



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

The following Management's Discussion and Analysis ("MD&A") of Orchid Ventures, Inc. (DBA "Orchid Essentials"), (the "Company" or "Orchid"), is for three months ended September 30, 2021, and covers information up to the date of this MD&A. For more information on the Company visit its website at www.OrchidEssentials.com and www.PurTecDesigns.com. For additional information please visit SEDAR at www.sedar.com.

This MD&A is dated November 23, 2021.

This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements and the notes thereto for three months ended September 30, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). All dollar amounts herein are expressed in US Dollars unless stated otherwise.

References to EBITDA in this MD&A refer to net earnings from continuing operations before interest, taxes and tax recoveries, amortization, deferred income tax recovery, unrealized foreign exchange losses, non-cash share-based expenses (Black-Scholes option pricing model) and write-off of assets. EBITDA is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Management believes that EBITDA is an alternative measure in evaluating the Company's business performance. Readers are cautioned that EBITDA should not be construed as an alternative to net income as determined under IFRS; nor as an indicator of financial performance as determined by IFRS; nor a calculation of cash flow from operating activities as determined under IFRS; nor as a measure of liquidity and cash flow under IFRS. The Company's method of calculating EBITDA may differ from methods used by other issuers and, accordingly, the Company's EBITDA may not be comparable to similar measures used by any other issuer.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information provided in this MD&A, including information incorporated by reference, may contain "forward-looking statements" about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- (a) the regulation of the recreational cannabis industry in the State of California;
- (b) the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and
- (c) other risks described in this MD&A and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS (continued)

With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include but are not limited to: the availability of sources of income to generate cash flow and revenue; the dependence on management and directors; risks relating to the receipt of the required licenses, risks relating to additional funding requirements; due diligence risks; exchange rate risks; potential transaction and legal risks; risks relating to regulations applicable to the production and sale of Cannabis; and other factors beyond the Company's control.

Consequently, all forward-looking statements made in this MD&A and other documents of the Company, as applicable, are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on its behalf may issue. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

COMPANY OVERVIEW

Orchid is a Southern California based consumer products and services company that builds strong, trusted brands and leverages proprietary technologies and processes across multiple product categories serving both Cannabis and CBD industries. Orchid has pivoted and adjusted its business strategy to focus on building an Orchid ecosystem that is non-cannabis touching and more focused on the company's core strengths, capabilities and product innovations that will better differentiate within markets and disrupt the status quo. The key pillars to the strategy involve 1) expanding the Orchid brand portfolio and commercializing new product innovation, 2) fine-tuning and leveraging a licensing model to accelerate growth in California and Oregon, plus expand into additional North American markets, 3) diversification beyond making cannabis products to servicing the cannabis industry with differentiated and disruptive hardware delivery systems, intellectual property development and strategic opportunities, plus 4) leveraging the company's core capabilities to provide go-to-market services like marketing, sales and retail expertise, e-commerce, plus packaging and distribution. To support this strategy, Orchid has either fully developed or secured exclusive access to highly impactful product innovations and intellectual property, which forms the foundation of the Orchid Collective.

Given the realities of building a business within a new, emerging and highly regulated industry like Cannabis and CBD, it is important to assemble an experienced management team in order to effectively navigate and deal with the inevitable volatility and challenges of an ever-changing marketplace. Orchid has brought together a highly experienced management team with expertise in branding, product development, food manufacturing, franchising & licensing, e-commerce, plus sales and retail management. The team has a proven track record of working with both start-up companies and more mature businesses to scale revenues, build value-generating strategic partnerships and create enterprise value.

The Company has a history of manufacturing and producing premium cannabis products and launched the Orchid Essentials brand in Oregon and California in August 2017, and has since developed a mass-market franchise and loyal consumer following. However, the company has shifted away from this cannabis-touching, vertical integration strategy and moved to a Licensing business model by leveraging the power of the Orchid Essentials brand franchise. The Company leverages its branding, marketing and operational expertise to create opportunities to license the Orchid Essentials brand in order to expand reach into new US markets and into global markets such as Canada, Latin America and Europe. Orchid's product lines are currently sold in 150+ dispensaries across California and Oregon and are handcrafted and designed for optimal user-experience and overall enjoyment. The company's proven processes and passion for what it does carry through into its products. The end result is an unparalleled experience for new and practiced cannabis users alike.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

COMPANY OVERVIEW (continued)

The Company's head office, principal address and records office is 27762 Antonio Parkway Ste. L-1-631, Ladera Ranch CA 92694.

On March 7, 2019, the Company completed a business combination with CR International, Inc. in an arm's length transaction and constituted a reverse takeover ("RTO") of Earny by CR International, pursuant to the policies of the TSX Venture Exchange ("TSX-V").

CR International was organized in the State of Nevada on June 18, 2018 by the shareholders of CR Companies, LLC ("CR Companies"), a company organized in the State of California on November 9, 2017. CR International and CR Companies completed a corporate reorganization (the "Corporate Reorganization"), the purpose of which was to facilitate the listing of CR Companies on the Canadian Securities Exchange (the "CSE").

In connection with the RTO, the Company voluntarily delisted from the TSX-V and received approval to list its common shares on the CSE on March 15, 2019.

GROWTH STRATEGY

The Company believes that the size of the U.S. cannabis market could surpass US\$45 billion over the next ten years with the continued expansion of legalization of cannabis in new states throughout the United States. On the recreational side, there are currently seventeen states in which the recreational sale of cannabis has been approved. These states are Alaska, Arizona, California, Colorado, District of Columbia, Illinois, Maine, Massachusetts, Michigan, Montana, New Jersey, New Mexico, New York, Nevada, Oregon, Vermont and Washington. In these markets, recreational sales will continue to grow as new population groups, like Baby Boomers, Generation X and Millennials realize the magnitude of cannabis applications and cannabis is accepted by more demographics. Expectation is that both medical and recreational Cannabis legislation will continue to open up new markets, accelerating the growth of Cannabis throughout North America, South America and Europe. The Company plans to launch several new initiatives and partnerships that are aimed at setting the foundation for greater diversification and an expanded product portfolio. Orchid plans to capitalize on the significant increase in cannabis consumption by building off their experience and knowledge of the industry from their established businesses in California and Oregon. To support this strategy Orchid has either fully developed or secured exclusive access to highly impactful product innovations and intellectual property.

The Company has continued to focus on their strategy to build an Orchid Ecosystem that is non-cannabis touching and better focused on leveraging the Company's core strengths, capabilities and product innovations in order to better differentiate within markets and disrupt the status quo. The key pillars to the strategy involve 1) licensing the Orchid Essentials brand in the North America and Europe, expanding the Orchid product portfolio and commercializing new product innovation, 2) diversification beyond making cannabis products to servicing the cannabis industry with differentiated and disruptive hardware delivery systems, intellectual property development and strategic opportunities, plus 3) leveraging the Company's core capabilities to provide go-to-market services like marketing, sales and retail expertise, e-commerce, plus packaging and distribution.

To support this strategy, Orchid has either fully developed or secured exclusive access to highly impactful product innovations and intellectual property, which forms the foundation of the Orchid Collective. This Collective consists of 2 wholly owned subsidiary companies, Orchid Brands and Purtec Delivery Systems, forming a dynamic network, interacting with each other to create and exchange sustainable value for consumers and ultimately shareholders.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

GROWTH STRATEGY (continued)

Orchid Brands

Based on Orchid's branding, marketing and overall Cannabis experience and operational expertise the Company will continue to create opportunities for licensing the Orchid Essentials brand in order to expand reach into new markets and build strategic partnerships with highly quality and respected local operating companies in the Cannabis industry. These licensees will use their operational strength and core capabilities to penetrate new markets by leveraging the Orchid Essentials brand and portfolio of products to accelerate growth and secure market share.

PurTec Delivery Systems

PurTec Delivery Systems ("PurTec") sells vaporizers and other delivery systems that are highly differentiated based on 4 key product imperatives: Design, Quality, Technology, and Safety. Importantly all PurTec products go through extensive quality control and durability testing, plus they are emissions tested against the strictest standards in the world, set by AFNOR for the European Union. In addition, the Company will continue to focus on driving operational efficiencies and cost control measures as the new strategic shift proceeds and begins to gain traction in terms of revenue generation and product/technology advancements. Investment will focus on People, Process and Technology to better position the Company for growth.

Product Development and Scale

Management has extensive knowledge about the cannabis industry, its customers, the competitive landscape and market dynamics. The Company strategically bases product development decisions on the "Voice of the Customer", market trends, innovation, volume potential, margin, and ability to deliver quality and safety, then leverages its branding and marketing expertise and ability to create powerful go-to-market plans that disrupt the market, expand customer reach and build retail distribution.

PurTec develops, brands, and sells cannabis vapor devices consisting of kits and cartridges (the "Orchid Cannabis Products"). Orchid licenses its brand and proprietary hardware to licensed manufacturers and distributors in Oregon and California and expands into additional states that have legalized medical and recreational cannabis. Orchid's partners manufacture, produce, package, sell and deliver the Orchid Cannabis Products to state-authorized cannabis dispensaries and distribution channels on cash or delivery terms.

RECENT EVENTS AND OUTLOOK

COVID-19 Emergency Response

The Company has taken several steps in response to the COVID-19 pandemic including, but not limited to, the following:

- instructing staff to work from home; and
- emergency guidelines and protocols for the Company's ongoing operations have been implemented and maintained.

The Company continues to adhere to policies and practices recommended or mandated by local government agencies. The Company continues to take the health of their employees and that of the general public very seriously. Though the Company has adjusted how it conducts business, it continues to supply products to consumers and business clients on a timely basis.

Sale of Cannabis License for the State of California

On September 29, 2020, the Company agreed to sell their Bureau of Cannabis Control Distributor License for the State of California for CA Forrest Green Distribution, LLC, to the Tine Trading Company, LLC (Buyer). The purchased assets include the following: The Seller's name "CA Forrest Green Distribution LLC" and associated goodwill, including assumed business name, service marks, trademarks, trade names, copyrights, technology, domain names, know-how, processes, related applications, and other intellectual property used in the Business (the "Intellectual Property");



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RECENT EVENTS AND OUTLOOK (continued)

Awaiting confirmation of transfer by the Bureau of Cannabis Control, the Company classified the carrying value of the license of \$80,000 as held for sale and collection received from the buyer as deferred revenues as of June 30, 2021 and September 30, 2021.

Discontinued Operations

In August 2021 the Company entered in an agreement in principal to sell an 80% equity interest in CA Forrest to Tine Trading for a price of \$500. As of June 30, 2021 the Company recognized CA Forrest as a discontinued operation, removing all of the assets and liabilities from the consolidated financial statements and recognizing a loss of \$16,414 from discontinued operations. The sale price proposed of \$500 is included in assets held for sale.

See below for breakdown of loss from discontinued operations

	(\$)
Carrying value of assets	43,595
<u>Carrying value of liabilities</u>	<u>(730,116)</u>
Carrying value of net asset	(686,521)
Forgiveness of intercompany debt	703,635
Selling price	500
<u>Loss from discontinued operations</u>	<u>\$16,614</u>

For the three months ended September 30, 2021 the Company recorded an additional loss of \$714 from discontinued operations.

Orchid Line Extensions

In September, 2020 the Company launched three new product lines in California and Oregon:

- Orchid Vibes, featuring a newly developed PurTec Summit cartridge and introducing more contemporary terpene profiles such as Mimosa and Purple Punch.
- Improved Orchid Classic line up, which are mid-tier products featuring their classic Orchid Essential formulations like Jack Herer and Dutch Treat.
- Orchid Gold live resin, full spectrum, seasonal craft strains and flavours that rotate throughout the year, launched in Oregon through licensee, Tine Trading Company.

PurTec New Products and Technology

In early 2021 PurTec announced the launch of two new technology platforms, PurCore R1 Cartridges and Disposables powered by the new uKera Notch Coil technology and the PurCore F1 POD featuring the new uKera Ultra Nano technology, an innovative ceramic film atomization heating system. These truly next generation technologies are expected to be highly differentiated and disruptive within the cannabis and CBD vaporizer markets in terms of quality, safety and performance. PurTec will also be leveraging their new PurGuard Age Verification and User Data software platform to ensure greater safety by restricting minors from being able to use vaporizer products. This will be a major advancement in terms of addressing an ongoing consumer and regulatory concern regarding underage access to vaping products.

These new patent pending technologies were developed by our strategic partner, JWEI Group Advanced Technology Research Institute and are exclusively marketed and sold by PurTec. The Company experienced a slowdown from supply chain partners in China amidst the Covid pandemic but much less than other manufacturers. JEWI and their supply chain manufacturing partners have been fully operational and active since March 3, 2021.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RECENT EVENTS AND OUTLOOK (continued)

Transfer of Cannabis License for the State of Oregon Completed

On October 26, 2020, the Company successfully completed the transfer of their distribution license in Oregon to their licensee named Orechid LLC based on the agreement concluded May 14, 2020.

Capital Raise and Share Consolidation

On April 1, 2021, the Company closed a non-brokered private placement of units of the Company by the issuance of 16,838,000 common shares at CAD \$0.25 per share for gross proceeds of \$3,286,357 (CAD \$4,209,500). By the terms of issue, the Company also issued 8,419,000 warrants, being one half of one common share purchased, at an exercise price of CAD \$0.40 and an expiration date of April 1, 2023. These warrants were valued at \$1,391,455 (CAD \$1,782,317) using the Black Scholes Option Pricing Model and were recorded as warrant liability. As part of the financing, the Company granted 1,107,400 finders warrants and paid a cash finders fee of \$216,371 (CAD \$277,150). These warrants have an exercise price of CAD \$0.25 and an expiration date of April 1, 2023. The fair value of the finder's warrants of \$190,518 (CAD \$245,342) was recorded as a share issuance cost and was determined using Black-Scholes Pricing Model.

All securities issued in connection with the Offering are subject to a statutory hold period of four months and one day ending on August 2, 2021. The Company intends to use the net proceeds of the Offering for general working capital.

Gold Flora Licensing Agreement

On May 4, 2021, the Company entered into an exclusive licensing agreement with Gold Flora, a vertically integrated California company with operations in cannabis cultivation, manufacturing, distribution, delivery, and retail. Gold Flora will assume all production, sales, and distribution of Orchid Essentials products throughout the state of California and will purchase all hardware, packaging, and terpenes through PurTec Delivery Systems, a wholly owned subsidiary of the Company.

1933 Industries - Nevada Licensee Agreement

On October 20, 2020, the Company entered into a Supply and Licensing Agreement with 1933 Industries Inc. to manufacture, distribute, market and sell Orchid Essential products in the regulated Nevada cannabis market. The Company intended to leverage 1933's extraction and formulation expertise, plus their well-established sales and distribution channels in the state. However, as of May 2, 2021, the licensing agreement with 1933 Industries was formally terminated. 1933 Industries informed the Company that there had been a change in leadership and that they had decided to adjust their strategic focus. As this new strategic direction did not include the licensing of brands, they informed us that they decided to opt-out of their agreement with the Company in order to focus on new strategic priorities. The Company, in conjunction with 1933 Industries, had not launched the Orchid Brand in Nevada, as planning and timelines were just finalized, but execution had yet to commence. There was no financial impact of this event, nor any outstanding commitments to the Company, nor to 1933 Industries. They remain a viable prospect for PurTec and for any potential contract manufacturing needs moving forward. The Company is currently in discussions with other viable licensing candidates that have the infrastructure and capabilities to operate and grow the Orchid brand in the state of Nevada.

Weedbox Licensing Agreement

On January 20, 2021 the Company entered into a licensing agreement with Weedbox, a licensed Canadian cannabis retail and technology Company. The licensing agreement states that Weedbox has secured the exclusive Canadian rights to manufacture, market and sell the Orchid Brand according to the laws and regulations set forth both federally and provincially. This licensing agreement is currently being reviewed as the licensee is in breach of contract based on performance metrics that were stipulated in the agreement. Issues pertaining to the changing regulatory environment and market dynamics, plus the licensee's inability to secure the necessary funding required, has the Company re-evaluating the contract to determine the appropriate course of action. No products have yet been launched and no capital resources have been invested by the Company to date. The Company is also investigating other alternative opportunities to launch the Orchid Essentials brand in Canada.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RECENT EVENTS AND OUTLOOK (continued)

Additional Key Developments On

Orchid Ventures has not renewed its exclusive license with the parent company of Ashford Pines Limited & Pulpo, LLC. but is still working with CELLg8 and acting as a reseller. This is not a core focus of the business as the shift in strategy has narrowed the focus exclusively to PurTec and Orchid Brand Licensing.

The Company remains in the arbitration process with Greenbloom and is confident that its position in the case is strong and the Company's legal defence team is steadfast in their resolve and belief in the Company's strategy. Furthermore, the Company's insurance provider has engaged legal counsel to assist in the arbitration process, which the Company believes will add more strength to the legal team.

In October 2020, Mathew Lee, the Chief Financial Officer tendered his resignation from the Company, due to his desire to pursue other opportunities. His resignation was accepted and was effective January 15, 2021. The Company has since filled the CFO role, having hired Yousuf Jaffar, FCA who is a Chartered Accountant (ICAP) with thirty years of post-qualification experience in corporate finance. Mr. Jaffar was appointed as CFO effective January 15, 2021.

Outlook

Management expects that their continued commitment and execution to their strategic priorities, driven by further developing and fine-tuning their product offerings and go-to-market strategy, will place them on a consistent path to revenue and profit growth in the second half of FY 2022. Efforts will continue to focus on creating differentiation with superior, high quality and safe products combined with leveraging new technologies and innovations to disrupt markets, attract more consumers and build market share. The Company believes that the new business model and strategy will establish a more viable and attractive option for not just consumers, but for employees and investors as well.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2021

For three months ended September 30, 2021 ("Q1 2022"), the Company reported a net loss of \$221,201 against revenues of \$398,423 compared to a net profit of \$97,276 against revenues of \$1,953,991 for the three months ended September 30, 2020 ("Q1 2021").

Sales decreased by \$1,555,568 from the comparative period and the gross profits decreased \$856,070. A drop in sales was expected as the Company focused more on a move to an expanded market approach with initiatives targeted at brand recognition, product design improvements and public relations. These measures were never expected to yield results in short term.

Total operational expenses were \$678,081 during Q1 2022 compared to \$909,004 in Q1 2021. This although the marketing expenses increased over 2700% from \$7,782 in Q1 2021 to \$217,450 in Q1 2022. The increase reflects the marketing initiatives discussed above. Management has made a considerable effort to minimize overall costs and overheads, while building on the all-important marketing initiatives. The effects of the change are reflected in Q1 2022 results. Operational expenses for Q1 2022 include non-cash items such as depreciation and amortization of \$1,323 (Q1 2021 - \$55,521) and share-based payments of \$Nil (Q1 2021 - \$207,891). The primary reason for the decrease in operational expenses this year compared to Q1 2021 is due to decreases in legal and professional charges and share-based payments which were reduced from \$165,598 and 207,891 respectively in Q1 2021 to \$25,110 and \$Nil in Q1 2022.



**MANAGEMENT'S DISCUSSION AND ANALYSIS
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SELECTED ANNUAL INFORMATION

	Year ended June 30, 2021	Thirteen months ended Jun 30, 2020	Year ended May 31, 2019	Year ended May 31, 2020
Revenues	\$ 3,720,366	\$ 1,568,276	\$ 5,514,593	\$ 2,473,000
Cost of goods sold	\$ 2,521,704	\$ 1,720,742	\$ 3,541,475	\$ 1,216,082
Gross profit (loss)	\$ 1,198,662	\$ (152,466)	\$ 1,973,118	\$ 1,256,918
Expenses including non-cash items	\$ 3,951,165	\$ 5,448,865	\$ 6,875,827	\$ 2,885,302
Loss from discontinued operations	\$ (16,414)	\$ -	\$ -	\$ -
Net loss for the year	\$ (3,150,866)	\$ (7,051,457)	\$ (6,692,581)	\$ (1,696,494)
Wtd. average common shares outstanding	29,602,304	21,472,483	16,537,962	
Loss per share	\$ (0.106)	\$ (0.328)	\$ (0.405)	\$ -
Cash	\$ 1,276,435	\$ 76,017	\$ 111,671	\$ 73,409
Working capital (deficit)	\$ (1,567,696)	\$ (1,786,153)	\$ 2,580,475	\$ (690,465)
Total assets	\$ 2,182,197	\$ 1,488,021	\$ 4,369,123	\$ 439,770
Shareholders' equity (deficiency)	\$ (1,541,874)	\$ (1,445,434)	\$ 2,933,140	\$ (633,947)
Long-term financial liabilities	\$ 154,329	\$ 211,896	\$ -	\$ -

SUMMARY OF QUARTERLY RESULTS

	Three months ended Sep 30, 2021	Three months ended Jun 30, 2021	Three months ended Mar 31, 2021	Three months ended Dec 31, 2020
Revenues	\$ 398,423	\$ 294,882	\$ 619,649	\$ 851,844
Cost of goods sold	\$ 298,143	\$ 784,934	\$ 543,561	\$ 312,241
Gross profit	\$ 100,280	\$ (490,052)	\$ 76,088	\$ 539,602
Net expenses including non-cash items	\$ 678,081	\$ 1,474,804	\$ 670,072	\$ 780,611
Loss from discontinued operations	\$ (714)	\$ (16,414)	\$ -	\$ -
Loss for the quarter	\$ (221,201)	\$ (2,049,436)	\$ (914,290)	\$ (284,416)
Basic and diluted loss per share	\$ (0.006)	\$ (0.069)	\$ (0.032)	\$ (0.012)
Wtd. average common shares outstanding	36,402,625	29,601,264	28,420,800	22,787,017

	Three months ended Sep 30, 2020	Four months ended Jun 30, 2020	Three months ended Feb 29, 2020	Three months ended Nov 30, 2019
Revenues	\$ 1,953,991	\$ 70,114	\$ 628,485	\$ 43,590
Cost of goods sold	\$ 880,968	\$ 453,074	\$ 571,438	\$ (48,803)
Gross profit	\$ 1,073,023	\$ (382,960)	\$ 57,047	\$ 92,393
Net expenses including non-cash items	\$ 1,025,678	\$ 1,075,016	\$ 447,900	\$ 1,862,783
Loss for the quarter	\$ 97,276	\$ (1,972,936)	\$ (260,717)	\$ (2,757,244)
Basic and diluted loss per share	\$ 0.004	\$ (0.088)	\$ (0.012)	\$ (0.122)
Wtd. average common shares outstanding	22,587,017	22,514,934	22,514,934	22,514,934



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

LIQUIDITY AND CAPITAL RESOURCES

The net assets of the Company decreased from a negative \$1,541,874 as at June 30, 2021 to a deficiency of \$1,758,613 as at September 30, 2021, a decrease of \$216,739. The Company's working capital decreased from a deficiency of \$1,567,696 as of June 30, 2021 to a deficiency of \$1,783,093 as of September 30, 2021, a decrease of \$215,397. At September 30, 2021, the Company had cash of \$751,263, trade receivables of \$112,511, GST receivable of \$1,516, prepaids of \$181,178, and inventory of \$235,616, compared to cash on deposit in the amount of \$1,276,435, trade receivables of \$51,084, GST receivable of \$3,705, prepaids of \$176,395, and inventory of \$294,863 at June 30, 2021. The most significant liabilities at September 30, 2021 were trade payables and warrant liability of \$972,337 and \$1,548,313 respectively (June 30, 2021 - \$985,697 and \$1,910,291).

OFF BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

a) Leases

The Company, in January 2021, terminated the lease pursuant to the agreed upon lease termination terms for its head office located at 9930 Irvine Centre Drive, Irvine, California. As part of the cost cutting initiatives, all employees of the Company now work exclusively from home.

Commercial Lease Agreement for 2338 East Anaheim St. Suite 201C Long Beach, CA, 90804 is set to expire in August 2021 and has not been renewed.

Company's licensed production facility at 11785 SE Hwy 212, Suite 313, Clackamas, Oregon, under lease up to September 30, 2023, has been sub-leased to Tine Trading Company, LLC. This is effective November 16, 2020 and is pursuant to the terms of sale of Cannabis Distributor License of the State of Oregon to that company.

b) GreenBloom Arbitration

On July 3, 2019, as last amended on July 29, 2019, the Company entered into a definitive agreement with GreenBloom for the acquisition of certain assets (the "Asset Purchase Agreement"). As consideration, the Company was to pay an aggregate purchase price of \$10,000,000 to be paid over 12 months from the date of closing, and issue 50,000,000 common shares at a price of CAD \$0.50 per share (the "Payment Shares"). To June 30, 2020, the Company issued 5,078,623 common shares at a fair value of \$805,841.

On July 29, 2010, the Company entered into a share purchase agreement, whereby the Company agreed to acquire the issued and outstanding common shares of Bimini Farms, Inc. ("Bimini"). As initial consideration, the Company was obligated to pay a non-refundable deposit of \$100,040 (paid).

On September 20, 2019, the Company also entered into a Commercial Lease Agreement (the "Lease Agreement") with a company related by way of common shareholders, which provided the Company a lease for real property located in Calexico, California. The premise is to be used for cannabis cultivation, manufacturing, distribution and retail as permitted by state and local jurisdictions. In the event the Company is unable to secure a cannabis cultivation license from the City of Calexico, the Company will remain liable for the first month's rent, last month's rent, and security deposit, totalling \$540,000 (unpaid), which will be retained as a termination fee. The Company will otherwise be released of any further liability under the Lease Agreement



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

CONTRACTUAL OBLIGATIONS (continued)

Upon completion of the due diligence process, the Company served notice of termination of the Asset Purchase Agreement and Lease Agreement. Further, the Company determined not to pursue the purchase of Bimini. Accordingly, to June 30, 2020, the Company has recorded an impairment of asset acquisition of \$905,881.

On November 6, 2019, GreenBloom filed an arbitration claim against the Company seeking \$10,000,000 in damages for breach of contract and damages for termination of the Asset Purchase Agreement and the Lease Agreement. The matter is still under arbitration. The Company has assessed the claim and believes it is without merit and that it is unlikely for Greenbloom to prevail in the arbitration.

RELATED PARTY TRANSACTIONS

Key Management Compensation:

Related party transactions not otherwise described in these consolidated financial statements are shown below. The remuneration of the Company's directors and other members of key management, being the CEO, President, and CFO who have the authority and responsibility for planning, directing and controlling the activities of the Company, consist of the following amounts

	Three Months Ended	
	Sep 30, 2021	Sep 30, 2020
Salary	62,500	62,500
Management fees	68,750	54,000
Consulting	21,824	16,898
Share-based compensation	-	133,050
	<u>153,074</u>	<u>266,448</u>

Management fees were charged by the Company's CEO, Corey Mangold, the Company's President, Rick Brown, and the Company's CFO, Yousuf Jaffar.

PROPOSED TRANSACTIONS

There are no proposed transactions.

SUBSEQUENT EVENTS

There were no significant events subsequent to September 30, 2021.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions concerning the future that affect the amounts recorded. Actual results could differ from these estimates. Estimates and assumptions are based on historical experience, expectations of future events and other factors considered by management to be reasonable. The estimates and assumptions that could result in a material impact to the carrying amounts of assets and liabilities are outlined below:



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Use of Estimates

(a) Inventory valuation

The Company records a write-down to reflect management's best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends.

(b) Share-based compensation

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant.

(c) Equipment

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

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

(f) Expected credit losses

The Company recognizes an allowance for expected credit losses ("ECL") for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. A financial asset is considered in default when contractual payments are 365 days past due. Therefore, the Company does not track changes in credit risk but makes a loss allowance based on 12 months ECL.

A financial asset may also be considered to be in default if internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE MONTHS ENDED SEPTEMBER 30, 2021**

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(g) Warranty provision

The Company estimates warranty expenses based on historical records, taking into account the likelihood of a warranty issue, estimated costs of warranty repair and total units in the market. The Company records a liability in respect of estimated future warranty costs. The actual cost that the Company may incur and the timing of the repairs to be carried out may differ significantly from the estimated accrual.

The Company warrants that its products will operate substantially in conformity with product documentation. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

Use of judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgements, apart from those involving estimates, in applying accounting policies. The most significant judgements applying to the Company's financial statements include the assessment of the Company's going concern.

FINANCIAL AND OTHER INSTRUMENTS

The Company is exposed to certain financial risks as listed below. There has been no change in the exposure to risk, nor its objectives, policies and process for managing the risk from the prior year. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and trade receivables.

The Company limits its exposure to credit risk with respect to cash by investing available cash with major banks in the United States of America. The Company's cash is not subject to any external restrictions.

The Company's receivables are due as follows:

	As at September 30	June 30
	2021	2021
	\$	\$
Current	84,146	1,091.44
31-60 days	10,063	47,493
Over 60 days	18,302	2,500
	112,511	51,084

With respect to receivables, the Company mitigates the risk by performing ongoing credit evaluations of its customers' financial condition. The Company monitors collectability of receivables on an on-going basis to determine credit risk.

At September 30, 2021, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

FINANCIAL AND OTHER INSTRUMENTS (continued)

Liquidity Risk

As at September 30, 2021 the Company had cash of \$751,263 (June 30, 2021 - \$1,276,435) available to settle current liabilities of \$3,134,631 (June 30, 2020 - \$3,569,742), all of which are due within one year. The Company expects to finance its inventory purchases and administrative expenditures through cash flows from operations, debt, as well as equity financing. Liquidity risk is assessed as high.

Market Risk

The Company is exposed to market risk with respect to foreign currency risk.

The Company is exposed to foreign currency risk on fluctuations related to cash, trade payables and accrued liabilities that are denominated in a foreign currency. As at September 30, 2021, the Company had trade payables of \$162,544 (June 30, 2021 - \$192,906) denominated in foreign currencies. Management's assessment of the Company's exposure to market risk is low.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

CAPITAL MANAGEMENT

The Company has put in policies for managing its capital, and to maintain adequate levels of funding to support the manufacturing operations of the Company and to maintain corporate and administrative functions.

The Company defines capital as cash and equity, consisting of the issued share capital. The capital structure of the Company is managed to provide sufficient funding operating activities. Funds are primarily secured through a combination of equity capital raised by way of private placements and short-term debt. There can be no assurances that the Company will be able to continue raising equity capital and short-term debt in this manner. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with major financial institutions.

OTHER MD&A REQUIREMENTS

DISCLOSURE OF OUTSTANDING SHARE DATA

As of the date of this report, there were 52,437,123 common shares, no exchangeable units, 7,607,500 stock options, and 14,331,652 warrants issued and outstanding.

OVERVIEW OF UNITED STATES REGULATION OF CANNABIS

Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views Staff Notice 51-352 favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

OVERVIEW OF UNITED STATES REGULATION OF CANNABIS (continued)

Awaiting conclusion of the regulatory process regarding the transfer of the Company's Cannabis distribution license by the Bureau of Cannabis Control the Company remains partially exposed to U.S. cannabis related activities for its operations in the state of California.

CA Forrest Green, LLC ("CA FG"), a wholly owned subsidiary, is the sole owner of a provisional Cannabis distribution license ("Temporary License"), license number C11-0000967-LIC, of the Bureau of Cannabis Control ("BCC") and certain related proprietary documents such as the floor plans, security plan, standard operating procedures, Long Beach co-location license, and other intellectual property rights and the lease of real property located at 2338 East Anaheim Street, Suite 203C, Long Beach, California 90804.

Compliance of United States Operations

The Company's activities are compliant with applicable U.S. state and local law. The Company will develop a robust compliance program designed to ensure operational and regulatory requirements continue to be satisfied. Management also employs compliance operators to assist with monitoring products through the state-wide track-and-trace programs, where applicable, in California. Management will continue to work closely with outside counsel and industry experts to develop and improve its internal compliance program. The Company has developed and will continue to develop best-practice SOPs and management will ensure all operations conform with legally compliant SOPs. The Company further requires its employees and management undergo ongoing training and to report and disclose all instances of non-compliance or regulatory, administrative, or legal proceedings that may be initiated against them.

RISKS AND UNCERTAINTIES

Much of the information included in this report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by the Company and its management in connection with the Company's business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. The Company cautions readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating the Company, its business and any investment in its business, readers should carefully consider the following factors:

Regulation of Marijuana in the United States

Unlike in Canada which has proposed to have federal legislation governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the State level. To the Company's knowledge, there are to date a total of 33 States, plus the District of Columbia, that have legalized cannabis uniformly in some form.

Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the "CSA") in the United States and as such, remains illegal under federal law in the United States.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RISKS AND UNCERTAINTIES (continued)

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "**Cole Memorandum**") addressed to all United States district attorney acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US States had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In March 2017, the newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, on January 4, 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum effective immediately (the "**Sessions Memorandum**"). The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress and to follow well-established principles when pursuing prosecutions related to marijuana activities. The inconsistency between federal and state laws and regulations is a major risk factor.

Federal law preempts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. The Sessions Memorandum lays the groundwork for United States Attorneys to take their cues on enforcement priority directly from Attorney General Jeff Sessions by referencing federal law enforcement priorities set by the Attorney General Jeff Sessions. If the Department of Justice policy under Attorney General Jeff Sessions was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Notably, current federal law (in the form of budget bills) prevents the Department of Justice from expending funds to intervene with states' rights to legalize cannabis for medical purposes.

Now that the Cole Memorandum has been repealed by Attorney General Jeff Session, the Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Company and its Board and, potentially its shareholders, "aided and abetted" violations of federal law by providing finances and services to its portfolio cannabis companies. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Company's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RISKS AND UNCERTAINTIES (continued)

Proceeds of Crime Statutes

The Company will be subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by

Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In the event that any of the Company's license agreements, or any proceeds thereof, 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 be materially adverse to the Company and, among other things, could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, affect other distributions or subsequently repatriate such funds back to Canada.

Regulatory Scrutiny of the Company's Interests in the United States

For the reasons set forth above, the Company's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the United States.

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 cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. 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 Clearing and Depository Services Inc. ("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. 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 holders 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 the Common Shares through the facilities of a stock exchange.

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 or recreational 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 and/or recreational 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RISKS AND UNCERTAINTIES (continued)

Our business is dependent on laws pertaining to the cannabis industry.

Continued development of the marijuana industry is dependent upon continued legislative authorization of the use and cultivation of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of marijuana, which would negatively impact our proposed business.

Currently, thirty-three states and the District of Columbia allow its citizens to use medical cannabis. Additionally, ten states have legalized cannabis for adult use, including the states of Oregon and California. The state laws are in conflict with the

federal CSA, which makes marijuana use and possession illegal on the federal level. The Obama administration, pursuant to the Cole Memorandum, previously effectively stated that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, the Sessions Memorandum under the Trump administration has reversed this position which creates a risk of prosecution by a number of federal agencies. Additionally, there can be no assurance as to the position any new administration may take on cannabis and could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Company and its shareholders.

Cannabis remains illegal under Federal law

Cannabis is a Schedule I controlled substance and is illegal under federal U.S. law. Even in those states in which the use of cannabis has been legalized, its use remains a violation of federal law. Since federal law criminalizing the use of cannabis preempts state laws that legalize its use, strict enforcement of federal law regarding cannabis would harm the Company's business, prospects, results of operation, and financial condition.

Unfavourable Tax Treatment of Cannabis Businesses

Under Section 280E of the U.S. Internal Revenue Code ("**Section 280E**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted." This provision has been applied by the IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its income tax expenses.

State Regulatory Uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. The Company's legal team will provide guidance in regards to any rulemaking processes and resulting regulatory changes. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Company's business activity. Although legal under Oregon state law, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Company's business.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RISKS AND UNCERTAINTIES (continued)

Restricted Access to Banking

In February 2014, the Financial Crimes Enforcement Network (“FinCEN”) bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis businesses, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defences from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States 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. In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in the Company’s ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

Limited Trademark Protection

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

Potential FDA Regulation

Should the federal government legalize cannabis, it is possible that the U.S. Food and Drug Administration (the “FDA”), would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company’s business, operating results and financial condition.

Legality of Contracts

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

Nature of Licenses

In California, the Company is relying upon a cannabis license to operate its business. The license granted by the Bureau of Cannabis Control is temporary and it's not guaranteed that the Company will obtain the annual license. The provisional license (C11-0000967-LIC) in California is set to expire on August 7, 2020. Due to the temporary nature of the licenses, there is a risk that the Company will be unable to renew these licenses and to continue to rely on their terms to operate its business.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE MONTHS ENDED SEPTEMBER 30, 2021

RISKS AND UNCERTAINTIES (continued)

The Company has a limited operating history

The Company has a limited operating history and may not succeed. The Company is subject to all risks inherent in a developing business enterprise. The Company's likelihood of continued success must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the competitive and regulatory environment in which it operates. For example, the adult use cannabis industry is a relatively new industry which, as a whole, may not succeed, particularly should the federal government of the United States decide to prosecute various parties under federal law.

The Company's products

As a relatively new industry, there are not many established players in the recreational cannabis industry whose business model the Company can follow or build on the success of. Similarly, there is no information about comparable companies available for potential investors to review in making a decision about whether to invest in the Company.

Shareholders and investors should further consider, among other factors, the Company's prospects for success in light of the risks and uncertainties encountered by companies that, like the Company, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur and they may result in material delays in the operation of The Company's business. The Company may not successfully address these risks and uncertainties or successfully implement its operating strategies. If the Company fails to do so, it could materially harm the Company's business to the point of having to cease operations and could impair the value of the Company Shares to the point investors may lose their entire investment.

The Company has committed, and expects to continue to commit, significant resources and capital to develop and market existing products and new products and services. These products are relatively untested, and the Company cannot assure shareholders and investors that it will achieve market acceptance for these products, or other new products and services that The Company may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business. In addition, new products and services may pose a variety of challenges and require the Company to attract additional qualified employees. The failure to successfully develop and market these new products and services could seriously harm the Company's business, financial condition and results of operations.

Unfavourable Publicity or Consumer Perception

Proposed management of the Company believes the recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the recreational cannabis produced. Consumer perception of the Company's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the recreational cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of recreational cannabis in general, or the Company's proposed products specifically, or associating the consumption of recreational cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.