



**RUBICON ORGANICS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2018**

**April 26, 2019**

## **INTRODUCTION**

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of Rubicon Organics Inc. (“**Rubicon Organics**”, “**ROI**” or the “**Company**”) is for the year ended December 31, 2018. It is supplemental to and should be read in conjunction with the Company’s consolidated financial statements including the accompanying notes for the year ended December 31, 2018 (the “**Financial Statements**”). The Company’s Financial Statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board. This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 “Continuous Disclosure Obligations” of the Canadian Securities Administrators. Additional information regarding the Company is available on our website at [www.rubiconorganics.com](http://www.rubiconorganics.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com). This discussion covers the year ended December 31, 2018, and the subsequent period up to the date of April 26, 2019.

Throughout this document the terms we, us, our, Rubicon Organics, ROI and the Company refer to Rubicon Organics Inc. and its subsidiaries during the year ended December 31, 2018.

Additional information about the Company can be requested from Ms. Margaret Brodie, Chief Financial Officer at the mailing address of Suite 505 – 744 West Hastings Street, Vancouver, BC, V6C 1A5, Canada.

All figures in this MD&A are in Canadian Dollars unless otherwise noted. Until July 1, 2018, the Company presented in United States Dollars. Refer to note 2 of the Financial Statements for the year ended December 31, 2018 for further information.

## **DESCRIPTION OF THE BUSINESS**

Rubicon Organics is a British Columbia registered company incorporated on May 15, 2015. The Company was incorporated as an investor vehicle into Rubicon Holdings Inc. (“**RHI**”) for certain Canadian shareholders and in its first year of incorporation, performed certain management services for RHI.

The address of the Company’s registered office and records is 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600 Vancouver, British Columbia V7X 1T2.

During May 2018, Rubicon Organics and RHI undertook a re-organization (the “**Re-Organization**”) whereby pursuant to a share exchange, RHI completed a reverse takeover (“**RTO**”) of Rubicon Organics.

The Company’s principal business is the production and sale of cannabis in Canada as well as leasing custom built facilities and providing brand licensing to cannabis producers and processors in Washington and California. The Company intends to produce organic cannabis to process and sell under its wholly owned and other licensed brands. In Canada, the Company expects to grow and sell cannabis directly from its wholly owned, federally licensed 125,000 square foot facility in British Columbia. In the state of Washington, the Company leases its 40,000 square foot facility to a state licensed operator and provides its brands under license to various licensed operators.

On October 10, 2018, the Company’s common shares began trading on the Canadian Securities Exchange (“**CSE**”) under the trading symbol “ROMJ”. On January 7, 2019 the Company’s common shares commenced trading on the OTCQX Best Market under the symbol “ROMJF”.

The address of the Company’s registered office and records is 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600 Vancouver, British Columbia V7X 1T2. The Company’s head office is unit 505 - 744 West Hastings Street, Vancouver, British Columbia V6C 1A5.

### ***Re-Organization***

As part of the Re-Organization, on May 15, 2018, Rubicon Organics entered into a share exchange transaction (the “**Share Exchange**”) with RHI whereby each shareholder of RHI, other than Rubicon Organics, exchanged its common shares in RHI on a 1:1 basis for common shares of Rubicon Organics. Furthermore, on May 30, 2018, in connection

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with the Share Exchange, all former option holders of RHI exchanged their options on a 1:1 basis for new options in Rubicon Organics, on substantially similar terms to their original options in RHI.

After the Re-Organization, the former shareholders of RHI own all of the common shares in Rubicon Organics. Consequently, the Re-Organization has been accounted for as an RTO and the Financial Statements of Rubicon Organics present the historical results, assets and liabilities of the Company on the consummation of the reverse take over as if RHI was the acquirer.

***About the Company***

Rubicon Organics is a Licensed Producer ("LP") focused on providing super-premium organic cannabis products for the recreational and medical-use markets in Canada. The Company also leases or subleases turnkey cannabis production facilities and license cannabis brands to state-licensed producers in Washington and California. Rubicon Organics' ancillary involvement in the cannabis sector in the United States is in compliance with applicable licensing requirements and the regulatory frameworks enacted by the State of Washington and State of California.

Rubicon Organics' subsidiaries are as follows:

Name	Place of Incorporation	Ownership Percentage
Rubicon Holdings, Inc.	WA, United States	100%
West Coast Property Holdings, Inc.	WA, United States	100%
Rubicon Property 1 LLC	WA, United States	100%
Rubicon Property 2 LLC	WA, United States	100%
Rubicon California LLC	CA, United States	100%
Great Pacific Brands, LLC	WA, United States	100%
Red Dog Operations, Inc.	WA, United States	100%
Seymour Soils, Inc.	WA, United States	100%
West Coast Marketing Corporation	BC, Canada	100%
1113603 B.C Ltd.	BC, Canada	100%
Bridge View Greenhouses Ltd.	BC, Canada	100%
Vintages Organic Cannabis Company Inc.	BC, Canada	100%
Vega Ventures LLC <sup>(1)</sup>	WA, United States	0%
Kool Gildea, Inc. <sup>(2)</sup>	CA, United States	0%

(1) *The Company controls a licensed cannabis company, Vega Ventures LLC ("Vega"), in Washington state by way of a contractual agreement. Until December 31, 2018, Vega is fully consolidated in the Financial Statements in accordance with IFRS 10.*

(2) *On January 30, 2018, an agreement (the "Agreement") was executed between the Company and Kool Gildea, Inc ("KG Inc."), a California non-profit mutual benefit corporation granting the Company the power to direct relevant activities of KG Inc, in particular the appointment and removal of governing members. As a result of this control, KG Inc is consolidated in the Financial Statements in accordance with IFRS 10.*

***Canada***

Rubicon Organics' wholly owned subsidiary, Vintages Organic Cannabis Company Inc., holds a cultivation license and a processing license from Health Canada pursuant to the Cannabis Act (the "**Cultivation & Processing Licenses**"). The Company's licensed facility is a wholly-owned 125,000 square foot high-tech greenhouse on a 20-acre property located in Delta, British Columbia (the "**Delta Facility**"). During 2018, the Delta Facility underwent a retro-fit to comply with Health Canada standards in preparation for licensing. The Company is currently optimizing this facility to produce approximately 11,000 kilograms per year of super-premium cannabis. The Delta Facility is under cultivation with first harvest anticipated in Q2 2019. The Company has also commenced the organic certification process with the Fraser Valley Organic Producers Association. Upon completion, Rubicon Organics will be one of only a few LPs in Canada to provide certified organic cannabis.

### ***Washington***

On November 20, 2014, the Company acquired 16.6 acres of industrial land located in Ferndale, Washington. In Q4 2017, the Company completed the construction of a 40,000 square foot high-tech, venlo-style greenhouse on the property capable of producing 4,500 kilograms of cannabis per year (the “**Washington Facility**”). The Company has leased the Washington Facility to an I-502 Tier 3-licensed tenant (the “**Washington Tenant**”) in compliance with the Washington State Liquor and Cannabis Board (the “**LCB**”). The Washington Facility is currently under cultivation with first harvest anticipated in Q2 2019.

The Company also licenses its Doctor & Crook Co.<sup>TM</sup> brand and is leasing a turnkey cannabis oil extraction facility to Vega, a third party I-502 state-licensed processor. In 2016, the Company entered an option agreement with Vega whereby the Company has the right to designate, subject to LCB approval, another owner of Vega. As described later in this MD&A, the Company has not exercised this option and effective January 1, 2019 the option agreement expired. While Vega is not a legal subsidiary, given the option agreement, it is consolidated for financial reporting purposes in Financial Statements. Vega operates a cannabis packaging and oil extraction facility in Bellingham, Washington and sells cannabis products across the State of Washington under the Company's wholly-owned brand, Doctor & Crook Co.<sup>TM</sup>.

### ***California***

Rubicon Organics sells 1964 Supply Co.<sup>TM</sup> branded packaging to a state-licensed operator who packages and distributes cannabis products to dispensaries throughout California.

The Company also owns 3-acres of land in Greenfield, California which it purchased in 2015 with the intention of constructing a greenhouse facility. With the Delta Facility and Washington Facility both under cultivation, the Company has decided to no longer pursue the construction of a new cultivation facility in California and listed the site for sale.

## **KEY DEVELOPMENTS IN THE YEAR ENDED DECEMBER 31, 2018**

### ***Highlights***

- **Completion of the initial retro-fit of the Delta Facility and submission of necessary requirements for Health Canada licensing in August 2018**
- **Commissioning of the Washington Facility and licensing by the state**
- **Equity financings totalling \$15.5 million, net of financing costs**
- **Listing of the Company under the Symbol ROMJ on the CSE**
- **Key additions to Senior Management Team**

### ***Canada***

On January 17, 2018, the Company received its Notice of Confirmation of Readiness associated with the Delta Facility. Throughout 2018 the Company underwent an initial retrofitting program (the “**Initial Retrofitting**”) to get the 125,000 square foot facility ready for its Health Canada license inspection. This Initial Retrofitting included readying the facility for cultivation, security systems and processing areas designed specifically for cannabis cultivation including trimming, drying and vault storage. In August 2018, on completion of the Initial Retrofitting, the Company submitted its video evidence package to Health Canada.

The Delta Facility has approximately 100,000 square feet of dedicated cultivation space organized into 26 bays and approximately 25,000 square feet of support and auxiliary services space which include areas for propagation, trimming, drying, commercial-scale oil extraction, shipping, storage and quality control facilities. The Company

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believes that its proven cultivation techniques, using proprietary know-how of key management members, will enable it to produce super-premium, medical-grade, certified organic cannabis at lower costs than other operators. Once complete, management expects the Delta Facility to utilize over 3,300 grow-lights and have an annual cultivation capacity of 11,000 kg of dried cannabis in its existing footprint.

Post October 17, 2018, the Cannabis Act came into force and the Company submitted a package of supplemental information to Health Canada in relation to the regulatory transition from the ACMPR to the Cannabis Act. On February 1, 2019, the Company's Delta Facility was awarded the cultivation and processing licenses from Health Canada pursuant to the Cannabis Act.

### ***Washington***

In 2018, the Company commissioned its newly constructed 40,000 square foot Washington Facility and leased the facility to the Washington Tenant. On November 13, 2018, the LCB granted the transfer of the Washington Tenant's tier 3 marijuana producer and processor license to the Washington Facility. In December 2018, the Washington Tenant commenced cultivation using Rubicon Organic's proprietary growing methodology to produce super-premium organic cannabis at low cost.

In 2018, Vega, the operating cannabis processor business sold Doctor & Crook Co.<sup>TM</sup> flower, pre-roll and oil products. Effective August 2018, Vega shifted its production and sales efforts from flower, pre-roll products and oil to solely oil, which generates stronger margins for Vega.

### ***California***

On January 30, 2018, the Company entered into an agreement with KG Inc. for total consideration of US\$620,000, which gives it the right to direct certain activities of KG Inc. In the first quarter of 2018 the Company assessed that it was appropriate to consolidate KG Inc. in the Financial Statements. In April 2018, KG Inc. obtained its temporary state license to distribute cannabis in California and was licensed by the Company to sell the 1964 Supply Co.<sup>TM</sup> brand. This state license expired August 15, 2018.

Effective August 14, 2018, Rubicon Organics entered into an arrangement with CMX Distribution, Inc. ("**CMX**") to package and distribute 1964 Supply Co.<sup>TM</sup> branded cannabis products under CMX's own license in California. As part of the arrangement, Rubicon Organics provides working capital and sells branded packaging to CMX. Upon expiration of KG Inc.'s distribution license, all cannabis product was transferred to CMX and the Company now holds no cannabis product in California. The cannabis product and working capital transferred to CMX form a working capital receivable owed to Rubicon Organics. California sales revenue shown in the Financial Statements for the year ended December 31, 2018, relates to cannabis product sales up until KG Inc.'s license expiry on August 15, 2018 and branded packaging sales to CMX thereafter.

In Q3 2018, there was a transition in California to a new licensing framework which resulted in a supply shortage of compliant, high quality flower. To adhere to its high-quality standards, Rubicon Organics made the decision to halt sales of some SKUs until quality product at appropriate prices could be obtained. Through the remainder of the year, it remained challenging to source flower that meets the Company's quality standards which resulted in lower than expected sales of 1964 Supply Co.<sup>TM</sup> product in Q4 2018.

### ***Corporate***

#### ***Financing:***

On January 25, 2018, 1,372,517 common shares of the Company (the "**RHI Common Shares**") were issued as part of the 2017 Private Placement (as defined in the Financial Statements) for total proceeds of US\$2,745,034. The 2017 Private Placement commenced in July 2017, where 4,862,372 RHI Common Shares were issued at a price of US\$2.00 per share for gross proceeds of US\$9,267,518, of which US\$6,442,484 closed in 2017. Certain early shareholders were eligible for a Super Subscription Right ("**SSR**") which entitled them to a 20% discount on the next financing greater than US\$1,000,000. On February 13, 2018, 62,500 RHI Common Shares were issued pursuant to the SSR

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price of US\$1.60 per RHI Common. Upon completion of the RTO, effective May 2018, all the RHI Common Shares and options were converted to Rubicon Organics common shares and options.

On July 5, 2018, Rubicon Organics completed a brokered private placement offering of 3,658,820 special warrants for aggregate gross proceeds of \$11,891,165 (the "**Offering**"). Each special warrant is exercisable, for no additional consideration and with no further action on the part of the holder, into units of Rubicon Organics. Each unit will consist of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one Common Share at an exercise price of \$4.20 per common share until July 5, 2020, subject to adjustment in certain events.

Concurrent with the above Offering, Rubicon Organics also completed a non-brokered private placement of a further 417,222 units of Rubicon Organics (each comprised of one common share and one-half of one warrant) at \$3.25 per unit for gross proceeds of \$1,355,972.

On October 2, 2018 the Company filed its final prospectus with the British Columbia Securities Commission ("**BCSC**") to qualify the distribution of 3,658,820 common shares and 1,829,398 common share purchase warrants underlying the special warrants issued as part of the Offering. Concurrent with the filing of the final prospectus, the Company also received conditional listing approval for its common shares from the CSE.

On October 9, 2018, pursuant to the special warrant indenture, 3,658,820 special warrants were automatically converted into 3,658,820 common shares and 1,829,398 warrants. Each warrant entitles the holder to purchase one common share at an exercise price of \$4.20 per common share until July 5, 2020.

On October 10, 2018, the Company's common shares commenced trading on the CSE under the symbol "ROMJ".

On December 21, 2018, two executive officers and one significant shareholder of the Company provided a total of \$250,000 in revolving credit lines to the Company at a rate 11% to be repaid on the earlier of completion of the next debt or equity financing or by March 31, 2019. As at December 31, 2018, the Company has drawn down \$150,000 of this facility.

*Stock Options:*

On January 21, 2018, the Company issued an aggregate of 52,000 stock options to employees. The options are exercisable at US\$2.00 per share for a period of five years expiring on January 21, 2023.

On July 31, 2018, Rubicon Organics issued an aggregate of 2,432,500 stock options to directors, employees, consultants and service providers. The options are exercisable at \$3.25 per share for a period of five years expiring on July 31, 2023. Rubicon Organics also issued 50,000 restricted share units to a consultant.

On September 24, 2018, Rubicon Organics issued an aggregate of 465,000 stock options to employees and service providers. The options are exercisable as follows: 115,000 stock options to employees at an exercise price \$3.25 per share for a period of five years expiring on September 24, 2023 and 350,000 stock options to service providers at an exercise price \$8.15 per share for a period of five years expiring on September 24, 2023.

On October 15, 2018, 115,000 stock options issued to a service provider and employees of the Company were cancelled.

*Senior Management Team:*

In 2018 the Company made two significant management appointments:

- *Tim Roberts, President – North America*

Tim Roberts is a seasoned executive with over 20 years of experience working across luxury, consumer packaged goods ("**CPG**") and food & beverage industries. Having worked across developed and developing markets, for multinational blue chip and entrepreneurial companies, Mr. Roberts is known for driving commercial rigor throughout

the P&L for maximum growth potential. Prior to joining Rubicon Organics, Mr. Roberts held senior leadership positions at Red Bull (South America, Caribbean, New Zealand), Diageo (Africa), Innocent Drinks (UK) and Proctor & Gamble (UK).

- *Melanie Ramsey, Vice-President Marketing and Innovation.*

Melanie Ramsey has over 20 years of innovation and brand building experience for globally renowned CPG companies. Having led teams across diverse operating environments in both developed and emerging markets, Ms. Ramsey has a proven track record of developing successful brands in a rapidly evolving industry. Prior to joining Rubicon Organics, Ms. Ramsey held senior leadership positions at Diageo, Beiersdorf and The Body Shop.

*Board of Directors:*

Effective November 1, 2018, Eric Savics resigned as a director of the Company for personal reasons.

### **DEVELOPMENTS SUBSEQUENT TO DECEMBER 31, 2018**

#### ***Canada***

On February 1, 2019, Health Canada awarded the Cultivation & Processing Licenses to the Delta Facility. As a result of receiving these licenses, the Company's entire 125,000 square foot facility is licensed for cultivation and processing. The Delta Facility has been specifically designed to utilize both industry leading LED technology and supplemental sunlight allowing Rubicon Organics to produce organic cannabis at scale at the highest possible quality.

The Cultivation & Processing Licenses allow the Company to bring in an extensive library of unique and proven genetic starting materials including unique stabilized cultivars previously developed in the medical cannabis market, which are expected to be instrumental in Rubicon Organic's breeding program for new strains to the Canadian market. The extensive breadth and scope of the genetic library is a further sign of Rubicon Organics' commitment to quality through the development and stabilization of disease-free and pest-resistant cannabis cultivars for future commercial production.

During the first part of the year and until the date of this MD&A, the Company continued to work to ramp-up the Delta Facility readying it for full scale commercial production. With the initial genetic starting materials on site, the first pilot scale harvest is planted and expected to be harvested in Q2 2019 with steady state commercial scale production harvests expected in Q3 2019.

#### ***Washington***

Effective January 1, 2019 the Company allowed its contractual agreement with Vega, the state licensed tenant who operated Rubicon's leased extraction laboratory in the state of Washington to expire. As a result, from January 1, 2019 the cannabis sales revenues, results of operations, and assets and liabilities of Vega will no longer be consolidated in the Financial Statements of the Company. The results of Vega's operations are included in the Washington segment in note 23. The Company will continue to earn revenue from Vega in the form of lease payments and packaging sales.

The Washington Tenant has completed its initial pilot scale cultivation trial, using Rubicon Organics' proprietary cultivation program, which has achieved the Company's quality standard. As a result, Rubicon Organics has been able to proceed with brand licensing discussions for the launch of its 1964 Supply Co.<sup>TM</sup> brand in Washington state. The Company's Washington facility is now fully planted out and bi-weekly crop harvesting has begun with the facility's first commercial scale harvest commencing in late April 2019.

#### ***California***

Rubicon Organic's brand promise of meticulously delivering quality and consistency from seed to sale is of critical importance throughout every aspect of the Company. With the award winning, 1964 Supply Co.<sup>TM</sup> cannabis brand in California, it was becoming increasingly difficult to maintain that premium promise. Many factors have contributed to this outcome, however, primarily it has become difficult to rely on third parties to deliver the end-to-end supply

chain, whilst also meeting our high standards. Consequently, the Company has made the decision to reduce its footprint and maintain a minimal presence in California until such time as the supply chain is able to meet its premium product expectations each and every time.

### ***Corporate***

On January 11, 2019 the Company drew down \$100,000 from the credit line provided by related parties. On January 21, 2019, the two executive officers and one significant shareholder of the Company increased their total revolving credit line to \$600,000. On February 28, 2019 these credit facilities were consolidated and increased up to a total of \$2,100,000 to be repaid on the earlier of completion of the next debt or equity financing or by April 30, 2019. The annual interest rate applicable to these loans is 11%. As at April 26, 2019, the Company had drawn down a total of \$1,359,196 from the amended and aggregated revolving credit line and on April 26, 2019 this full amount was rolled into the loans identified below and the credit line is therefore no longer outstanding.

On January 17, 2019, 57,500 stock options of the Company were forfeited and cancelled due to the departure of certain employees.

On January 25, 2019, Bryan Disher and David Donnan resigned as directors of the Company. Given that the necessary security clearances for them were taking additional time as they lived over 90 consecutive days outside of Canada in the last five years, they resigned as directors to facilitate the Company receiving its Cultivation & Processing Licenses in the timeliest manner. Mr. Disher and Mr. Donnan have both agreed to serve as senior advisors to the Company.

In March 2019, the Company was invited and gained membership in the Global Cannabis Partnership (the “GCP”). The GCP is a collaboration of leaders in the government-sanctioned adult-use recreational cannabis industry. With representation from government, private-sector and affiliate organizations, the GCP works to create international standards for the safe and responsible production, distribution and consumption of legal recreational cannabis.

On March 20, 2019, the Company completed a \$6,000,000 mortgage financing loan (the “Mortgage”) from Romspen Investment Corporation. On March 25, 2019, the Company drew \$5,000,000 under the Mortgage, \$2,964,830 was used to settle the original mortgage on the Delta Facility. The Mortgage is collateralized by the Delta Facility, bears interest at a rate of 12.0% per annum and will mature on September 30, 2020.

On April 25, 2019, the Company issued a loan with an aggregate principal amount of \$3,355,000. The Loans bear interest at a rate of 12.0% per annum (compounded quarterly) with a 1% financing fee paid upfront to the lenders. Accrued interest is payable after one year and the remaining interest and principal repayable at maturity on April 25, 2021. Included in the loan is \$1,655,000, provided by three related parties which includes the rollover of \$1,359,196 outstanding under the amended and aggregated revolving credit line (note 24(b)). The lenders were also issued 671,000 warrants with an exercise price of \$4.50 per common share that expire on April 25, 2022.

On April 23, 2019, the Company re-appointed Bryan Disher and David Donnan to the board of directors.

- *Bryan Disher, CPA, CA, ICD.D, Director*

Bryan Disher is a retired partner with PwC Canada and has 37 years of experience with the firm's practices in Canada, Australia and Ukraine. He has assisted companies with public offerings in Canada and the United States, acquisitions, financial reporting, regulatory compliance and governance. He served on the board of directors of PwC Canada for eight years, including a term as Chair. Mr. Disher has also served as a Director for Balmoral Resources Ltd. since March 2016 and for Lexington Bioscience, Inc. since December 2016 and Minds + Machines Group Limited since April 2019. Mr. Disher is a CPA, CA and holds a Bachelor of Business Administration from the University of New Brunswick.

- *David Donnan, P. Eng., MBA, Director*

Dave Donnan is a leader in the global food and agriculture sector with over 35 years of experience working in consumer products, technology and retail industries. He is a partner emeritus with A.T. Kearney and formerly led their global food and beverage team. His expertise in leading transformation projects in business and growth strategy, supply chain design has propelled him to the forefront at conferences where he addresses issues in global food supply,



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advanced technologies and economic trends in the food industry. Mr. Donnan holds a Bachelors of Science, Engineering from the University of Toronto and a Masters of Business Administration from the University of Toronto, Rotman School of Business.

### **OUTLOOK**

In 2019, the Company is moving its entire focus to the Delta Facility and Washington Facility now that they are licensed. Consequently, the Company has redeployed its resources and people, who have gained valuable operational experience, away from its pilot scale operations in Washington and California to its two primary assets.

**Canada:** The Company continues to ramp-up the fully-licensed Delta Facility which is expected to produce approximately 11,000 kilograms per year of super-premium cannabis when it reaches full scale commencing in 2020. The Delta Facility is currently under cultivation with its first pilot scale harvest anticipated in Q2 2019. In 2019, the Company intends to obtain the organic certification for its cannabis production, achieve its sales license from Health Canada and develop brands for the Canadian and export markets.

**Washington:** The Company plans to continue to lease the Washington Facility and license its brands to a state-licensed producer/processor whereby brand recognition can be achieved consistently on the west coast of North America.

**California:** The Company is currently evaluating its options with respect to how the 1964 Supply Co.™ brand may be distributed within the state.

**Corporate:** The Company intends to continue to evaluate and assess new cannabis market opportunities in its existing jurisdictions and beyond. To support these activities, the Company is evaluating its options with respect to securing additional financing whether through equity financing, debt or other alternative structures, including strategic alliances.

### **FISCAL 2018 HIGHLIGHTS**

The following table sets forth select financial information of the Company for the years ended December 31, 2018, 2017 and 2016:

	<b>As at December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
		<b>(Restated*)</b>	<b>(Restated*)</b>
Current assets	2,290,446	3,284,645	5,921,175
Total assets	28,328,663	21,918,468	13,080,613
Current liabilities	3,355,530	2,283,435	1,014,643
Non-current liabilities	2,911,820	2,946,722	—
Total liabilities	6,267,350	5,230,157	1,014,643
Shareholders' equity	22,061,313	16,688,311	12,065,969

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	<b>For the years ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
		<b>(Restated*)</b>	<b>(Restated*)</b>
Sales	2,028,945	884,364	314,375
Loss from operations	(13,368,457)	(5,607,199)	(4,424,787)
Net loss	(29,875,087)	(5,850,479)	(4,453,338)
Total comprehensive loss	(28,723,875)	(6,551,785)	(4,453,338)
Loss per share	(0.89)	(0.21)	(0.77)

*\*The Company changed its presentation currency to Canadian dollars (\$).*

There were no distributions or cash dividends per share.

The table below summarizes the Company's cash flows for the years ended December 31, 2018, 2017 and 2016:

	<b>For the years ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
		<b>(Restated*)</b>	<b>(Restated*)</b>
Net cash provided (used in)			
Operating activities	(9,296,742)	(4,195,378)	(3,340,665)
Investing activities	(9,080,813)	(9,020,551)	(3,594,977)
Financing activities	15,506,714	12,773,918	7,028,920
Effect of foreign exchange on cash	182,209	(268,692)	—
Increase (decrease) in cash	(2,688,631)	(710,703)	93,277
Cash beginning of the year	2,921,051	3,631,754	3,538,477
Cash end of the year	232,420	2,921,051	3,631,754

*\*The Company changed its presentation currency to Canadian dollars (\$).*

Throughout 2018, the Company has focused on its primary assets, being the retro-fit of its Delta Facility and commissioning its Washington Facility. In addition, the Company expanded its team in anticipation of the next phase of its business plan to cultivate cannabis, lease facilities and operate a publicly listed certified organic cannabis company bringing organic and other cannabis brands to market.

Through its relationships in Washington and California with State licensed producers and processors, the Company grew sales by \$1,144,581 to \$2,028,945 during the year ended December 31, 2018 as compared to the same period of the prior year. This was due to more consistent monthly sales in Washington, as well as the commencement of sales in the California market. Product sales by the licensed entities consist of packaged flower, pre-rolled joints, packaged CO2 oil and cannabis concentrates. The loss from operations was larger due to personnel onboarding for ramp-up to operations, marketing costs and other costs incurred in the business through the development of the assets, on-going development of the business plan, professional services fees associated with the Re-Organization, financing and public listing. Net loss is significantly increased due to the non-cash costs associated with the RTO of \$15,598,083.

The Rubicon Organics' operations continue to be funded through equity and debt financing. In January 2018, the Company closed the final tranche of a 2017 financing with cash inflows of US\$2,689,198. On July 5, 2018, the Company completed a brokered private placement of special warrants for aggregate gross proceeds of \$11,891,165 and a concurrent non-brokered private placement of units for gross proceeds of \$1,355,972.

**FINANCIAL REVIEW AND RESULTS OF OPERATIONS**

The following summary of financial information has been derived from the Financial Statements:

	<b>For the year ended</b>	
	<b>December 31 2018</b>	<b>December 31 2017</b>
	<b>(restated)*</b>	
<b>REVENUE</b>		
Sales	2,028,945	884,364
Cost of sales	(1,862,278)	(859,076)
Loss on inventory write-off	(219,075)	(325,698)
<b>Gross loss</b>	<b>(52,408)</b>	<b>(300,410)</b>
<b>EXPENSES</b>		
Consulting, salaries and wages	3,648,062	2,184,336
Share-based compensation	2,365,952	1,136,213
Professional fees	2,092,239	355,012
Sales and marketing expense	1,728,479	637,309
General and administrative expenses	1,228,798	312,737
License acquisition costs	732,808	—
Insurance	364,152	81,096
Investor relations	354,475	—
Travel expenses	286,703	152,113
Rent	229,760	300,492
Depreciation	184,751	103,655
Information technology expense	80,892	16,973
Property taxes	18,978	26,852
	13,316,049	5,306,789
<b>Net loss from operations</b>	<b>(13,368,457)</b>	<b>(5,607,199)</b>
<b>OTHER EXPENSES</b>		
Reverse takeover costs	15,598,083	—
Impairment of land	751,781	—
Interest on loans	135,067	64,345
Net realized foreign exchange	21,699	101,992
	16,506,630	166,336
<b>Loss before income tax</b>	<b>(29,875,087)</b>	<b>(5,773,535)</b>
Income tax expense	—	76,944
<b>Net loss</b>	<b>(29,875,087)</b>	<b>(5,850,479)</b>
<b>Other comprehensive income</b>		
Exchange rate differences on translation of foreign operations	1,151,212	(701,306)
<b>Total comprehensive loss</b>	<b>(28,723,875)</b>	<b>(6,551,785)</b>
Basic and diluted loss per share	(0.89)	(0.21)
Weighted average number of shares	33,644,977	27,597,645

*\*Restated for change in presentation currency (note 2 of the Financial Statements).*

### *Sales*

*Sales in Canada relate to project consulting services provided to a greenhouse construction firm for \$170,939 and lease revenue from the blueberry farm on the Delta Facility site.*

Sales in Washington relate to the sale of Doctor & Crook Co.<sup>TM</sup> branded cannabis product. As mentioned above in 'Description of the Business', in Q3 2018, the Company began to reduce sales of flower and pre-roll products, instead focusing production and sales efforts on oil which generates stronger margins for Vega.

Sales in California relate to the sale of 1964 Supply Co.<sup>TM</sup> branded cannabis products to distributors up until KG Inc.'s license expiry on August 15, 2018. From August 16, 2018, sales related exclusively to 1964 Supply Co.<sup>TM</sup> branded packaging sales to CMX. During Q3 2018, due to issues sourcing quality cannabis flower at reasonable prices, the Company was not able to fulfill all its orders in California. Through the latter part of 2018, as there was a transition to a new licensing framework which resulted in a shortage of supply of compliant, high quality flower in order to adhere to its high-quality standards, the Company made the decision to halt sales of some SKUs until appropriate priced and quality product could be obtained resulting in lower than forecast sales.

### *Cost of goods sold and loss on inventory write-off*

Cost of goods sold includes the cost of moisture loss and normal product loss from trimming which can average between 15-20% depending on the SKU (for example relative trim and processing time in boxed flower is lower than for production of pre-rolls) and the quality of flower input purchased. The Company's overall product loss is within this range for the year ended December 31, 2018. Further, in the packaging process, the Company packages slightly higher weight of flower product than the weight listed on the packaging to ensure customer satisfaction.

Inventory write-downs have occurred in 2018 and in 2017 due to regular moisture loss, product deterioration and unforeseen changes made by regulators on packaging requirements making existing packaging on hand obsolete. During the year ended December 31, 2018, \$219,075 (December 31, 2017: \$325,698) of inventory was written off.

In Washington during 2018, gross margin was negatively impacted by the sale of flower at discounted prices. This was to reduce flower inventory levels as the focus of the business switched to oil production. Overall gross margin for the twelve months ended December 31, 2018 was around 1% (excluding loss on inventory write-offs) averaging the sales from both flower and oil. Margins improved in the fourth quarter of 2018 with the oil focused operations.

In California, from July 2018 new state guidelines were enforced making it more difficult to source reasonably priced, high quality, compliant flower. The gross margins (excluding loss on inventory write-offs) were negative 3% with the flower sourcing issues coupled with the on-boarding of new distributors taking a percentage of revenue.

### *Operating expenses*

Operating expenses have increased year-over-year with the ramp-up of operations, including the build-out of teams operating in Canada, Washington and California. Consulting, salaries and wages increased significantly as expected with headcount increasing along with the growth of the business. The Company anticipates that salaries expenses will continue to increase through 2019 with the expansion of the corporate office and ramp-up of the Canadian operations. Non-cash share-based payments grew with the issuance of options for new and existing team members as well as certain external consultants.

Other significant costs include general and administrative costs and sales and marketing expenses which increased in line with the growth of the business and developments in all jurisdictions. During the year, the Company also recorded the non-cash costs associated with the acquisition of KG Inc., which are included as license acquisition costs in the Financial Statements. During the year, the corporate activities of the business including the Re-Organization, financing and public listing preparation meant that substantial professional fees were incurred.

*Other expenses*

Other expenses have increased significantly due to the non-cash costs associated with the RTO as well as the impairment charge on the California land that was purchased in 2016.

*Other comprehensive income (loss)*

The other comprehensive income (loss) with respect to foreign currency translation difference varies at each reporting date given the fluctuations between the United States Dollar and the Canadian Dollar. This foreign currency translation difference includes the impact of foreign exchange on intercompany loans whose retranslation is treated as equity (until the foreign operation is disposed of) and the translation of the foreign operation from its functional currency into Canadian Dollars. For the year ended December 31, 2018, the impact of the foreign currency translation differences was other comprehensive gain of \$1,151,212 (December 31, 2017 – loss of \$701,306).

## **FOURTH QUARTER**

During the three months ended December 31, 2018, the Company incurred a net loss of \$4,672,703 (December 31, 2017 - \$1,780,161) and other comprehensive loss of \$3,721,461 (December 31, 2017 - \$3,579,053). The 2018 fourth quarter loss had several large non-cash expenses including \$1,269,194 of share-based compensation and \$732,808 of license acquisition costs. The fourth quarter saw a large decrease in Washington state revenue given the shift to selling only oil to drive greater margin as well as a significant decline in California sales due to issues with sourcing consistent high-quality product.

## **SUMMARY OF QUARTERLY RESULTS**

The following table summarizes quarterly financial results for Rubicon Organics for the last eight quarters:

(C\$000's)	<b>2018</b>				<b>2017</b> <b>(Restated)</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Sales	84	754	674	517	261	239	198	187
Net Loss	(4,672)	(3,504)	(19,128)	(2,571)	(1,803)	(1,140)	(1,730)	(1,178)
Shares outstanding	36,811	33,153	32,735	32,735	31,000	28,177	27,561	26,507
Profit (loss) per share	(\$0.88)	(\$0.11)	(\$0.58)	(\$0.08)	(\$0.06)	(\$0.04)	(\$0.06)	(\$0.04)

The Company commenced sales in Washington in the third quarter of 2016 and they grew consistently until the fourth quarter of 2018 when Doctor & Crook Co.<sup>TM</sup> sales decreased as the Company shifted its focus away from flower and pre-roll products to oil to generate stronger margins. In the third quarter 2017, the Company commenced sales of 1964 Supply Co.<sup>TM</sup> branded packaging in California on a pilot scale. Both Washington and California operations were in and remain in pilot scale during this time. The net loss of the business has grown as the team and activity of the Company has grown with expansion of the California and Canadian teams in 2017, increased professional services being obtained and the impact of non-cash, share-based payments on the quarterly results. For a detailed review of 2018, refer to the results analysis under '*Financial Review and Results of Operations*'.

## **LIQUIDITY AND GOING CONCERN**

As at December 31, 2018, the Company had cash available of \$232,420 and negative working capital of \$1,065,084. In 2018, the Company's operations in Washington and California were in pilot scale in anticipation of the primary assets in Canada and Washington being licensed and under cultivation in 2019. Operating activities in the year ended December 31, 2018 used \$9,296,742 largely driven by the costs associated with reorganization, public listing and operating expenses as described above.

During the year ended December 31, 2018, the Company received \$15,506,714 in net proceeds from financings.

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The Company's historical operations and development have principally been funded through debt and the sale of securities. The Company has recently received its Cultivation & Processing licenses from Health Canada for its Delta Facility and beginning in December 2018 its Washington Facility has been leased to a state licensed tenant. The Company has not yet generated revenue from either of these primary assets but expects that crops will be harvested from both these facilities in 2019. As at December 31, 2018, the Company had not achieved profitable operations and had accumulated losses of \$42,066,019 since its inception.

The Financial Statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to obtain debt or equity financing until it achieves profitable operations. The Company believes that its current resources together with the debt financings completed to date in 2019 as well as further debt facilities anticipated to close in May will be sufficient to carry out the business plan to reach profitability. Notwithstanding this, under the right terms and in order to fund new growth opportunities, management intends to continue its efforts to secure external financing through the issuance of equity and debt as a source of financing the operations of the Company; however, there can be no certainty that such funds will be available on a timely basis and at terms acceptable to the Company, or at all. The conditions described above including the uncertainties related to attaining profitable operations may cast significant doubt upon the Company's ability to continue as a going concern. The Company is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offering in the cannabis industry and grow its revenue.

### **CAPITAL RESOURCES**

The Company has the following contractual obligations as at December 31, 2018:

(C\$000's)	Payments due by period				
<b>Contractual obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Mortgage <sup>1</sup>	4,405	235	705	470	2,996
Operating leases <sup>2</sup>	63	63	—	—	—
Capital lease	83	18	59	6	—
<b>Total contractual obligations</b>	<b>4,551</b>	<b>316</b>	<b>764</b>	<b>476</b>	<b>2,996</b>

<sup>1</sup> Relates to the Delta Facility Mortgage. Includes principle and interest obligations

<sup>2</sup> Operating leases relate to rental of Washington extraction facility, California distribution facility and office and the Vancouver head office.

With the Initial Retrofitting completed and the Cultivation & Processing Licenses received from Health Canada, the Delta Facility is currently ready to and has begun pilot scale cultivation. The remaining capital required to optimize the Delta Facility will be financed through operating cash flows, debt and equity sources.

### **OUTSTANDING SHARE DATA**

The Company's authorized share capital consists of an unlimited number of Rubicon Organics common shares without par value.

As at April 26, 2019 the Company has the following securities outstanding.

	<b>Number of units</b>	<b>Exercise Price</b>
Common Shares	36,811,425	
Stock Options:		
Expiring – December 17, 2020	1,375,000	US\$1.00
Expiring – March 21, 2021	24,000	US\$1.00
Expiring – June 30, 2021	90,000	US\$1.00
Expiring – August 17, 2021	500,000	US\$1.00
Expiring – January 12, 2022	80,000	US\$1.50
Expiring – July 31, 2022	270,000	US\$2.00
Expiring – November 15, 2022	5,000	US\$2.00
Expiring – January 21, 2023	32,000	US\$2.00
Expiring – July 31, 2023	2,380,000	\$3.25
Expiring – September 24, 2023	15,000	\$3.25
Expiring – September 24, 2023	350,000	\$8.15
Total Stock Options	5,121,000	
Broker Warrants	183,431	\$3.25
Warrants	2,038,009	\$4.20
Loan Warrants	1,671,000	\$4.50
<b>Fully Diluted Shares Outstanding</b>	<b>45,824,865</b>	

### **PROPOSED TRANSACTIONS**

There are no undisclosed proposed transactions that will materially affect the Company.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any material off-balance sheet arrangements.

### **RELATED PARTY TRANSACTIONS**

In May 2018, the Company obtained a US\$500,000 revolving credit line from shareholder Mr. Savics at a rate of 10% to be repaid on the earlier of the completion of the next equity financing or September 30, 2018. The Company drew down US\$400,000 of this facility to fund its working capital and it was fully repaid in July 2018.

In June 2018, the Company obtained \$800,000 in revolving credit lines from two executive officers of the Company, Mr. McConnell and Ms. Brodie, at a rate of 10% to be repaid on the earlier of completion of the next equity financing or September 30, 2018. The Company drew down \$500,000 from these facilities to fund its working capital. The officers were fully repaid in July 2018.

In December 2018, the Company obtained \$150,000 in revolving credit lines from two executive officers of the Company, Mr. McConnell and Ms. Brodie, at a rate of 11% to be repaid on the earlier of completion of the next equity financing or by March 31, 2019. As at December 31, 2018, this facility was fully drawn down to fund the Company's working capital. This credit facility was amended subsequent to December 31, 2018.

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In December 2018, the Company obtained a \$100,000 revolving credit line from shareholder Mr. Savics at a rate of 11% to be repaid on the earlier of the completion of the next equity financing or by March 31, 2019. As at December 31, 2018, no funds had been drawn down. This credit facility was amended subsequent to December 31, 2018.

As at December 31, 2018, \$181,360 (December 31, 2017: \$135,132) was owed to Mr. McConnell and Ms. Brodie for expenses paid on behalf of the Company in the normal course of operations. Included in accounts payable at December 31, 2018 is \$103,126 (December 31, 2017: \$43,907) in accrued salaries owing to Mr. McConnell, Ms. Brodie and Mr. Doig.

***Compensation of key management personnel***

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and board of directors. Key management personnel compensation was comprised of:

	<b>December 31, 2018</b>	<b>December 31, 2017 (restated)</b>
	<b>\$</b>	<b>\$</b>
Salaries	681,614	539,435
Share based compensation	937,224	678,546
	<b>1,618,838</b>	<b>1,217,981</b>

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Management considers the policies described in note 3 of the Financial Statements to be the most critical in understanding the judgments that are involved in the preparation of the Company's Financial Statements and the uncertainties that could impact its results of operations, financial condition and cash flows.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

***Functional and Presentation Currency:***

Effective January 1, 2018, the Company changed its presentation currency from United States Dollars to Canadian Dollars. The change in presentation currency is to better reflect the Company's business activities and to improve comparability of the Company's financial results with other publicly traded cannabis companies.

In making the change to the Canadian Dollar, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") and has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency.

Following this change in accounting policy, the comparative balances in the Financial Statements are represented in \$ using the procedures outlined below:

- All assets and liabilities have been translated from their functional currency into the new \$ presentation currency using the applicable closing exchange rate;
- Income and expenses for each statement of comprehensive loss presented have been translated at average exchange rates prevailing during each reporting period;
- Equity balances have been retrospectively translated at historical rates prevailing during the period incurred and
- All resulting exchange differences have been recognized in other comprehensive income.



The functional currency of Rubicon Organics and West Coast Marketing Corporation has changed from US\$ to \$ effective from July 1, 2018. The change in functional currency was determined based on the following factors:

- Restructuring of the Company to have a Canadian parent company which raised funds in Canadian dollars;
- Significant increase of Canadian operations and therefore, increased Canadian dollar spend
- Increase in Canadian dollar salaries from increased hiring in the corporate function.

This change is accounted for prospectively from this date.

During the year ended December 31, 2018 the following standards came into effect:

- IFRS 9 – *Financial Instruments* (“**IFRS 9**”)

The Company has adopted IFRS 9 effective January 1, 2018. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“**IAS 39**”), and all previous versions of IFRS 9. It eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition, financial assets measured at amortized cost, or financial assets measured at fair value.

The Company has applied IFRS 9 retrospectively and continues to hold all loans and other financial liabilities at amortized cost and cash and investments at fair value through profit or loss (“**FVTPL**”). The Company will no longer be able to apply the cost exception for certain investments previously permitted under IAS 39. The Company has elected not to restate prior period numbers.

<b>Financial Instruments</b>	<b>Classification under IAS 39</b>	<b>Measurement under IAS 39</b>	<b>Measurement under IFRS 9</b>
Accounts receivable	Loans and receivables	Amortized cost	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost	Amortized cost
Investments	Other financial assets	Available for sale	FVTPL

The Company’s investment in Thirty Three Health is held at fair value using level 3 inputs under IFRS 13 – *Fair Value Measurement*. Management has performed an assessment of this change in policy and determined there is no financial impact on the Company’s financial statements for the year ended December 31, 2018 in respect of IFRS 9.

- IFRS 15 – *Revenue from Contracts with Customers* (“**IFRS 15**”)

IFRS 15 is effective for the Company for the year ended December 31, 2018, and replaces IAS 11, Construction Contracts; IAS 18, Revenue; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and SIC 31, Revenue – Barter Transactions Involving Advertising Services. The core principle of the new standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services.

The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds in respect of collectability of income have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company has elected to apply the modified retrospective approach which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. With no change to the amount or timing of revenue recognized, no adjustment is required under this approach.

The Company disaggregates revenue from contracts with customers according to the geographic location of the revenue.

- IFRS 2 – *Share-based payments* (“**IFRS 2**”)

IFRS 2 has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The standard requires entities to recognize all share-based payment awards in the financial statements based on fair value when the goods and services are received, which is determined at the grant date for share-based payments issued to employees. The Company does not have any cash-settled share-based payment transactions, nor share-based payment transactions with cash alternatives. For equity-settled awards, the Company measures the fair value of goods or services received and recognizes a corresponding increase in equity. If the Company cannot reliably estimate the fair value of the goods or services received, the Company must measure its fair value indirectly using the fair value of the equity instruments granted.

This new standard does not bring about any changes to the financial position or performance of the Company other than additional disclosure.

The following standards have been issued, but are not yet effective:

- IFRS 16 – *Leases* (“**IFRS 16**”)

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or, alternatively, not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

Management has performed an assessment of all leases and preliminarily determined that there will be no significant changes to the financial position and financial performance when this standard is applied other than additional disclosure. All leases of the Company have lease terms of 12 months or less with no explicit options to extend.

## **FINANCIAL INSTRUMENTS**

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash	FVTPL
Accounts receivable and other assets	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to related party	Amortized cost
Mortgage	Amortized cost
Investment	FVTPL

The fair values of accounts receivable, other assets, amounts due from related parties, accounts payable and accrued liabilities, and amounts due to a related party approximate their carrying amounts due to the short-term maturity of those instruments.

The mortgage was incurred to fund the purchase of Bridge View in 2017. During the year ended December 31, 2018 the Company incurred interest on the loan of \$135,067 (December 31, 2017 – \$26,689). Principle payments for the mortgage started in June 2018 and at December 31, 2018 totalled \$53,278.

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	<b>Total \$</b>
Balance, December 31, 2017	3,000,000
Principle payments	(53,278)
<b>Balance, December 31, 2018</b>	<b>2,946,722</b>
Less: current portion	100,390
<b>Long term</b>	<b>2,846,332</b>

The Company is exposed in varying degrees to a variety of financial instrument related risks. The main types of risk are credit risk, liquidity risk and market risk. These risks arise throughout the normal course of operations and all transactions are undertaken as a going concern. The type of risk exposure and the way in which such exposure is managed is provided as follows:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk primarily associated with cash and accounts receivable. The carrying amount of this asset included on the Financial Statements represents the maximum credit exposure. The Company limits exposure to credit risk by maintaining its cash with institutions of high credit worthiness. The Company's largest receivable balance is with CMX and management is in the process of assessing the recoverability of this receivable.

Institution	\$
National banks	147,756
Money management service	84,664

  

\$	Total	0-30 Days	31- 60 Days	61- 90 Days	90 + Days
Trade receivables	73,023	6,821	60,952	-	5,250

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash. The Company manages its capital in order to meet short term business requirements, after taking into account cash flows, capital expenditures and cash holdings. The Company believes that these sources should be sufficient to cover the likely short-term requirements. In the long-term, the Company may have to issue additional common shares to ensure that there is cash available for its programs.

All current liabilities, being accounts payable and accrued liabilities, taxation payable, the current portion of the mortgage payable and amounts payable to related parties, are payable within a 90-day period and are to be funded from cash. Long term liabilities consist of the mortgage payable.

**Interest rate risk**

Interest rate risk for the Company is that interest rate fluctuations might impair the Company's viability. Interest rate changes have the ability to impact our mortgage repayments. A 1% change in interest rate would result in a \$30,000 change in interest payments per annum.

**Foreign exchange risk**

The Company and its subsidiaries conduct business in foreign countries, with certain transactions denominated in currencies other than the functional currency of the Company (Euros and United States dollars) or one of its subsidiaries conducting the business. Foreign currency transactions are exposed to currency risk due to fluctuations in foreign exchange rates.

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For the year ended December 31, 2018 the Company was exposed to currency risk through the following assets and liabilities denominated in US\$:

	<b>December 31, 2018</b>	<b>December 31, 2017 (Restated)</b>
Cash	97,863	2,292,378
Accounts payable and accrued liabilities	(610,936)	(1,145,057)
	<b>US\$ (513,073)</b>	<b>US\$ (1,147,321)</b>

For the year ended December 31, 2018 the Company was exposed to currency risk through the following assets and liabilities denominated in Euros ("EUR"):

	<b>December 31, 2018</b>	<b>December 31, 2017 (Restated)</b>
Cash	—	—
Accounts payable and accrued liabilities	(249)	(87,937)
	<b>EUR (249)</b>	<b>EUR (87,937)</b>

A 10% change of the US\$ against the \$ at December 31, 2018 would have decreased net loss by \$69,993 (December 31, 2017: \$143,931) or increased net loss by \$69,993 (December 31, 2017: \$143,931).

#### **Fair value**

The Company classifies its fair value measurements with a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 13.

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity. As required by IFRS 13, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Cash is classified as a Level 1 financial instrument. Accounts receivables, the mortgage, due from related party, and accounts payable and accrued liabilities are classified as Level 2 financial instruments and are carried at amortized costs. The Company's investment in Thirty Three Health was measured at fair value based on unobservable inputs and was considered a level 3 financial instrument.

There were no transfers within the fair value hierarchy during the year ended December 31, 2018.

#### *Investment in Thirty Three Health*

On March 15, 2017, the Company entered into a simple agreement for future equity ("SAFE") with Thirty Three Health. As at December 31, 2018, the SAFE was valued at \$129,450 (December 31, 2017: \$125,450). The Company is entitled to certain shares of Thirty Three Health's capital stock, subject to certain events. Thirty Three Health owns the California brand and operations for cannabis chocolatier brand Défoncé.

In the event that Thirty Three Health has an equity financing before the expiration of this instrument, the Company will automatically be awarded equity from that round. In the event that Thirty Three Health has a liquidity or dissolution event the Company will be paid out at least the value of its investment. The instrument will expire and terminate upon either (i) the issuance of stock to the Company or (ii) the payment of amounts due to the Company. This investment is carried at its fair value under IFRS 9 using level 3 inputs permitted under IFRS 13. As at September 30, 2018, this SAFE had not been subject to any of the events described above and therefore is still in place.

The Company's investment in Thirty Three Health was measured at fair value based on unobservable inputs and was considered a level 3 financial instrument. As at December 31, 2018, the SAFE was valued at \$129,450 (December 31, 2017: \$125,450). Other than with respect to the investment in Thirty-Three Health, it has been determined that no significant assumptions have been made in determining the fair value of financial instruments at December 31, 2018.

## **CAPITAL MANAGEMENT**

It is management's objective to safeguard its capital in order that it will be able to continue as a going concern in the best interests of all stakeholders.

The Company currently has limited sources of revenues and as such the Company is dependent upon external financings and debt to fund activities. In order to finance future projects and to pay for administrative activities, the Company will spend its existing working capital and raise additional funds through debt, equity, or a combination thereof as needed until it reaches profitable operations. Management reviews its capital management practices on an ongoing basis and believes that their approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management program during the year ended December 31, 2018.

## **RISKS AND UNCERTAINTIES**

This section discusses factors relating to the business of the Company that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and ROI may face additional risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to ROI's business have the potential to influence its operations in a materially adverse manner. Many factors could cause the Company's results of operations, performance and financial condition to differ materially from those expressed or implied by the forward-looking statements and forward-looking information contained in this MD&A.

### **Risks Generally Related to the Company**

***The Company is a development stage company with little operating history, a history of losses and the Company cannot assure profitability.***

The Company has been incurring operating losses and cash flow deficits since the inception of such operations, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the relaxing of state and local prohibitions on the cannabis industry in California, Washington and nationwide in Canada. The Company's lack of operating history makes it difficult for investors to evaluate the Company's prospects for success. Prospective investors should consider the risks and difficulties the Company might encounter, especially given the Company's lack of an operating history, there is no assurance that the Company will be successful, and the likelihood of success must be considered in light of its relatively early stage of operations.

***Uncertainty about the Company's ability to continue as a going concern.***

The Company is in the development stage and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offerings in the cannabis industry and grow its revenue. The Company's ability to continue as a going concern is dependent upon its ability in the future to grow its revenue and achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at terms acceptable to the Company, or at all. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

***There is no assurance that the Company will turn profits, generate immediate revenues, or pay dividends.***

There is no assurance as to whether the Company will be profitable, earn revenues, or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future

dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States 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.

***The Company had negative cash flow for the financial year ended December 31, 2018 and December 31, 2017.***

The Company had negative operating cash flow for the financial year ended December 31, 2018 and the year ended December 31, 2017. To the extent that the Company has negative operating cash flow in future periods, it may need to allocate a portion of its cash reserves to fund such negative cash flow. The Company may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that the Company will be able to generate a positive cash flow from its operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favourable to the Company.

***The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.***

The Company's actual financial position and results of operations may differ materially from management's expectations. The Company has experienced some changes in its operating plans and certain delays in the timing of its plans. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

***The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations.***

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be more costly than expected, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, including unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the common shares may significantly decrease.

***Refinancing debt on the Delta Facility***

The Company currently has approximately \$8.355 million of debt outstanding secured against the Delta Facility. The debt matures between September 2020 and April 2021 and must be repaid by a combination of operating cash flows and refinancing. Upon maturity of the debt, there can be no certainty that such refinancing will be available at terms acceptable to the Company, or at all.

***Facility Construction and Expansion***

The optimization of the Delta Facility is subject to various potential problems and uncertainties and such optimization and construction may be delayed or adversely affected by a number of factors beyond Rubicon Organics' control.

These uncertainties include the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by suppliers, difficulties in integrating new equipment with existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, and insufficient funding or other resource constraints. The actual cost of the optimization may exceed the amount budgeted. As the result of construction delays, cost overruns, changes in market circumstances or other factors, Rubicon Organics may not be able to achieve the intended economic benefits from the optimization of the Delta Facility, which in turn may affect Rubicon Organics' business, prospects, financial condition and results of operations. In addition, any future expansion of the Delta Facility is subject to Health Canada regulatory approvals. The delay or denial of such approvals may have a material adverse impact on the business of Rubicon Organics and may result in Rubicon Organics not meeting anticipated or future demand when it arises.

***There are factors which may prevent the Company from the realization of growth targets.***

The Company is currently in the stage of expansion from early development. There is a risk that business objectives 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:

- reliance on the Delta Facility as the sole facility for its Canadian operations;
- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- operational inefficiencies;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions or storms.

***Reliance on Licenses***

The continuation of Rubicon Organics' business of growing, storing and distributing medical and recreational cannabis is dependent on the good standing of all licenses required to engage in such activities and upon adhering to all regulatory requirements related to such activities. Vintages Organic Cannabis Company Inc., a wholly-owned subsidiary of Rubicon Organics, was granted the Cultivation & Processing licenses from Health Canada on February 1, 2019, pursuant to the Cannabis Act.

The licenses are valid until February 1, 2022, at which point, Vintages Organic Cannabis Company Inc. must apply to Health Canada for a renewal. Failure to comply with the requirements of the licenses or any failure to maintain the licenses would have a material adverse impact on the business, financial condition and operating results of Rubicon Organics. Although Rubicon Organics believes it will meet the requirements of the Cannabis Act for future extensions or renewal of the licenses, there can be no guarantee that Health Canada will extend or renew the licenses or that, if extended or renewed, the licenses will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the licenses, or should it renew the licenses on different terms, the business, financial condition and results of operations of Rubicon Organics would be materially and adversely affected.

***The Company is subject to changes in Canadian laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations.***

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations. The Company endeavours to comply with all relevant laws, regulations and guidelines.

On October 17, 2018, the Canadian Federal Government enacted the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use. The legislation permits home cultivation, potentially easing barriers to entry into a Canadian recreational cannabis market and implements restrictions on advertising and branding. It is possible that such factors could significantly adversely affect the future business, financial condition and results of operations of the Company.

***The Company may not be able to develop its products, which could prevent it from ever becoming profitable.***

If the Company cannot successfully develop, manufacture and distribute its products, or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop market-ready commercial products at acceptable costs, which would adversely affect the Company's ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in cultivation and manufacturing processes would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition.

#### ***Organic Certification and Products***

The Company believes that organic products will command a higher price in the marketplace and intends to complete an organic certification process with FVOPA, a leading organization in organic certification in Canada. FVOPA provides inspection and certification for sustainable development and maintains organic standards on products, systems and services. The certification process generally includes validation of inputs, production methods and preparation procedures in accordance with Canadian organic product regulation. Organic certification aims to guarantee the organic integrity of products throughout the entire production chain. Although management believes that it has all necessary elements, including the required technical expertise, to achieve the organic certification, no assurance can be provided that the Company will obtain and retain the organic certification from FVOPA. Failure to meet or maintain the organic standards may have an adverse effect on the market price of the Company's products.

***The Company may be unable to adequately protect its proprietary and intellectual property rights, particularly in the United States***

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names, and its ability to register its intellectual property under United States federal and state law is impaired by the illegality of cannabis under United States federal law;
- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products;
- the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;



- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages;
- the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products similar to or competitive with, or superior to those the Company develops;
- another party may obtain a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

***The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.***

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions or under federal law and the specifics of which may be unfamiliar to or misunderstood by courts, the Company may face additional difficulties in defending its intellectual property rights.

***The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.***

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the cultivation, processing, management, transportation, storage, sale and disposal of 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 Rubicon Organics' management, the Company is currently in compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations and the financial condition of the Company.

On June 7, 2018, Bill C-45 passed the third reading in the Senate with a number of amendments to the language of the Act. On June 21, 2018, the Government of Canada announced that Bill C-45 received Royal Assent. The Act came into force on October 17, 2018.

On July 11, 2018, the regulations made pursuant to the Act were published. The regulations under the Act contemplate various licenses including cultivation, processing, analytical testing, sale (including medical sales) and scientific research. The regulations introduced the nursery and made outdoor cultivation permissible. Finally, the requirements for packaging and labelling of products for both medical and non0medical consumption were explicitly set forth in the regulations. The impact of changes in the regulatory enforcement by Health Canada under the Act and its regulations, particularly in respect of product packaging, labelling marketing, advertising and promotions and product approvals and its impact on the Company's business are unknown at this time, given that the Act and Cannabis Regulations only recently came into effect.

Prior to the Act coming into force, only the sales of medical cannabis were legal in Canada. The medical cannabis regime was regulated federally pursuant to the CDSA and the ACMPR. The ACMPR regulated the production, sale and distribution of cannabis and cannabis oil extracts for medical purposes in Canada. The ACMPR provided for three possible options for Canadian residents who have been authorized by their health care practitioner to access cannabis for medical purposes:

- i. Access quality-controlled cannabis by registering with a LP;
- ii. Register with Health Canada to produce a limited amount of cannabis for their own medical purposes (starting materials (including cannabis seeds and plants) must be purchased from a LP); or
- iii. They can designate someone else who is registered with Health Canada to produce cannabis on their behalf (starting materials (including cannabis seeds and plants) must be purchased from a LP).

On July 11, 2018, the Cannabis Regulations were released by the government which, among other things, set forth the regulatory structure and process for the following:

- i. Licenses, permits and authorizations;
- ii. Security clearances;
- iii. Cannabis tracking system;
- iv. Cannabis products;
- v. Packaging and labelling;
- vi. Cannabis for medical purposes; and
- vii. Drugs containing cannabis.

***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 more strict 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 and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government environmental 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 business activities or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable environmental 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 due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

***The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or be more mature as a business.***

An increase in the companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may be better capitalized, have a longer operating history, have more expertise and may be able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition. In addition, despite Canadian federal and United States state-level legalization of marijuana, illicit or "black-market" operations remain abundant and present substantial competition to the Company. In particular, illicit operations, despite being largely clandestine, are not required to comply with the extensive regulations that the Company must comply with to conduct business, and accordingly may have significantly lower costs of operation.

***If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.***

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's CEO, technical experts and sales personnel. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

News media have reported that United States immigration authorities have increased scrutiny of Canadian citizens who are crossing the United States–Canada border with respect to persons involved in cannabis businesses in the United States. There have been a number of Canadians barred from entering the United States as a result of an investment in or act related to United States cannabis businesses. In some cases, entry has been barred for extended periods of time. Company employees traveling from Canada to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to Company employees, then this may reduce our ability to effectively manage our business in the United States. The Company has mitigated the impact of this risk by employing Canadian citizens to work in Canada and United States citizens to work the United States, minimizing the need for cross border travel. In addition, the Company's CEO is a dual citizen of Canada and United States, which reduces the risk of being barred from entering the country.

Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of our employees.

***The size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.***

Because the cannabis industry is in a nascent stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results.

***The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.***

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability.

***The Company continues to sell securities for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.***

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of common shares. The Company's articles permit the issuance of an unlimited number of common shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional common shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. 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. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

***The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there are additional difficulties and complexities associated with such insurance coverage.***

The Company believes that it and its subsidiaries currently have insurance coverage with respect to workers' compensation, general liability, directors' and officers' insurance, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company will be able to obtain insurance coverage at a reasonable cost or fully utilize such insurance coverage, if necessary.

***The cultivation of cannabis includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.***

The Company's future business involves the growing of marijuana, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that any such growing will be completed indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

***The cultivation of cannabis involves a reliance on third party transportation which could result in supply delays, reliability of delivery and other related risks.***

In order for customers of the Company to receive their product, the Company will rely on third party transportation services. This can cause logistical problems with and delays in patients obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance.

Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach could impact the Company's future ability to continue operating under its licenses or the prospect of renewing its licenses.

***The Company may be subject to product recalls for product defects self-imposed or imposed by regulators.***

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 labelling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company 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 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 significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***The Company is reliant on key inputs, such as water and utilities, and any interruption of these services could have a material adverse effect on the Company's finances and operation results.***

The Company's 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 the Company. 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 the Company.

***The expansion of the medical cannabis industry may require new clinical research into effective medical therapies, when such research has been restricted in the United States and is new to Canada.***

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in its early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical 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 and results of operations.

***Under California, Washington and Canadian regulations, a licensed producer of cannabis has restrictions on the type and form of marketing it can undertake which could materially impact sales performance.***

The development of the Company's future business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada or United States regulatory authorities. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. The Company has agreements for brand licensing, consulting and facilities leases with both licensed processors and producers in Washington and California. The regulatory environment in California and Washington may in the future also restrict the type and form of marketing which could limit the Company's ability to compete for market share. 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 operating results could be adversely affected.

***The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.***

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 is not always 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 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 and results of operations.

***The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks.***

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's 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, 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. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation 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.

***The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.***

Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. 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.

***The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest.***

The Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. 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 companies 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. If 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.

***Changes in the public's perception of medical and/or adult-use cannabis could increase future regulation.***

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical 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, financial condition and results of operations.

***In certain circumstances, the Company's reputation could be damaged.***

Damage to the Company's reputation can be the result of 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 regarding the Company and its 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. Reputation 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.

**Risk Factors Specifically Related to the United States Regulatory System**

***Cannabis is Illegal Under Federal Law***

The Company has agreements for brand licensing, consulting services and facilities leasing with both licensed processors and producers in Washington and California. Similar business transactions are expected in other states that have legalized cannabis for medical and recreational use. The Company also expects to directly engage in the licensed production, processing and sale of marijuana where permitted by state law. Although these activities are permitted by state law in the states where the Company is currently engaged and intends to engage in business, directly or with agreements with licensed entities, these activities remain illegal under federal law. Marijuana remains a Schedule I controlled substance under the federal Controlled Substances Act ("CSA"), and the penalties for violating the federal CSA are very serious and, depending on the quantity of marijuana involved, may include criminal penalties of up to twenty (20) years in prison and/or a fine of up to U.S.\$2,000,000. In addition, the federal government can seize and

seek the civil forfeiture of the real or personal property used to facilitate the sale of marijuana as well as the money or other proceeds received in connection with such sale.

***Some of the Company's current and planned business activities are illegal under United States federal law.***

Although certain states and territories of the United States authorize medical or recreational 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 under federal law under any and all circumstances under the CSA. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

Because the possession and use of cannabis and any related drug paraphernalia is illegal under United States federal law, the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it intends to provide. The Company intends to directly manufacture, distribute and sell cannabis through its subsidiaries. As a result, United States law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against the Company, including, but not limited, a claim regarding the Company's possession, use and sale of cannabis, and aiding and abetting another's criminal activities. The federal aiding and abetting statute provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result of such an action, the Company may be forced to cease operations and its investors could lose their entire investment. Such an action would have a material negative effect on the Company's business and operations. The enforcement of relevant United States federal laws is a significant risk.

***Changes to state or local laws and regulations could affect the Company's business.***

Cannabis is a new industry subject to extensive regulation at every level of government. In particular, state and local regulatory regimes with respect to cannabis are frequently changed, amended, adjusted, or otherwise modified to respond to varied pressures from stakeholders, regulators and the public. Such changes may require the Company to incur substantial legal and compliance costs and/or materially alter the Company's business plan.

Therefore, although the Company believes that its United States operations are currently carried out in accordance with all applicable rules and regulations of the states in which it does business, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to produce, process or sell cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis, or more stringent implementation thereof could have a substantially adverse impact on the Company.

***There is uncertainty of existing protection from United States federal prosecution.***

Until September 2018, the DOJ is prohibited from expending any funds for the prosecution of medical cannabis businesses operating in compliance with state and local laws pursuant to the Rohrabacher-Leahy Amendment ("RBA"). If the RBA or an equivalent thereof is not successfully amended to the next or any subsequent federal omnibus spending bill, the protection afforded thereby to United States medical cannabis businesses would lapse, and such businesses would be more at risk to prosecution under federal law. There is a possibility that all amendments may be banned from federal omnibus spending bills, and if this occurs and the substantive provisions of the RBA are not included in the base federal omnibus spending bill or other law, these protections would lapse. The Company regularly monitors the regulatory activities of United States Congress in respect to cannabis.

***There is uncertainty surrounding the Trump Administration and Attorney General William Barr and their influence and policies in opposition to the cannabis industry as a whole.***

There is significant uncertainty surrounding the policies of President Donald Trump and the Trump Administration in respect of the regulation of recreational and medical cannabis. Attorney General Barr pledged during his Senate confirmation hearing that he would not allocate federal Justice Department resources to interfere with, or otherwise prosecute, marijuana companies who have complied with state law in reliance on the Cole Memorandum. Attorney



General Barr is not committing to formally replace the Cole Memorandum, which generally directed federal prosecutors not to interfere with state marijuana laws. He has stated he has not closely considered or determined whether further administrative guidance would be appropriate following the Cole Memorandum and the January 2018 memorandum from Attorney General Sessions, or what such guidance might look at.

The impact that this lack of uniformity between state and federal authorities could have on individual state cannabis markets and the businesses that operate within them is unclear and the enforcement of relevant federal laws is a significant risk.

There is no certainty as to how the DOJ, Federal Bureau of Investigation and other government agencies will handle cannabis matters in the future. There can be no assurances that the Trump Administration will not change the current enforcement policy and decide to strongly enforce the federal laws. The Company regularly monitors the activities of the current administration for evidence that it will contravene the RBA enacted by United States Congress.

***The cannabis industry is a new industry that may not succeed.***

Should the federal government in the United States begin prosecuting those dealing in medical or other cannabis under applicable law, there may not be any market for the Company's products and services in the United States.

Cannabis is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit the Company to succeed. The Company is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures.

***The Company's business operations may come under additional scrutiny by governmental and non-governmental agencies.***

The cannabis industry may come under the scrutiny or further scrutiny by the United States Food and Drug Administration, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal, the State of California, the State of Washington or other 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 Company's 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 ability to raise additional capital, which could reduce, delay or eliminate any return on investment in the Company.

***Due to the classification of cannabis as a Schedule I controlled substance under the CSA, the property of the Company may be seized, and the operations of the Company shut down.***

The United States federal government, through both the DEA and United States Internal Revenue Service (the "IRS"), has the right to actively investigate, audit and shut-down marijuana growing facilities, processors and retailers. The United States federal government may also attempt to seize the Company's property. Any action taken by the DEA and/or the IRS to interfere with, seize, or shut down the Company's operations will have a material adverse effect on the Company's business, operating results and financial condition.

***The Company is reliant on third parties who hold state licenses to distribute cannabis products in California and will be reliant on its ability to secure licenses in the State of California under MAUCRSA in the future.***

The Company's ability to grow, store and sell cannabis in California is dependent on maintaining and securing licenses with the State of California directly or with other entities by way of agreement. Failure to comply with the requirements of the regulators overseeing the MAUCRSA would have a material adverse impact on the future business, financial condition and operating results of the Company. KG Inc's temporary state distribution license expired on August 15, 2018 and there can be no guarantees the State of California will issue the necessary licenses to the Company in the future. Effective August 14, 2018 the Company signed an agreement with CMX under

substantially similar terms to its former agreement with KG Inc. The Company continues to seek opportunities in the short-term to license the brand to other state-licensed entities to continue routes to market, including with existing distribution partners, and expects to have a long-term solution within the next few months.

***The Company's operations in the United States cannabis market may become the subject of heightened scrutiny.***

The Company's operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS, refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. On February 8, 2018, CDS signed the CDS MOU with the Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange (collectively, the "**Exchanges**"). The CDS MOU outlines CDS' and the Exchanges' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the Exchanges and CDS. The CDS 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 currently is no CDS ban on the clearing of securities of issuers with marijuana-related activities in the United States. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of common shares to make trades. In particular, the common shares would become highly illiquid as investors would have no ability to affect a trade of common shares through the facilities of a stock exchange.

***Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.***

The Company's business activities rely on newly established and/or developing laws and regulations in multiple jurisdictions, including in California and Washington. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes, including changes in the interpretation and/or administration of applicable regulatory requirements may adversely affect the Company's profitability or cause it to cease operations entirely. Any determination that the Company's business fails to comply with Washington's or California's cannabis regulations would require the Company either to significantly change or terminate its business activities, which would have a material adverse effect on the Company's business. The cannabis industry may come under the scrutiny or further scrutiny by the United States Food and Drug Administration, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Authority or other federal, California, Washington or other applicable state or non-governmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or non-medical 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 Company's 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 ability to raise additional capital, create a public trading market in the United States for securities of the Company or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Company.

***Applicable legislation imposes state taxes on California's cannabis industry and authorizes local jurisdictions to assess taxes and fees on such activities. There currently is no way to predict the tax regime that will apply when (and if) such legislation becomes effective.***

MAUCRSA imposes an excise tax to be paid by the end-consumer and the dispensary; and a cultivation tax to be paid by cultivators on all harvested cannabis that enters the commercial market, in addition to any sales and use tax at the state and local level. The tax regime that is applicable to the Company's business, regardless of where the Company is in its development, will have a direct impact on its operations and profitability and, in extreme cases, may make pursuing the Company's expected business plan a futile endeavor. The Company is aware of and planning for the proposed tax structure imposed under MAUCRSA as part of its development plans in California.

***The Company may incur significant tax liabilities if the IRS continues to determine that certain expenses of cannabis businesses are not permitted tax deductions under section 280E of the Tax Code***

Section 280E of the Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (including cannabis) which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the United States that are authorized under 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 include the cost of seeds, plants and labor related to cultivation, while 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. The Company's current financial plans include federal tax payable on gross profit rather than is typical in other jurisdictions on earnings before tax.

***State and local laws and regulations may heavily regulate brands and forms of cannabis products and there is no guarantee that the Company's proposed products and brands will be approved for sale and distribution in any state.***

States only allow the manufacture, sale and distribution of cannabis products that are grown in that state and may require advance approval of such products. Some states and local jurisdictions have promulgated requirements for approved cannabis products based on the form of the product and the concentration of the various cannabinoids in the product. While the Company intends to follow the guidelines and regulations of each applicable state and local jurisdiction in preparing products for sale and distribution, there is no guarantee that such products will be approved to the extent necessary. If the products are approved, there is a risk that any state or local jurisdiction may revoke its approval for such products based on changes in laws or regulations or based on its discretion or otherwise.

***The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate.***

In February 2014, the Financial Crimes Enforcement Network ("FinCEN") bureau of the United States Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, 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 DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions 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 United States and may have to operate the Company's United States business on an all-cash basis. 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. The Company is actively pursuing alternatives that ensure its operations will continue to be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.

***The Company is reliant on third-party suppliers, manufacturers and contractors.***

The Company intends to maintain a full supply chain for the provision of products and services to the cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

***Due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes.***

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the United States Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks.

***Any re-classification of cannabis or changes in United States controlled substance laws and regulations may affect the Company's business.***

If cannabis and/or CBD is re-categorized as a Schedule II or other controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be simpler and more accessible; however, if cannabis is re-categorized as a Schedule II or other controlled substance, and the resulting re-classification may result in the requirement for approval by the United States Food and Drug Administration (the "U.S. FDA") if medical claims are made for the Company's products. As a result, the manufacture, importation, exportation, domestic distribution, storage, sale and use of such products may be subject to a significant degree of regulation by the U.S. FDA. In that case, the Company may be required to be registered (licensed) to perform these activities and have the security, control, recordkeeping, reporting and inventory mechanisms required by the DEA to prevent drug loss and diversion. Obtaining the necessary registrations may result in delay of the manufacturing or distribution of the Company's anticipated products. The DEA conducts periodic inspections of certain registered establishments that handle controlled substances. Failure to maintain compliance could have a material adverse effect on the Company's business, financial condition and results of operations. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to restrict, suspend or revoke those registrations. In certain circumstances, violations could lead to criminal proceedings. Furthermore, if the U.S. FDA, DEA, or any other regulatory authority determines that the Company's products may have potential for abuse, it may require the Company to generate more clinical or other data than the Company currently anticipates establishing whether or to what extent the substance has an abuse potential, which could increase the cost and/or delay the launch of that product.

***Some CBD is a Schedule I controlled substance in the United States. The DEA recently published a final rule in the Federal Register creating a new drug code for "marihuana extracts".***

In connection with the new drug code, the DEA has clarified that all CBD products derived from the parts of the cannabis plant that fall within the CSA's definition of "marijuana" are Schedule I controlled substances. However, CBD derived from parts of the cannabis plant that are excluded from the definition of "marijuana" under the CSA are not Schedule I controlled substances. The Company is unable to determine what the impact of this will be on its business.

***United States federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.***

As long as cannabis remains illegal under United States 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.

***U.S. federal or state franchise laws may apply to the Company's U.S. operations.***

United States federal and state franchise laws have been broadly interpreted by courts or the applicable administrative agencies to apply to arrangements where a party licenses trademarks and business methods, provides facility designs and business and marketing plans to others. It is therefore possible that a federal or state agency or court might find that certain franchise laws do apply to our relationships with our licensees. If that happens or if any state's franchise regulatory requirements relating to the Company's method of business impose additional requirements on the Company, the Company may be required to modify its operations in that state in a manner that undermines the Company's attractiveness to licensees. The Company could also be subject to additional requirements to comply with these laws, such as franchise disclosure and registration requirements. If the Company becomes subject to fines or other penalties or if the Company determines that the franchise and related requirements in a jurisdiction are overly burdensome, the Company may elect to terminate operations in that jurisdiction, which may adversely affect the business, results of operations and financial condition.

***The Company's contracts may not be legally enforceable in the United States***

Because the Company's contracts involve cannabis and other activities that are not legal under United States federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in United States federal and certain state courts.

***Inability to Enforce Legal Rights***

One director of the Company, David Donnan, resides outside of Canada, in the United States. Although he has appointed Borden Ladner Gervais LLP as his agent for service of process in Canada, it may not be possible for investors to enforce judgments in Canada against him. The Company has subsidiaries which are organized under the laws of foreign jurisdictions. Given that the Company has and plans to own certain assets that are or will be located outside of Canada, investors may have difficulty in enforcing against foreign assets of the Company, any judgments obtained by the Canadian courts or Canadian securities regulatory authorities and predicated on the civil liability provisions of Canadian securities legislation or otherwise. Similarly, in the event a dispute arises from the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada.

***Unsophisticated Individuals and Entities***

The United States market for cannabis products is highly volatile. Many entities and persons operating in the industry were formerly involved in the illegal market. Some still are, and many operate in unconventional ways. Some of these unconventional ways, which represent challenges to the Company, include not keeping appropriate financial records, inexperience with business contracts, not having access to customary business banking relationships, not having quality manufacturing relationships, and not having customary distribution arrangements. They may not be accustomed to entering into written agreements or keeping financial records according to Generally Accepted Accounting Principles. These entities and persons may not pay attention to obligations to which they have agreed in written contracts. Therefore, it may become challenging for the Company to enter into more complex commercial transactions, which could limit the Company's growth or otherwise adversely affect the Company. Any one of these challenges, if not managed, could adversely impact the Company. These challenges may also increase the cost of the Company's operations in the near-term.

***Greater Risk of Tax Audits***

Based on anecdotal information, the Company believes that there is a greater likelihood that the Internal Revenue Service will audit cannabis-related businesses, including the Company. Any such audit could result in the Company's subsidiaries paying additional tax, interest and penalties, as well as incremental accounting and legal expenses.

***Lack of Access to United States Bankruptcy Protections***

Because cannabis is a Schedule I substance under the CSA, many courts have denied cannabis businesses federal bankruptcy protections, making it difficult for lenders to be made whole on 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 United States federal bankruptcy protections would be available to the Company, which would have a material adverse effect.

***Limited number of tenants and customers.***

Because the Company, through its affiliates and subsidiaries, intends to lease a small number of facilities, to a small number of select tenants involved in the production of cannabis and processing of cannabis, any problems associated with the business of such tenants will have an adverse effect on the Company's business, operating results and financial condition. Problems associated with such tenants may include loss of licenses to do business, delays and other problems in production; regulatory interference, including inspections and penalties for violations of the Washington Administrative Code which may affect the revenues and operations of the business; and additional unforeseen circumstances. There can be no guarantees that the Company, and/or its affiliates, will be able to find suitable tenants for their facilities, or that such tenants' performance will enable such tenants to make timely payments of rent.

**Risks Related to the Company's Securities**

***Volatility of Market Price of the common shares***

The market price of the common shares and warrants may be volatile and subject to wide fluctuations and will be based on a number of factors, including: (i) the prevailing interest rates being paid by companies similar to the Company; (ii) the overall condition of the financial and credit markets; (iii) interest rate volatility; (iv) the markets for similar securities; (v) the financial condition, results of operation and prospects of the Company; (vi) the publication of earnings estimates for the Company or other research reports and speculation regarding the Company in the press or investment community; (vii) changes in the industry in which the Company operates and competition affecting the Company; and (viii) general market and economic conditions. The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the common shares and warrants.

***Limited Market for Securities***

There can be no assurance that an active and liquid market for Rubicon Organics common shares will be maintained, and an investor may find it difficult to resell any securities of Rubicon Organics.

***The Company does not anticipate paying cash dividends.***

The Company's current policy is to retain earnings to finance the development and enhancement of the Company's products and to otherwise reinvest in the Company. Therefore, the Company does not anticipate paying cash dividends on the common shares in the foreseeable future. The Company's dividend policy will be reviewed from time to time by the Board in the context of the Company's earnings, financial condition and other relevant factors. Until the time that the Company does pay dividends, which the Company may never do, the Company's shareholders will not be able to receive a return on their common shares unless they sell them.

***Dilution to common shares***

The increase in the number of common shares and warrants issued and outstanding as a result of the deemed exercise of Special Warrants, and the sale of the common shares and warrants thereafter, may have a depressive effect on the price of the common shares. In addition, as a result of such additional common shares and Warrant Shares, the voting power of the Corporation's existing shareholders will be diluted.

***Loss on Dissolution or Termination of Company***

Upon the dissolution and termination of the Company, the proceeds realized from the liquidation of assets, if any, will be distributed to the shareholders only after the claims of all creditors have been satisfied. Accordingly, the ability of a shareholder to recover all or any portion of its investment under such circumstances will depend on the amount of funds so realized and the claims to be satisfied from such funds.

***There may be adverse Canadian tax consequences for a foreign controlled Canadian corporation that acquires common shares of the Company***

Certain adverse tax considerations may be applicable to a holder of common shares of the Company that is a corporation resident in Canada, and is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the common shares of the Company, controlled by a non-resident corporation for purposes of the "foreign affiliate dumping" rules in section 212.3 of the Tax Act. Such shareholders should consult their tax advisors with respect to the consequences of acquiring common shares of the Company.

**CONFLICTS OF INTEREST**

To the best of our knowledge, there are no known existing or potential material conflicts of interest among us and our directors, officers or other members of Management as a result of their outside business interests except that certain of our directors and officers serve as directors, officers or advisors of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director, officer or advisor of such other companies.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "if", "expects", "estimates", "may", "could", "should", "will", "intends" and similar expressions. Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Although the Company believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking statements are based on certain assumptions and analyses made by the Company considering the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) information or statements concerning the Company's expectations of current financial resources being sufficient to fund operations; (ii) obtaining the necessary regulatory approvals; (iii) that regulatory requirements will be maintained; (iv) general business and economic conditions; (v) the Company's ability to successfully execute its plans and intentions; (vi) the Company's ability to obtain financing at reasonable terms through the sale of equity and/or debt commitments; (vii) the Company's ability to attract and retain skilled staff; (viii) market competition; (ix) the products and technology offered by the Company's competitors; and (x) that our current good relationships with our suppliers, service providers and other third parties will be maintained.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors including: the legal status of cannabis cultivation, distribution and sales in the United States and Canada; changes in general economic conditions and conditions in the financial markets; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; uncertainty about the Company's ability to continue as a going concern; risk that the Company will not obtain or retain any relevant

licenses; technological and operational difficulties encountered in connection with the Company's activities; changing foreign exchange rates and other matters discussed in this MD&A.

**Although we have attempted to identify factors that would cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements or events to not be as anticipated, estimated or intended. Many of the factors are beyond our control. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. We disclaim any intention and assume no obligation to update any forward-looking statements even if new information becomes available, as a result of future events, new information, or for any other reason except as required by law. These forward-looking statements are made as of the date hereof. Additional information related to us is available by accessing the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).**

#### **ADDITIONAL INFORMATION**

Additional information related to the Company is available on the Company's website at [www.rubiconorganics.com](http://www.rubiconorganics.com) and through its public filings on [www.sedar.com](http://www.sedar.com).



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