwise noted.

Additional information related to the Company is available on its website at www.emeraldhealth.ca and on the Canadian Securities Administrator’s website at www.sedar.com.

Overview

Emerald Health Therapeutics, Inc. (the “Company”) was incorporated pursuant to the *Business Corporations Act* (British Columbia) on July 31, 2007 as Firebird Capital Partners Inc. and changed its name to Firebird Energy Inc. in December 2012. On September 4, 2014, the Company completed the acquisition of all the issued and outstanding common shares of Thunderbird Biomedical Inc. (“Thunderbird”), by way of a reverse takeover (the “Transaction”) under the rules of the TSX Venture Exchange (the “TSXV”) and concurrently changed its name to T-Bird Pharma, Inc. At that time, Thunderbird became a wholly-owned subsidiary of T-Bird. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. (“Botanicals”).

The Company is a publicly traded company with headquarters in Victoria, British Columbia, Canada. Common shares of the Company (the “Common Shares”) are listed on the TSXV under the trading symbol “EMH”. The Company is classified as a Tier 2 Venture Issuer on the TSXV. The Company is the parent of its wholly-owned subsidiary Botanicals.

Botanicals is a private, Victoria, British Columbia based company and was incorporated pursuant to the *Business Corporations Act* (British Columbia) on January 28, 2013. The principal business of Botanicals is the production and sale of medical marijuana pursuant to a licence (the “Current Licence”) issued to Botanicals under the Access to Cannabis for Medical Purposes Regulations (“ACMPR”), formerly the Marijuana for Medical Purposes Regulations (“MMPR”). The Current Licence is valid until May 2018.

Botanicals’ goal is to remain a reputable and trusted provider of medical marijuana, and to accelerate the growth of its client base and sales revenue after the launch of its cannabis oil products. To reach these goals, Botanicals must provide a consistent supply of high quality products and maintain its excellence in client services. Through a combination of in house grow and wholesale purchase from other Licensed Producers, Botanicals expects to continue to provide a wide range of strains of dried marijuana and oils.

Recent Developments and Events after the Reporting Period

In February 2017, the Company completed a public financing of 10,235,000 units of the Company (each, a “Unit”) on a bought deal basis pursuant to a supplement to the base shelf prospectus at a price of \$1.35 per Unit, for total gross proceeds of \$13,817,250 (including the exercise in full of an over-allotment option) (the “February Prospectus Offering”).

Each Unit consisted of one Common Share and one-half of one common share purchase warrant of the Company. Each full warrant entitles the holder to acquire one Common Share at a price of \$2.00 for a

period of 24 months following the Closing Date, subject to acceleration. In the event that the closing sale price of the Common Shares on the TSXV is greater than \$2.50 per share for a period of 20 consecutive trading days at any time after the closing of the February Prospectus Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

In connection with the February Prospectus Offering, the Company also issued to the underwriter of the February Prospectus Offering a total of 307,050 compensation options. Each compensation option entitles the holder to acquire a Unit at a price of \$1.35 per Unit for a period of 24 months following the closing of the Offering.

In April 2017, the Company completed an additional public financing of 13,170,000 units of the Company (each, a “Unit”) on a bought deal basis pursuant to a supplement to the Prospectus at a price of \$1.85 per Unit, for total gross proceeds of \$23,364,500. In addition, the underwriter exercised its over-allotment option to acquire 1,465,100 common shares and 987,750 common share purchase warrants for proceeds of \$2,758,923 (the “April Prospectus Offering”). Total proceeds received from the April Prospectus Offering was \$26,123,423.

For the April Prospectus Offering, each full warrant entitles the holder to acquire one Common Share at a price of \$2.60 for a period of 24 months following the Closing Date, subject to acceleration. In the event that the closing sale price of the Common Shares on the TSXV is greater than \$3.50 per share for a period of 20 consecutive trading days at any time after the closing of the April Prospectus Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

In connection with the April Prospectus Offering, the Company also issued to the underwriter of the Prospectus Offering a total of 439,053 compensation options. Each compensation option entitles the holder to acquire a Unit at a price of \$1.35 per Unit for a period of 24 months following the closing of the Offering.

The Company intends to use the net proceeds of the Prospectus Offerings to accelerate facility expansion and for working capital and general corporate purposes. As the Company has been planning for expansion, much of its research and development focus has involved increasing plant diversity and product offerings, as well as improving on its cultivation, manufacturing, and standardization processes in anticipation of a significant scale up.

The Company entered into a non-binding letter of intent in November 2016 with a corporation controlled by Dr. Avtar Dhillon, the Executive Chairman of the Company, to lease at current market rates up to 32 acres of lands in Metro Vancouver, British Columbia for the purposes of expanding its operations and growing capability. The lease is currently under negotiation by independent members of the Company’s board of directors. Following execution of the lease, the Company intends to significantly increase its production of cannabis and cannabis oils through a multi-phase expansion plan that leverages its experience in building, growing, and selling cannabis under Health Canada regulations for Licensed Producers. In phase one, the Company proposes to build a modular hybrid greenhouse growing facility with 50,000 square feet of production space using its team of builders, designers, and growers. The Company’s proposed expansion plans will require approval from Health Canada. Expansion is planned to continue in a modular fashion, with an additional 50,000 square feet anticipated to be added in 2018.

Planning and feasibility work continued on the facility expansion during the three months ended March 31, 2017 and consulting and planning expenses of \$153,000 were incurred during the first quarter. Preliminary site prep at the new location began in April 2017 and the construction of the facility is expected to commence by June 30, 2017. The Company also expects to submit the application to Health Canada by the

end of June 2017. Construction costs of up to \$20 million are expected to be incurred by the end of 2017 depending on the stage of construction of the first two modular greenhouses.

The Company's collection of genetic materials and established team of experts will continue to play a major role as Botanicals continues to build its propriety strains, products and reputation. Through its research program the Botanicals team has characterized the cannabinoids and terpenes profiles of its plant materials, and has identified several strains with exceptionally high CBD levels allowing Botanicals to produce and sell a high concentration CBD oil starting in April 2017. In addition to continued research and development of strains and products, the team also plans to undertake clinical research to study the effects of its products on client health.

Client acquisition and client service is an ongoing focus for Botanicals. After the introduction of cannabis oils, the client base began to increase quickly and the Company expects the trend to continue and revenue to increase in 2017. Botanicals also recognizes that the medical profession plays an important role in the introduction of medical marihuana to clients and continuing education of medical professionals on the product is required. In partnership with other professional organizations, Botanicals intends to continue to communicate with medical doctors and other healthcare professionals, and to provide education and services to these professionals.

With legalization of non-medical marihuana in Canada a potential opportunity, Botanicals' longer term strategy includes becoming a leading provider of quality products for the broader marihuana market. Being one of the limited number of Licensed Producers with scalable systems and processes, management of the Company is of the opinion that Botanicals is well positioned to benefit from the legalization of non-medical marihuana.

On April 13, 2017, the federal government of Canada introduced before parliament Bill C-45 *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* (the "**Cannabis Act**"), the draft legislation setting out the federal regulatory framework for legalization of cannabis for non-medical purposes. The federal government of Canada has set a target date of July 2018 for the implementation of the Cannabis Act. However, the Cannabis Act must be passed by both houses of Parliament before it can be enacted. It is likely that the draft Cannabis Act will be revised and amended prior to being passed into law. Further, many aspects of the regulatory regime will be determined by regulations that still need to be drafted and published. In addition, many other aspects regarding the distribution, sale and taxation of non-medical cannabis are not within the power of the federal government and will be subject to provincial or municipal jurisdiction. No drafts of any required provincial or municipal legislation are available at this time.

In May 2017, the board of directors approved the adoption of a New Omnibus Incentive Plan (the "New Plan"), subject to shareholder approval. The New Plan replaces the stock option plan that was previously approved by the shareholders (the "Previous Plan") and no new options will be granted under the Previous Plan if the New Plan is approved, however any options granted under the Previous Plan will remain outstanding and governed by the terms of the Previous Plan. If the New Plan is not approved by the shareholders of the Company, the Previous Plan will remain in place and options may continue to be granted under the Previous Plan. The New Plan is also subject to approval by the TSXV and must be confirmed by shareholders at each annual general meeting after its initial approval.

Under the New Plan, the maximum number of common shares issuable upon the exercise or redemption and settlement of all awards granted under the New Plan shall not exceed 10% of the issued and outstanding Shares at the time of granting of such award less the number of Shares reserved for issuance under all other security based compensation arrangements of the Company. Under the New Plan, the following types of

awards can be issued: stock options, share appreciation rights, restricted share units and other performance awards.

Disclosure of Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares of which 78,179,698 were issued and outstanding as of March 31, 2017. Since March 31, 2017, the Company issued 14,635,100 Common Shares upon completion of the April Prospectus Offering and 250,000 Common Shares upon exercise of stock options. As of May 25, 2017, there were 93,064,798 Common Shares issued and outstanding.

During the three-month period ended March 31, 2017, the Company granted an aggregate of 875,000 stock options to directors, employees and consultants. Each option is exercisable into one Common Share of the Company for a period of up to five years. The exercise prices at the time of the grants ranged from \$1.38 and \$1.51 per share.

There were 6,483,200 stock options outstanding as of March 31, 2017. As of May 25, 2017, there were 7,353,200 stock options and 200,000 restricted share units outstanding as a result of grants and exercises subsequent to March 31, 2017.

Summary of Quarterly Results

The following tables summarize selected financial information for the Company for the last eight quarters:

| | 2017 | | 2016 | |
|--|------------------|---------------------|----------------------|-----------------|
| | March 31 (\$) | December 31 (\$) | September 30 (\$) | June 30 (\$) |
| Revenue | 201,268 | 124,251 | 48,933 | 38,729 |
| Expenses | 1,205,940 | 867,562 | 590,896 | 547,447 |
| Share-based payments | 201,186 | 137,113 | 467,878 | 37,618 |
| Net Loss | (1,205,858) | (880,424) | (1,009,841) | (546,336) |
| Net Loss per share (basic and diluted) | (0.02) | (0.01) | (0.02) | (0.01) |

| | 2016 | | 2015 | |
|--|------------------|---------------------|----------------------|-----------------|
| | March 31 (\$) | December 31 (\$) | September 30 (\$) | June 30 (\$) |
| Revenue | 41,408 | 23,902 | 7,389 | - |
| Expenses | 507,129 | 521,509 | 634,013 | 589,333 |
| Share-based payments | 38,179 | 37,751 | 90,406 | 876,420 |
| Net Loss | (503,900) | (535,358) | (717,030) | (1,465,753) |
| Net Loss per share (basic and diluted) | (0.01) | (0.01) | (0.02) | (0.03) |

Results of Operations

The net loss for the quarter ended March 31, 2017 was \$1,205,858 (loss of \$0.02 per share), compared to the net loss of \$503,900 (loss of \$0.01 per share) for the same quarter in the prior year. Factors contributing to the net loss for the current period include the following:

Revenue

Revenue for the quarter ended March 31, 2017 was \$201,268 compared to \$41,409 for the quarter ended March 31, 2016. The Company's client base increased during the current quarter, resulting in an increase in revenue. For the three-month period ended March 31, 2017, revenue was comprised of approximately 80% dried product and 20% oils. The Company expects revenue to continue to increase in 2017 with expanded product lines and the introduction of a new high concentrate CBD oil in April 2017 which sells at a premium price.

Cost of goods sold

Cost of goods sold currently consists of three main categories: (i) cost of goods sold expensed to inventory (ii) production costs, and (iii) change in the fair value of biological assets.

- (i) Cost of goods sold expensed to inventory is the cost (or net realizable value) attributable to the goods sold. The costs include growing, cultivation and harvesting costs and extraction as well as packaging and labelling. Also included in cost of goods sold is the direct cost incurred in purchasing product from other Licenced Producers. Cost of goods sold expensed to inventory for the quarters ended March 31, 2017 and 2016 was \$165,752 and \$37,518 respectively. The increase in cost of goods sold is directly related to the increase in the amount of product sold by the Company.
- (ii) Production costs include all indirect production related costs, including security and stringent quality assurance and quality control costs and related overhead. In addition, all inventory costs in excess of net realizable value are expensed to production costs. In the quarter ended March 31, 2017, the Company incurred production costs of \$165,361 versus \$115,433 in the quarter ended March 31, 2016. The increases in 2017 are due to the increased production volume required to meet the increase in sales.
- (iii) Changes in the fair value of biological assets is part of the Company's cost of goods sold due to IFRS standards relating to agriculture and biological assets (i.e. living plants or animals). This line item currently represents the change in fair value in biological assets (medical marihuana) during the period. The change in biological assets for the quarter ended March 31, 2017 and 2016 was a gain of \$90,345 and \$74,398 respectively.

Total cost of goods sold for the quarters ended March 31, 2017 and 2016 was \$240,768 and \$78,553 respectively. Cost of goods sold increased in the current period compared to the same period in the prior year due to higher sales volumes and an increase in volumes produced in the current year. Total gross profit for the quarters ended March 31, 2017 and 2016 was negative \$39,500 and negative \$37,144 respectively. As the production volumes to date have been small due to limitations on space available and with high fixed costs required to meet the regulatory requirements, the costs of goods sold have been greater than revenue. Once the Company is able to produce larger volumes of product, the gross margins are expected to become positive.

Other expenses

General and Administrative – During the quarter ended March 31, 2017, the Company incurred general and administration expenses of \$788,956 versus \$226,630 for the quarter ended March 31, 2016. The current quarter included consulting and planning fees on the facility expansion for \$153,171 and investor relations costs of \$114,312 that were not incurred in the prior year. Additional expenses were also incurred in conjunction with business development and media, and travel related to financing activities. In the quarter ended March 31, 2017, general and administrative costs included; salaries and benefits of \$145,689 (2016 - \$108,726), consulting and professional services fees of \$391,690 (2016 - \$65,110), investor relations fees of \$114,312 (2016 - \$Nil), office and insurance of \$93,755 (2016 - \$34,928) and travel and accommodation of \$43,510 (2016 - \$8,359).

Sales and marketing – In the quarter ended March 31, 2017, the Company incurred sales and marketing expenses of \$92,169 versus \$76,645 in the comparable 2016 prior period. The current year increase reflects the increase in sales and marketing activity related to an expanded client base and sales volumes.

Research and development – In the quarter ended March 31, 2017, the Company incurred research and development expenses of \$43,162 versus \$106,674 in the comparable 2016 prior period. Research and development projects in the current quarter include development and testing of processes to manufacture a variety of cannabis oils and capsules and planning for upcoming clinical trials. The prior year included development and testing of cannabis oils as well as testing a variety of growing and production methodologies and continuation of the National Research Council’s Industrial Research Assistance Program (IRAP) project to characterize medical cannabis strains.

Share-based compensation – In the quarter ended March 31, 2017, the Company incurred share-based compensation expenses of \$201,186 versus \$38,179 in the comparable 2016 prior period. The amounts are compensation expenses related to employee, director and consultant incentive stock options which are measured at fair value at the date of grant and expensed over the options’ vesting period. During the current quarter, the Company granted 875,000 stock options to employees and consultants. The increase in the stock-based compensation expense reflects the increase in the number of stock options granted in late 2016 and early 2017 that vested during the current period.

The net loss for the quarter ended March 31, 2017 was \$1,205,858 (loss of \$0.02 per share), compared to the prior year quarter net loss of \$503,900 (loss of \$0.01 per share). Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Additional Disclosure for Venture Issuers Without Significant Revenue

As the Company did not have significant revenue from operations in either of its last two financial years, the following is a breakdown of the material costs incurred:

| | For the three months ended March 31, 2017 (\$) | For the three months ended March 31, 2016 (\$) |
|---|--|--|
| Expensed research and development costs | 43,162 | 120,701 |
| General and administrative expenses | 788,956 | 226,630 |
| Purchase of plant and equipment | 106,268 | 51,890 |

Liquidity and Capital Resources

The Company continually monitors and manages its cash flow to assess the liquidity necessary to fund operations. As at March 31, 2017, the Company had positive working capital of \$14,624,383. In addition, the Company closed an additional public offering in April 2017 that provided gross proceeds of \$26,123,423.

While the Company has incurred losses to date, management anticipates eventual profitability of the business, though there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient gross margins to reach profitability.

Operating, Investing and Financing Activities

The chart below highlights the Company's cash flows for the three-month periods ended March 31:

| | For the three months ended March 31, 2017 (\$) | For the three months ended March 31, 2016 (\$) |
|---------------------------------|--|--|
| Net cash provided by (used in): | | |
| Operating activities | (924,213) | (469,621) |
| Investing activities | (106,268) | (96,109) |
| Financing activities | 12,566,750 | 493,258 |
| Increase (decrease) in cash | 11,536,269 | (72,472) |

Total net cash provided was \$11,536,269 for the quarter ended March 31, 2017, compared with net cash used of \$72,472 for the quarter ended March 31, 2016. Operating activities used cash of \$924,213 for the current period, compared with cash used of \$469,621 for the three-month period ended March 31, 2016. The cash outflow increase for the period ended March 31, 2017 was due to an increase in purchased inventory and an increase in the net loss in the current quarter compared to the prior year.

Cash used in investing activities for the quarter ended March 31, 2017 was \$106,268, compared to cash used of \$96,109 for the same quarter in the prior year. For the current year, the cash was used to purchase laboratory equipment and leasehold improvements.

Cash provided by financing activities for the quarter ended March 31, 2017 was \$12,566,750, compared to cash provided of \$493,258 in the prior year. Cash generated from financing activities in the current year included \$12,576,500 from net proceeds received on the prospectus offering completed in February 2017.

Financial Risk Management

The Company's Board has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. Management identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated in accordance with the approved policies.

Measurement uncertainty and impairment assessments

As of March 31, 2017, management of the Company has determined that no impairment indicators of its assets were present and no additional impairment write-downs in excess of those that had been previously recorded were required. Management continues to review each of its assets for indications of impairment.

Transactions with Related Parties

During the three-month period ended March 31, 2017, Emerald Health Sciences Inc. (“Sciences”) charged \$170,471 (2016 - \$42,525) for services and \$105,717 (2016 - \$Nil) for invoices paid on behalf of the Company. As of March 31, 2017, the Company owed \$276,188 (2016 - \$1,507,821) to Sciences. The amount owing to Sciences as of March 31, 2016, also included cash advances and interest expense and was repaid in full by December 31, 2016.

As of March 31, 2017, Sciences holds an aggregate of 45,636,555 shares, representing 58.4% of the issued and outstanding Common Shares as at March 31, 2017 and 8,489,451 common share purchase warrants of the Company.

Proposed Transactions

There are no material decisions by the Board of the Company with respect to any imminent or proposed transactions that have not been disclosed.

Critical Accounting Policies and Estimates

Included in Note 2 of the Company’s audited consolidated financial statements for the year ended December 31, 2016 and Note 3 of the condensed interim consolidated financial statements for the three months ended March 31, 2017, are the accounting policies and estimates that are critical to the understanding of the business operations and results of operations.

Changes in Accounting Standards not yet Effective

Refer to Note 3 of the Company’s audited consolidated financial statements for the year ended December 31, 2016 for additional information on several new standards, amendments to standards and interpretations, which are not effective yet, and have not been applied in preparing these consolidated financial statements but may affect the Company when applied in the future.

Commitments

The Company leases its production facility for \$4,875 per month for an initial term from June 1, 2014 to May 31, 2019 with an option to renew for an additional two, five year terms. Additional premises for office space are leased for \$5,190 per month, including common costs, for an initial term from March 1, 2017 to February 28, 2018 with an option to renew for an additional two-year term, which the Company intends to exercise.

The Company also entered into purchase agreements with other Licensed Producers to supplement inventory and a consulting agreement with a six-month term.

The following table shows the commitments of the Company over the next five years and onwards:

| | Due by year ending | | | | |
|-----------------------|--------------------|-----------|-----------|----------|----------|
| | Total | 2017 | 2018 | 2019 | 2020 |
| Production facilities | \$314,365 | \$91,227 | \$123,081 | \$89,245 | \$10,812 |
| Purchase agreements | \$382,860 | \$318,860 | \$64,000 | \$- | \$- |
| Consulting agreement | \$18,000 | \$18,000 | \$- | \$- | \$- |
| | \$715,225 | \$428,087 | \$187,081 | \$89,245 | \$10,812 |

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Risks and Uncertainties

Investment in the Common Shares must be regarded as highly speculative due to the proposed nature of the Company's business and its present stage of development. The following is a non-exhaustive list of certain risk factors associated with the Company:

Reliance on Current Licence

Botanicals' ability to grow, store and sell medical marihuana in Canada will be dependent on the Current Licence from Health Canada. Failure to comply with the requirements of the Current Licence, or any failure to maintain the Current Licence would have a material adverse impact on the business, financial condition and operating results of Botanicals and the Company. The Current Licence was renewed on November 8, 2016 and subsequently amended on February 2, 2017 and is valid for an eighteen-month period ending May 7, 2018. Botanicals' believes it will meet the requirements of the ACMPR for further extensions or renewals of the Current Licence. However, should Health Canada not extend or renew the Current Licence, or should it renew the Current Licence on different terms, the business, financial condition and results of the operation of Botanicals and the Company would be materially adversely affected.

Supply Risks

Botanicals is limited in its ability to grow, store and sell medical marihuana under the terms of the Current Licence and as a result of its reliance on a single growing facility. As a result, Botanicals purchases additional dried medical marihuana from other Licensed Producers to supplement its own medical marihuana production. If Botanicals is unable to acquire additional medical marihuana sufficient to meet demand on terms and conditions favourable to Botanicals, it could have a material adverse effect on the business, result of operations and financial condition of Botanicals and the Company.

Regulatory Risks

The activities of Botanicals are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. Botanicals and the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation

that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of Botanicals and the Company.

Change in Laws, Regulations and Guidelines

Botanicals' operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of the Company's management, Botanicals is currently in material compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of Botanicals may cause adverse effects to Botanicals operations and the financial condition of Botanicals and the Company.

The potential legalization of recreational marijuana in Canada is currently under consideration by the federal government. On April 13, 2017, the federal government of Canada introduced before parliament Bill C-45 *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* (the "**Cannabis Act**"), the draft legislation setting out the federal regulatory framework for legalization of cannabis for non-medical purposes.

The federal government of Canada has set a target date of July 2018 for the implementation of the Cannabis Act. However, the Cannabis Act must be passed by both houses of Parliament before it can be enacted. It is likely that the draft Cannabis Act will be revised and amended prior to being passed into law. Further, many aspects of the regulatory regime will be determined by regulations that still need to be drafted and published. In addition, many other aspects regarding the distribution, sale and taxation of non-medical cannabis are not within the power of the federal government and will be subject to provincial or municipal jurisdiction. No drafts of any required provincial or municipal legislation are available at this time. There are therefore no guarantees as to if, when, or how non-medical cannabis will be legalized and regulated. Until the Cannabis Act is in force, existing laws remain in place and the provisions discussed below are subject to change. The Cannabis Act also provides for licensing of the import or export of cannabis in respect of medical or scientific purposes only.

There is no guarantee that changes to the existing regime would be favourable to current Licensed Producers and may include provisions that have a materially adverse impact on Botanicals including, but not limited to:

- (i) restrictions on Botanicals' ability to run its business as it currently operates or the imposition of new restrictions on Licensed Producers, including restrictions on the products that may be produced or made available by Licensed Producers, such as restrictions on strains (including restrictions on potency) and types of products (oil, resin, concentrates, edible products containing cannabis extracts), and additional restrictions on advertising of the Botanicals' products;
- (ii) changes to the legislation with the effect of reducing barriers to entry for new entrants to the industry, some of whom may have more financial resources and marketing expertise than Botanicals and the Company;
- (iii) changes to the current distribution channels, including the introduction of retail distribution or other new types of licensed distributors, or the imposition of a government monopoly on distribution which would impact Botanicals' ability to sell its products;

- (iv) changes to limit the types of customers Botanicals can sell to (for example, age restrictions), to change the manner in which customers are licenced to purchase Botanicals' products, or which limit the amount of product that purchasers may buy, any of which may reduce the number of Botanicals' possible customers or the average amount of purchased product;
- (v) the implementation of additional taxes on Botanicals' products, which may reduce the demand of Botanicals' products and reduce the quantity of products sold by Botanicals; and
- (vi) changes to the legislation to impose new requirements on Licensed Producers, including changes to the labeling requirements for Botanicals' products or the manner in which the products are required to be tested or approved for sale, which could increase the cost of producing Botanicals' products and could reduce Botanicals' earnings and margins.

While the impact of any of such changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed, it is not expected that any such changes would have an effect on Botanicals' operations that are materially different than the effect on similar-sized companies in the same business as Botanicals and the Company.

Impact of ACMPR

In August 2016, Health Canada announced the adoption of the ACMPR to replace the MMPR. The ACMPR came into force on August 24, 2016 and has replaced the MMPR as the regulations governing Canada's medical cannabis program. The ACMPR provide patients with three options to access medical marihuana:

- (i) through a Licensed Producer;
- (ii) produce a limited amount of cannabis for their own medical purposes; or
- (iii) designate someone to produce it for them.

The adoption of the ACMPR could potentially decrease the size of the market for Botanicals' business, and potentially materially and adversely affect Botanicals' and the Company's business, its results of operations and financial condition. However, it is not expected that the adoption of the ACMPR will have an effect on Botanicals' operations that are materially different than the effect on similar-sized companies in the industry.

Limited Operating History

Botanicals was incorporated in 2013 and has yet to generate significant revenue. Botanicals and the Company are therefore subject to many of the risks common to early-stage enterprises, including undercapitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Reliance on a Single Facility

To date, Botanicals' activities and resources have been primarily focused on its initial facility in British Columbia and Botanicals expects to continue to carry out its business activities solely in this facility over

the next several months. Adverse changes or developments affecting the facility could have a material and adverse effect on the Company's business, financial condition and prospects.

The facility requires regular maintenance on both the heating and cooling systems and regular power component maintenance on the generator and delivery systems. Any failure of the heating and cooling systems or electrical delivery systems could have a material and adverse effect on Botanicals' and the Company's business, financial condition and prospects.

Botanicals is currently planning an expansion into a second production facility which will require licencing by Health Canada and significant investment of capital. Neither the Health Canada licencing nor the investment of capital are assured.

Reliance on Management

The success of Botanicals and the Company is primarily dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees indefinitely. Any loss of the services of any such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Shelf Life of Inventory

Botanicals holds finished goods in inventory and its inventory has a shelf life. Finished goods in Botanicals' inventory include dried marihuana and cannabis oil products. Botanicals follows Health Canada's testing requirements for product release and re-tests its inventory for information purposes. Based on such testing results and management's experience, Botanicals believes that there is no significant change in product composition during a 12-month storage under its current vault conditions. Botanicals' typical turnover rate for inventory varies between 2 weeks and 6 months of final production, however this turnover rate may change and its inventory may reach its expiration date and may not be sold. Even though management of Botanicals on a regular basis reviews the amount of inventory on hand, reviews the remaining shelf life and estimates the time required to manufacture and sell such inventory, write-down of inventory may still be required. Any such write-down of inventory could have a material adverse effect on Botanicals' and the Company's business, financial condition, and results of operations.

Information Systems Security Threats

Botanicals has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. Botanicals' operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. Botanicals' 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. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact Botanicals' and the Company's reputation and results of operations.

Botanicals 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 two entities will not incur such losses in the future. The 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, Botanicals may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Damage to the Company's Reputation

Damage to Botanicals' or the Company's reputation could result from the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to Botanicals and the Company and their activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputational loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

Third Party Reputation Risk

The parties with which Botanicals does business may perceive that they are exposed to reputational risk as a result of Botanicals' medical marihuana business activities. This may impact Botanicals' ability to retain current partners, such as its banking relationship, or source future partners as required for growth or future expansion in Canada or the United States. Failure to establish or maintain such business relationships could have a material adverse effect on Botanicals and the Company.

Factors which may Prevent Realization of Growth Targets

Botanicals is currently in the early development stage and its growth strategy contemplates outfitting its production facility with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- (i) delays in obtaining, or conditions imposed by, regulatory approvals;
- (ii) plant design errors;
- (iii) environmental pollution;
- (iv) non-performance by third party contractors;
- (v) increases in materials or labour costs;
- (vi) production falling below expected levels of output or efficiency;
- (vii) breakdown, aging or failure of equipment or processes;
- (viii) contractor or operator errors;

- (ix) labour disputes, disruptions or declines in productivity;
- (x) inability to attract sufficient numbers of qualified workers;
- (xi) disruption in the supply of energy and utilities; and
- (xii) major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that Botanicals may not have product or sufficient product available for shipment to meet future demand when it arises. Failure to satisfy such future demand may have a material adverse effect on Botanicals' revenue and financial performance and may result in the loss of future customers and market share.

Financial Losses

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Additional Financing

The building and operation of Botanicals' facilities and business are capital intensive. In order to execute its anticipated growth strategy, the Company will require additional 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 to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. The Prospectus allows for, subject to securities regulatory requirements and limitations, the potential offering of up to an aggregate of \$50 million of the Company's Common Shares, preferred shares, warrants, subscription receipts and units, or any combination thereof, from time to time in one or more offerings, and are intended to give the Company the flexibility to take advantage of financing opportunities when, and if, market conditions are favorable to the Company. The specific terms of such future offerings, if any, would be established, subject to the approval of the Board, at the time of such offering and will be described in detail in a prospectus supplement filed at the time of any such offering. As of the date of this MD&A, the Company has not sold any securities under a prospectus supplement to the Base Shelf Prospectus, other than the sale of Units pursuant to the Prospectus Offering and there can be no assurance that any additional securities will be sold under the Base Shelf Prospectus. Any new equity securities issued under the Base Shelf Prospectus or otherwise by the Company could have rights, preferences and privileges superior to those of holders of Common Shares.

Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

In addition, the Company has in the past received a substantial amount of debt financing from Sciences pursuant to the terms of the Loan Agreement. There is no guarantee that Sciences will continue to provide funds when needed by the Company or that the terms of the Loan Agreement will remain the same or acceptable.

Competition

There is potential that Botanicals and the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and greater financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Because of the early stage of the industry in which Botanicals operates, the Company expects to face additional competition from new entrants. If the number of users of medical marihuana in Canada increases, the demand for products is expected to increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Risks Inherent in an Agricultural Business

Botanicals' business involves the growing of medical marihuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although Botanicals grows its products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

Botanicals' medical marihuana growing operations consume considerable energy, making Botanicals and the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Transportation Disruptions

Due to the perishable and premium nature of Botanicals' products, Botanicals will depend on fast and efficient delivery services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of Botanicals and the Company. Rising costs associated with the courier services used by Botanicals to ship its products may also adversely impact the business of Botanicals and the Company and their ability to operate profitably.

Unfavourable Publicity or Consumer Perception

The Company believes the medical marihuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marihuana produced. Consumer perception of Botanicals' products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical

marihuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marihuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for Botanicals' products and the business, results of operations, financial condition and cash flows of Botanicals and the Company. Botanicals' dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on Botanicals and the Company, the demand for Botanicals' products, and the business, results of operations, financial condition and cash flows of Botanicals and the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marihuana in general, or Botanicals' products specifically, or associating the consumption of medical marihuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, Botanicals 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 Botanicals' products 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 Botanicals' products alone or in combination with other medications or substances could occur. Botanicals and the Company may be subject to various product liability claims, including, among others, that Botanicals' products 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 Botanicals could result in increased costs, could adversely affect Botanicals' reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and the financial condition of Botanicals and the Company. There can be no assurances that Botanicals will be able to obtain or 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 obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Botanicals' potential products.

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. If any of Botanicals' products are recalled due to an alleged product defect or for any other reason, Botanicals could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Botanicals may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Botanicals has detailed procedures in place for testing finished 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. A recall for any of the foregoing reasons could lead to decreased demand for Botanicals' products and could have a material adverse effect on the results of operations and financial condition of Botanicals and the Company. Additionally, product recalls

may lead to increased scrutiny of Botanicals' operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Reliance on Key Inputs

Botanicals' business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its 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 and operating results of Botanicals and the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, Botanicals 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 Botanicals in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of Botanicals and the Company.

Dependence on Suppliers and Skilled Labour

The ability of Botanicals and the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Botanicals will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by Botanicals' capital expenditure program may be significantly greater than anticipated by Botanicals' management, and may be greater than funds available to Botanicals and the Company, in which circumstance Botanicals may curtail, or extend the time frames for completing its capital expenditure plans. This could have an adverse effect on the financial results of Botanicals and the Company.

Difficulty to Forecast

Botanicals 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 medical marijuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of Botanicals and the Company.

Operating Risk and Insurance Coverage

Botanicals has insurance to protect its assets, operations and employees. While Botanicals believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which Botanicals is exposed. In addition, no assurance can be given that such insurance will be adequate to cover Botanicals' liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If Botanicals were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if Botanicals were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition of Botanicals and the Company could be materially adversely affected.

TSXV Restrictions on Business

As part of its conditional approval relating to the RTO, the TSXV required that the Company deliver an undertaking confirming that, while listed on the TSXV, the Company will only conduct the business of

production, acquisition, sale and distribution of medical marihuana in Canada as permitted under the Current Licence. This undertaking could have an adverse effect on Botanicals' ability to export marihuana from Canada and on the Company's ability to expand its business into other areas including the provision of non-medical marihuana in the event that the laws were to change to permit such sales and the Company is still listed on the TSXV and still subject to such undertaking at the time. This undertaking may prevent the Company from expanding into new areas of business when the Company's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of operations of the Company.

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 and prospects.

Litigation

The Company or Botanicals may 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 or Botanicals becomes involved be determined against the Company or Botanicals such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and is successful, litigation can redirect significant company resources.

The Market Price of the Company's Common Shares May be Subject to Wide Price Fluctuations

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of Botanicals and the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for Botanicals and the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Dividends

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Any dividends paid by the Company would be subject to tax and, potentially, withholdings.

Limited Market for Securities

The Company is listed on the TSXV, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Environmental and Employee Health and Safety Regulations

Botanicals' operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Botanicals will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Governmental approvals and permits are currently, and may in the future be, required in connection with Botanicals' operations. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on Botanicals' manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Botanicals' operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Botanicals and the Company.

A Substantial Number of Common Shares are Owned by a Single Shareholder

A significant percentage of the Company's outstanding Common Shares are owned by a single shareholder, Sciences. As a result, Sciences is in a position to exercise influence over matters requiring shareholder approval, including the determination of significant corporate actions that could otherwise be beneficial to the Company's other shareholders, such as the election and removal of directors, amendments to the Company's corporate governing documents and business combinations. The Company's interests and those of Sciences may at times conflict, and this conflict might be resolved against the Company's interests. The concentration of control by a single shareholder may practically preclude an unsolicited take-over bid for the Common Shares, and this may adversely impact the value and trading price of the Common Shares.

Restriction on Sales Activities

The medical marijuana industry is in its early development state and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on the Company's business, operating results and/or financial condition.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. Avtar Dhillon and Jim Heppell, each of whom is a director of the Company, are also directors and/or officers of Sciences. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under

applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Actions against the Company and its Directors and Officers

The Company and Botanicals are corporations organized under the laws of the Province of British Columbia. Certain of the Company's directors and officers, reside principally in Canada. Because all or a substantial portion of the Company's assets and the assets of these persons are located in Canada, it may not be possible for foreign investors to effect service of process from outside of Canada upon the Company or those persons. Furthermore, it may not be possible to enforce against the Company foreign judgments obtained in courts outside of Canada based upon the civil liability provisions of the securities laws or other laws in those jurisdictions.

General Business Risk and Liability

Given the nature of Company's business, it may from time to time be subject to claims or complaints from investors or others in the normal course of business. The legal risks facing the Company, its directors, officers, employees or agents in this respect include potential liability for violations of securities laws, breach of fiduciary duty and misuse of investors' funds. Violations of securities laws and breaches of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of the Company's right to carry on its existing business. The Company may incur significant costs in connection with such potential liabilities.

Client Acquisition

Botanicals' success depends on its ability to attract and retain clients. There are many factors which could impact Botanicals' ability to attract and retain clients, including but not limited to Botanicals' ability to continually produce desirable and effective product, the successful implementation of the Botanicals' client-acquisition plan and the continued growth in the aggregate number of patients selecting medical marijuana as a treatment option. Botanicals' failure to acquire and retain patients as clients would have a material adverse effect on its business, operating results and financial condition.

Holding Company

The Company is a holding company and essentially all of its assets are the capital stock of its subsidiary, Botanicals. As a result, investors in the Company are subject to the risks attributable to Botanicals. As a holding company, the Company conducts substantially all of its active business through Botanicals, which generates 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 Botanicals and the distribution of those earnings to the Company. The ability of Botanicals to pay dividends and other distributions will depend on its operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained and contractual restrictions contained in the instruments governing its debt. In the event of a bankruptcy, liquidation or reorganization of Botanicals, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of Botanicals before the Company.