



**FIORE CANNABIS LTD.**

**(Formerly Citation Growth Corp. and Liht Cannabis Corp.)**

**MANAGEMENT DISCUSSION & ANALYSIS**

**For the three and six months ended September 30, 2020**

## Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Fiore Cannabis Ltd., formerly Citation Growth Corp. and Liht Cannabis Corp. and its subsidiaries (collectively, the "Company" or "Fiore") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and six months ended September 30, 2020. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2020 and 2019 and the notes related thereto (the "Interim Financial Statements") and the annual audited consolidated financial statements for the year ended March 31, 2020. A copy of the Interim and Annual Financial Statements is posted on the SEDAR website, [www.sedar.com](http://www.sedar.com).

The Interim Financial Statements were prepared in accordance with IAS 34 Interim Financial Reporting of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All information in this MD&A is current as of November 30, 2020, unless otherwise indicated. All dollar figures are expressed in thousands of Canadian dollars, except for share data, or unless otherwise noted.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. The Interim Financial Statements and MD&A have been reviewed by the Company's Audit Committee and approved by the Board of Directors on November 30, 2020.

This MD&A may contain forward-looking statements and should be read in conjunction with the cautionary statement on forward-looking statements at the end of this MD&A. These forward-looking statements are based on assumptions and judgments of management regarding events or results that may prove to be inaccurate resulting from risk factors beyond its control. Actual results may differ materially from the expected results.

### Cannabis Industry Involvement Statement

Cannabis is legal in each jurisdiction where Fiore is engaged in, however, cannabis remains illegal under US federal law and the approach to enforcement of US federal law against cannabis is subject to change. Shareholders and investors need to be aware that adverse enforcement actions could affect their investments and that Fiore's ability to access private and public capital could be affected and or could not be available to support continuing operations. Fiore's business is conducted in a manner consistent with each jurisdiction's laws and complies with their licensing requirements. The Company has internal compliance procedures in place as well as compliance focused attorneys engaged to monitor changes in laws and compliance with Canadian, US Federal and State Law.

In Nevada, the Company holds state approved licenses for medical and recreational cultivation and production. The Company complies with its ongoing monthly reporting and inspections for its licensing in Nevada, with the City of North Las Vegas and the Nevada Department of Taxation. The company has not renewed its distribution license application as third-party distributors prove more cost effective.

In California, the Company holds an adult-use license and a medicinal cannabis retail license. The Licensing in California is done through the State of California and all regulatory compliance has been followed with these licenses. The Company also owns two properties, with two conditional use permits for medical and adult use cannabis cultivation associated to each property.

In Canada, the Company, owns a 40-acre property located in Celista, British Columbia and has two cannabis growing facilities that are under construction. A total of ten engineered bio-secure facilities (each totalling 10,000 square feet) can be constructed on the site. Two buildings are currently being constructed, of which one is nearing completion. The Company currently has a pending late-stage 100,000 sq. ft. license application submitted to Health Canada under the Cannabis Act for the property. On August 3, 2020, the Company entered into an Offer to Purchase agreement to sell Celista project for a consideration of \$8,500. On September 1, 2020, the Company announced the extension of the agreement.

The Company has the same philosophical view as the guidelines set out in the Cole Memo (rescinded), and strictly complies with its guidelines, which include: preventing the distribution of cannabis to minors, preventing revenue from the sale of cannabis going to criminal enterprises, preventing the diversion of cannabis from states where it is legal to states where it is not, preventing state legal activity from being a “front” for the distribution of other illicit drugs, preventing violence in the cultivation and distribution of cannabis, preventing intoxicated driving and other public health consequences associated with cannabis use, preventing of cultivation of cannabis on public lands, as well as, preventing the use of cannabis on Federally owned property.

## Corporate Overview

Fiore Cannabis Ltd. (“Fiore” or the “Company”), was incorporated under the *Business Corporations Act* (British Columbia) on April 24, 2007 as “0789189 B.C. Ltd”. On March 5, 2012, the Company approved a plan of arrangement with its parent company, Whitewater Resources Ltd., and became a reporting issuer. On May 21, 2013, the Company changed its name to “Capital Auction Market Inc”. On August 1, 2014, the Company changed its name to “Marapharm Ventures Inc”. On October 24<sup>th</sup>, 2018, the Company changed its name to “Liht Cannabis Corp.”. On June 7, 2019, the Company changed its name to “Citation Growth Corp.” and on October 28, 2020, the Company changed its name to “Fiore Cannabis Ltd.”.

On June 12, 2019, the Company consolidated its share capital on the basis of one (1) post-consolidated common share for every four (4) pre-consolidated common shares. All information in these MD&A is presented on a post-share consolidation basis.

The Company’s common shares are currently trading on the Canadian Stock Exchange (“CSE”) under the symbol “FIOR” and on the OTCQX Markets under the ticker symbol “FIORF”.

Fiore is in the business of cultivation and production of medical and recreational marijuana with operations in the United States in the states of Nevada and California. The Company has six state approved licenses in Nevada which consist of medical and recreational marijuana cultivation licenses, medical and recreational production licenses, medical cannabis licenses associated with lands owned in Washington, and a distribution license with a dispensary in California. The Company also has a pending application with Health Canada to become a licensed producer under the Cannabis Act (Canada) (“Cannabis Act”).

## Business Overview

### Nevada, United States

The Company holds 6 state approved licenses, which include two medical cultivation, two recreational cultivation, one medical production and one recreational production licenses.

Fiore's two 5,000 sq. ft. facilities located on its 7.1 acres of property at the Apex Business Park in North Las Vegas, Nevada. The facilities currently produce an average of 436 kilograms annually and annual full capacity is at 977 kilograms. During the first quarter of fiscal year 2021, the company started upgrading the grow methodologies by procuring an improved soil recipe and starting a wholesale light changeover to LED lighting which has the capabilities of doubling current capacity. The licenses are approved to expand to up to approximately 300,000 sq. ft. of both cultivation and production facilities. The Company's products include certified Enviroganic premium flower and pre-rolls. The average selling price of organic buds was \$8.98 per gram, with prices ranging from \$8.82 to \$9.83 per gram and the average selling of price pre-rolls is \$6.74, with prices ranging from \$6.34 to \$7.34 per pre-roll.

All premium cannabis is certified as organically grown by Envirocann. The certifications provide verification that the Company meets or exceeds NOP (National Organic Program) standards for cultivation and that it is using only OMRI, WSDA or CDFA certified inputs, is following social justice directives and has accurate and complete record keeping practices.

Fiore will begin to diversify its product lines in the upcoming months to offer its customers a wide range of premium quality flower, extracts and concentrates. The Company's focus will be on its certified organic Diamante Labs products that are healthier for the end user. Diamante Labs was founded on the determination to formulate high quality extracts by using closed loop hydrocarbon processes.

The COVID-19 pandemic saw the Las Vegas cannabis market close down due to government regulations. The global pandemic affected the normal course of business and created a level of uncertainty. Fiore took this unfortunate time to shift focus to operation and growth efficiencies and prepare for the reopening of the cannabis market and dispensaries. In July 2020, the moratorium of the cannabis licenses in Nevada were lifted by the newly created Cannabis Control Board (CCB) which has created opportunities for the purchase and transfer of cannabis licenses.

### **Desert Hot Springs, California, United States**

The Company owns a total of 2.47 acres of properties located in Desert Hot Springs, California. There are two conditional use permits for medical and adult recreational cannabis cultivation facilities awarded to these properties. The company applied for a 10-year extension on these permits and were approved on September 1, 2020.

The Company is operating a dispensary in Desert Hot Springs, California, Green Leaf Wellness Dispensary LLC ("Green Leaf"), which currently holds an Adult-use and Medicinal retail licenses.

### **Lynden, Whatcom County, Washington, United States**

The Company, through Marapharm Washington, LLC ("MWA"), owns 13.85 acres of land and buildings specifically approved for cannabis business use. During the six months ended September 30, 2020, the property was sold for gross proceeds of \$2,500 USD.

### **Kelowna, BC, Canada**

#### *Celista Project*

The Company, through Full Spectrum Medicinal Inc. ("Full Spectrum"), owns a 40-acre property and two cannabis growing facilities that are under construction located in Celista, British Columbia. A total of ten engineered bio-secure facilities (each totaling 10,000 square feet) can be constructed on the site (the "Celista

Project”), and Fiore currently has a pending late-stage 100,000 square foot license application under the Cannabis Act for the Celistra Project. Two 10,000 square foot facilities are under construction, one of which is nearing completion.

On January 30, 2019, the Company entered into an agreement with 1186626 BC Ltd. (“118”) to jointly develop the Celistra Project (the “JV Agreement”). 118 will provide a capital contribution of \$10,000 (the “Contribution”) to be paid in four tranches for each two 10,000 sq. ft. facilities getting completed and operational, while the Company secures the license for the Celistra Project.

Pursuant to the agreement, each of the Company and 118 will be entitled to receive 50% of the net cashflows from the Celistra Project within three years after the date that all ten facilities are concurrently fully operational and in full production (the “Distribution”), and 100% to the Company thereafter. In the event 118 defaults in payment of any portion of the Contribution, its entitlement to the Distribution shall be reduced by 12.5% for each tranche or portion not advanced to the Celistra Project until such time the default has been remedied.

In November 2019, the Company and 118 entered into an amended JV Agreement (the “Amended JV Agreement”). Under the Amended JV Agreement, the Contribution will be \$6,350 (the “Amended Contribution”) to finance the completion of the 10,000 square foot facility, and the Distribution will be 80% to 118 and 20% to the Company until the first year anniversary that 118’s Amended Contribution has been fully repaid, and 100% to the Company thereafter. All other terms of the JV Agreement remain the same.

In consideration of the Amended Agreement, the Company agreed to terminate its joint venture agreement with 118 with respect to the Chase Project. Additionally, the Company agreed to assign all of its right, title, interest in and to the Bud For You Inc. to 118. See “*Buds For You Inc.*” below.

On August 3, 2020, the Company entered into an Offer to Purchase agreement with respect to a proposed acquisition of the Celistra Project for a consideration of \$8,500 CAD. As at September 30, 2020, the assets and liabilities of Celistra Project, which includes land located in Celistra, BC, and the late-stage license application under the Cannabis Act, have been reclassified as held for sale. On the closing of the sale and satisfactory completion of any obligations to 118, the amended November 2019 JV agreement will be terminated.

### [Chase Project](#)

On January 30, 2019, as amended on May 6, 2019, the Company, through Full Spectrum, entered into a joint venture agreement with 118 and 1196788 BC Ltd. (“119”) to develop and operate cannabis production facilities located in Chase, British Columbia (the “Chase Project”) through 119. 119 which is currently controlled by 118 purchased a 120 acre parcel of land located in Chase, British Columbia, zoned for the purpose of developing and operating bio-secure organic cannabis production facilities of up to 486,000 square feet. 118 will be financing the Chase Project while Fiore is in the process of securing a license under the Cannabis Act for the Chase Project. See “*Buds For you Inc.*”

118 will pay all capital contributions of approximately \$81,600 on the Chase Project. Upon repayment of two-thirds of the total capital contributions to 118, 119 will issue 50% of its issued and outstanding shares to the Company such that 119 will be equally held by the Company and 118. In addition, a director of the Company will be appointed to the board of 119 resulting in both parties having a representation on the board of 119.

Under the agreement, the Company and 118 will be entitled to 20% and 80%, respectively, of the net cashflows from the Chase Project if at the time of the distribution, 118 has not been repaid in full for all of its capital contributions. If at the time of distribution, 118 has been fully repaid, the distribution shall be 50% to each of the Company and 118.

In consideration of the Amended Agreement, the Company agreed to terminate its joint venture agreement with 118 with respect to the Chase Project. See “*Celista Project*” above.

#### [Buds For You Inc. \(“Buds”\)](#)

The Company, through Full Spectrum, entered into a Share Exchange Agreement (the “Agreement”) dated April 19, 2019 to acquire Buds For You Inc. (“Buds”), a late stage cannabis cultivation, processing and sales license applicant under the Cannabis Act (the “Buds License”). The Company intends to transfer the Buds License to 119 on closing of the acquisition. See “*Chase Project*”

In November 2019, in consideration of the Amended JV Agreement, the Company agreed to assign all of its right, title, interest in and to the Buds to 118. See “*Celista Project*” above.

## **Significant Events and other Corporate Developments during Six Months ended September 30, 2020**

### **Financing**

On August 20, 2020, the Company closed the first tranche of a private placement of two-year 10% unsecured non-convertible debentures for total gross proceeds of \$780. The debentures mature on August 20, 2022 at a price of \$1,000 per debenture unit. Each debenture unit consisted of \$1,000 principal amount of debenture and 2,000 common share purchase warrant exercisable at \$0.15 per share for a period of 2 years. The Company paid \$39 in cash and issued 78,000 common share purchase warrants at a fair value of \$3 as finder’s fee.

On June 24, 2020, the Company closed the second, third and final tranche of a non-brokered private placement of 3,930,721 units at \$0.15 per unit for gross proceeds of \$589. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share of the Company at a price of \$0.22 per share for a period of 18 months expiring December 25, 2021, subject to an accelerated expiry if the VWAP of the Company’s common shares is equal to or above \$0.50 for a period of ten consecutive trading days.

### **ACC Settlement (“the Settlement”)**

On August 18, 2020, Howard Misle, the former CEO and director of the company and the former controlling shareholder of ACC, entered into a settlement agreement with the Company to reacquire the legal title of ACC in return of 18,515,424 common shares of the Company. In addition, the Company agreed to pay (i) US\$650 on or before August 18, 2020 (ii) US\$453 to be paid as follows: US\$75 (minimum) by February 17, 2021 and the balance in six equal monthly payments from March 15, 2021 to August 15, 2021. A total amount of \$1,456 (US\$1,103) has been accrued for the settlement. Pursuant to the settlement agreement, on its closing, ACC was dissolved.

As at March 31, 2020, an estimated fair value of \$1,574 for the 18,515,424 common shares was included in the treasury reserve. On August 25, 2020, 18,515,424 common shares were returned to the treasury for cancellation.

On January 1, 2020, the Company lost its de facto control of ACC shortly followed by the resignation of Howard Misle, for former controlling shareholder of ACC, on January 13, 2020. As a result, the Company deconsolidated ACC and recognized a loss on deemed disposal of subsidiary of \$12,253 which consists of (i) \$10,982 from the settlement based on the net liabilities of \$3,023 of ACC as at January 1, 2020, (ii) \$221 of accounts receivable write off and (iii) \$901 of inventory write off, and (iv) \$149 of legal fees incurred during the acquisition.

As of March 31, 2020, the assets and liabilities of ACC were deconsolidated from the Company's Consolidated Statements of Financial Position as a result of the Settlement and its results of operations were reclassified and included in loss from discontinued operations for all periods.

### **Celista Project**

On August 3, 2020, the Company entered into an Offer to Purchase agreement with respect to a proposed acquisition of the Celista Project for a consideration of \$8,500. As at September 30, 2020, the assets and liabilities of Celista Project has been reclassified as held for sale.

### **Changes to the Board of Directors and Management**

Mr. Alnoor Nathoo resigned from the Board effective July 22, 2020.

The Company appointed Mr. Ron Stern to the Board effective July 22, 2020.

### **Subsequent Events**

#### **Financing**

On October 21, 2020, the Company closed the second tranche of a private placement of two-year 10% unsecured non-convertible debentures for total gross proceeds of \$252. The debentures mature on October 21, 2022 at a price of \$1 per debenture unit. Each debenture unit consists of \$1 principal amount of debenture and 2,000 common share purchase warrants exercisable at \$0.15 per share for a period of 2 years. The Company paid \$13 in cash and issued 25,000 common share purchase warrants as finder's fee. Together with the first tranche closed on August 20, 2020, the Company raised a total of \$1,032.

### **Changes to the Board of Directors and Management**

The Company appointed Mr. Dylan Rexing to the Board effective October 7, 2020.

Mr. Kevin Cornish resigned as interim director effective October 7, 2020 and continue to be the CFO/COO of the Company.

The Company appointed Mr. James O'Sullivan as Company Secretary effective November 23, 2020.

### **LOI to Purchase Micro Cultivation Facility in British Columbia**

On October 6, 2020, the Company executed a non-bonding letter of intent with 1208417 BC. Ltd dba Laughing Turtle Farms to purchase their micro cultivation facility in British Columbia. The Company

anticipated the execution of a Definitive Agreement to purchase the business and micro license application on or before November 30, 2020.

### **LOI to Purchase Retail Cannabis Locations in Okanagan Valley of B.C.**

On October 8, 2020, the Company executed a non-bonding letter of intent with 1260474 BC. Ltd. To purchase two completed retail cannabis stores located in the Okanagan Valley of British Columbia. The Company anticipated the execution of a Definitive Agreement on or before November 30, 2020.

### **LOI to Establish Supply Agreement with Boaz Craft Cannabis**

On October 19, 2020, the Company executed a non-bonding letter of intent with Boaz Craft Cannabis based in Calgary, Alberta to supply cannabis from its micro cultivation facility in Vernon, BC (Laughing Turtle Farms) in 2021 upon the closing of Laughing Turtle Farms Definitive Agreement.

### **LOI of US\$2 Million Secured Loan**

On November 17, 2020, the Company executed a non-bonding letter of intent with a private company for a secured loan of US\$2,000. The loan carries an interest rate of 10% per annum and is secured by the Apex facility in North Las Vegas and dispensary in Desert Hot Springs. The loan has a one-year term with an option to extend by one additional year. In consideration of the loan, the Company will issue three million shares to the lender at a price of \$0.085 and two million common share purchase warrants at an exercise price of \$0.15 upon closing. The execution of the definitive agreement will occur on or before December 15, 2020.

### **Selected Quarterly Financial Information**

Quarters ending		Revenue	Net loss from continuing operations	Net loss and comprehensive loss	Basic and diluted loss per share
		\$	\$	\$	\$
Q2 2021	30-Sep-20	550	(962)	(1,248)	(0.01)
Q1 2021	30-Jun-20	578	(5,043)	(5,655)	(0.04)
Q4 2020	31-Mar-20	529	(28,433)	(26,932)	(0.30)
Q3 2020	31-Dec-19	690	(3,293)	(4,733)	(0.03)
Q2 2020	30-Sep-19	741	(3,546)	(3,994)	(0.04)
Q1 2020	30-Jun-19	650	(2,934)	(3,355)	(0.04)
Q4 2019	31-Mar-19	413	(15,618)	(14,923)	(0.30)
Q3 2019	31-Dec-18	330	(5,305)	(5,326)	(0.09)

As of Q4 2020, the assets and liabilities of ACC were deconsolidated from the Company's Consolidated Statements of Financial Position as a result of the Settlement and its results of operations were reclassified and included in loss from discontinued operations for all periods.

## Discussion of Operations

### Revenues

The Company's revenues were derived from the sale of cannabis produced from the Company's North Las Vegas facilities as well as sales from the California Green Leaf dispensary.

The Company commenced operations at its Las Vegas facilities and commercial wholesale of recreational cannabis in May 2019. Due to the Coronavirus pandemic and shut down of adult-use dispensaries in Las Vegas, the Company did not generate any revenue during the three and six months ended September 30, 2020 as compared to gross revenue of \$266 and \$415 during the three and six months ended September 30, 2019, respectively.

During the three and six months ended September 30, 2020, the Company generated gross revenues of \$550 and \$1,108 (Net revenues - \$503 and \$1,010), respectively, from its California dispensary as compared to gross revenues of \$452 and \$922 during the three and six months ended September 30, 2019, respectively.

### Cost of Sales

Cost of sales consists mainly of production costs, costs of goods purchased and fair value adjustments on sale of inventory and biological asset transformation.

The costs of goods purchased during the three and six months ended September 30, 2019 amounted to \$344 and \$690, respectively, which consisted of cannabis and other products purchased for resale through the California dispensary.

Fair value adjustments relate to biological assets and inventory. Biological assets consist of cannabis plants at various stages of growth before harvest which are recorded at fair value less costs to sell. At harvest, the biological assets are transferred to inventory at their fair value which becomes the deemed cost for inventory. After harvest, costs are capitalized to inventory and expensed to costs of sales when sold.

During the three and six months ended September 30, 2020, the Company recognized an unrealized loss due to biological asset transformation of \$20 and \$107 (2019 – unrealized gain of \$210 and \$287), respectively. During the six months ended September 30, 2020, the Company produced 73,440 grams of dried cannabis which were stored as fresh frozen for future extraction purposes. As of September 30, 2020, the biological assets were on average 52% complete and it was expected that the Company's biological assets would yield approximately 45,760 grams of cannabis when harvested. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair values of biological assets. The weighted average fair value less cost to complete and cost to sell of the cannabis plants was \$4.35 per gram.

## General and Administrative Expenses

General and administrative expenses consisted of the following:

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Consulting fees	97	482	241	535
Shareholder and investor relations	31	219	602	430
Office and general	156	213	445	539
Professional fees	97	90	270	185
Management fees and wages	217	266	1,323	531
	598	1,270	2,881	2,220

Consulting fees decreased by \$385 and \$294, during the three and six months ended September 30, 2020, respectively. During the six months ended September 30, 2019, the Company issued 1,100,000 common shares at fair value of \$413 for service provided by certain consultants in related to the Celista project.

Shareholder and investor relations increased by \$172 for the six months ended September 30, 2020. The increase was primarily attributed to 5,200,000 common shares issued by the Company at a fair value of \$520 to contractors for shareholder relations services and other promotional activities to create investor awareness.

Management fees and wages increased by \$792 during the six months ended September 30, 2020 as a result of 8,702,020 common shares issued to the management for signing bonus and services at a fair value of \$858.

## Depreciation and Amortization

Depreciation and amortization were \$231 and \$456, respectively, during the three and six months ended September 30, 2020 (2019 - \$105 and \$228). The Company recorded depreciation of \$194 and \$380 for the three and six months ended September 30, 2020, respectively, (2019 - \$21 and \$61), for the North Las Vegas facilities and the dispensary in California. During the three and six months ended September 30, 2020, the Company recorded amortization of \$37 and \$76, respectively, (2019 - \$84 and \$167), for the Las Vegas and California marijuana licenses.

## Share-based Compensation

Share-based compensation decreased by \$2,176 and \$2,947 during the three and six months ended September 30, 2020, respectively.

During the three and six months ended September 30, 2020, the Company recognized share-based compensation of

- \$762 for 7,951,108 RSUs awarded;
- \$505 for 7,986,108 options granted; and

During the three and six months ended September 30, 2019, the Company recognized share-based compensation of \$1,576 and \$3,459, respectively, for 5,705,000 RSUs awarded, \$44 and \$199, respectively, for 566,250 options granted and \$566 and \$566, respectively, for performance and retention bonus shares granted. The RSUs and options vest over a period of one year end the performance and retention bonus shares vest on November 30, 2019.

## **Finance and Other Costs**

Finance and other costs included interests on loans and borrowings, convertible debenture accretion expenses, lease liability accretion expenses and bank charges. For the three and six months ended September 30, 2020, financing costs were \$540 and \$1,337, respectively, representing a decrease of \$185 and \$77, respectively, from the three and six months ended September 30, 2019. The decrease in financing was mainly due to the decrease in accretion expense from debentures over the terms.

## **Outlook**

The company is focusing on operational and financial efficiencies in relation to its core assets and potential divestitures of its noncore assets. These strategies will help enhance the Company's suite of portfolio products with the addition of a new established brand Diamante within the state of Nevada to complement Fiore's established Fiore cannabis flower brand.

## **Liquidity and Capital Resources**

The Company manages liquidity risk by ensuring, as far as reasonably possible, that it has sufficient capital to meet working capital and operating requirements as well as its financial obligations and commitments. The Company has historically financed its operations and met its capital requirements primarily through debt and equity financings. The Company's facilities in Las Vegas Nevada are now fully operational and wholesale sales of recreational cannabis started in May 2019. However, the Company is still currently dependent on its ability to raise funds through debt and equity financings and disposition of its assets consisting of lands and buildings in British Columbia and California.

As of September 30, 2020, the Company had working capital deficiency of \$6,235 (March 31, 2020 - working capital deficiency of \$4,440) and cash of \$124. The decrease in working capital of \$1,795 was primarily due to increases in loans and borrowings of \$1,375, convertible debentures payable of \$472, decrease in assets held for sale of \$3,444 offset by decrease in the liabilities associated with assets held for sale of \$3,088 and increase in prepaid expenses and deposits of \$455.

Net cash on hand increased from \$49 as at March 31, 2020 to \$124 as at September 30, 2020. The increase in cash resulted mainly from net cash generated from financing activities of \$2,041 offset by net cash used for operations of \$1,741, and capital expenditures of \$221.

## **Operating activities**

For the six months ended September 30, 2020, cash used in operating activities resulted primarily from cash flows used for operations of \$1,422 and cash outflows of \$319 related to changes in non-cash working capital. Cash used in operating activities for the six months ended September 30, 2019 resulted primarily from cash flows used for operations of \$1,407 and cash outflows of \$82 related to changes in non-cash working capital.

## **Investing activities**

Cash used in investing activities for the six months ended September 30, 2020, consisted of purchase of production equipment of \$163 and acquisition of intangible assets of \$58 related to the Nevada marijuana cultivation license.

Cash used in investing activities for the six months ended September 30, 2019 was for the constructions of facilities of \$129, purchase of production equipment of \$326, leasehold improvement of \$30 and acquisition of intangible assets of \$215 related to the Nevada cultivation marijuana license and Health Canada license application.

### Financing activities

Cash provided by financing activities for the six months ended September 30, 2020, primarily consisted of shares issued for cash of \$590 and loans and borrowings of \$1,541. During the six months ended September 30, 2020, the Company closed a non-convertible debenture private placement for gross proceeds of \$780 and received a short-term loans from the directors of the Company in an aggregated amount of \$633.

Cash provided by financing activities for the six months ended September 30, 2019 was primarily from loans and borrowings of \$1,352, subscription received of \$830 and convertible debentures of \$488.

### Capital Expenditures

The Company's capital expenditures include buildings under construction, buildings and leasehold improvements, production equipment and other equipment and furniture. Such expenditures are funded through joint ventures, loans and borrowings and debt and equity financings. Capital expenditures for the six months ended September 30, 2020 were \$578 as compared to \$6,353 for the six months ended September 30, 2019.

### Contractual Obligations

A summary of the Company's contractual obligations which outlines the year the payments are due is as follows:

	Total	< 1 year	1 – 3 years	3 – 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	5,204	5,204	-	-
Income tax payable	245	245	-	-
Loans and borrowings	3,068	2,375	693	-
Convertible debentures	4,794	4,323	471	-
Lease liabilities	343	161	182	-
Liabilities associated with assets held for sale	3,444	3,444	-	-
	17,098	15,752	1,346	

The Company has limited capital and plans to satisfy its requirements for the next 12 months through equity and debt financings and sale of its none-core assets.

Management is committed to raising additional capital to fund its operations and meet its financial obligations and commitments. Although the Company has raised funds during the quarter end, there can be no assurance that it will be able to secure additional financing. The Company has properties in British Columbia and California listed for sale.

### Capital Disclosure

The Company considers its capital structure to include net residual equity of all assets, less liabilities. Capital is comprised of the Company's shareholders' equity and any debt that it may issue. As at September 30, 2020,

the Company's shareholders' equity was \$14,132 (March 31, 2020 - \$17,638) and it had current liabilities of \$15,836 (March 31, 2020 - \$17,218). Management's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of share capital and working capital.

To achieve this objective, management adjusts its capital resources to respond to changes in economic conditions and risk characteristics of the underlying assets. The capital resources used for operations were mainly from proceeds of the issuance of common shares.

## Off-Balance Sheet Arrangements

The Company had no material off-balance sheet arrangements as at September 30, 2020 and as at the date of this MD&A, that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

## Related Party Transactions

The compensation paid or payable to directors, officers and former officers of the Company included consulting and management services, and an aggregate of 7,336,108 stock options (2019 – 2,571,250) and 9,476,108 RSUs (2019 – 2,750,000) issued to these related parties.

During the three and six months ended September 30, 2020 and 2019, the compensation paid or accrued to directors and officers consisted of the following:

	Three months ended September 30		Six months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Consulting fees to former directors and officers<sup>(i)</sup></b>				
Linda Sampson – former CEO & director	15	15	30	15
Corey Klassen – former director	-	15	-	15
	15	30	30	60
<b>Management fees<sup>(i)</sup></b>				
Erik Anderson – CEO & director	60	-	373	-
Kevin Cornish – CFO, COO & director	45	-	146	-
Marcel LeBlanc – Chairman & director	-	-	3	-
Richard Huhn – former director	-	-	445	-
Alnoor Nathoo – former director	-	-	86	-
Howard Misle – former CEO	-	55	-	55
Nilda Rivera – former CFO	-	41	-	79
Rahim Mohamed – former CEO & director	-	40	-	70
Kurt Keating – former Director of US Operations	-	44	-	88
Hanspaul Pannu – former CFO	-	10	-	25
	105	190	1,053	317
<b>Share-based compensation</b>				
Erik Anderson – CEO & director	-	-	332	-
Kevin Cornish – CFO, COO & director	-	-	164	-
Marcel LeBlanc – Chairman & director	-	408	423	763
Shane Dungey – director	-	-	182	-
Alnoor Nathoo – former director	-	-	155	-
Richard Huhn – former director	-	137	9	385

Nilda Rivera – former CFO	-	149	-	275
Rahim Mohamed – former CEO & director	-	296	-	594
Hanspaul Pannu – former CFO	-	63	-	146
Linda Sampson – former CEO & director	-	5	-	13
Raman Gill – former director	-	9	-	9
	-	1,067	<b>1,265</b>	2,185
	<b>120</b>	1,287	<b>2,348</b>	2,562

All related party transactions were in the ordinary course of business and were measured at their exchange amount as agreed to by the related parties.

## Commitments and Contingencies

Please refer to Note 18 to the Company’s Interim Financial Statements for a detailed disclosure on commitments and contingencies including outstanding claims and litigations.

## Critical Accounting Estimates

The preparation of the Company’s Interim Financial Statements in conformity with IFRS requires management to exercise judgment and to make estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and disclosures. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Refer to note 3 to the 2020 Annual Financial Statements for a detailed discussion of the areas in which critical accounting estimates were made and where actual results may differ from the estimates under different assumptions and conditions that may materially affect financial results of the Company’s statement of financial position reported in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## Changes in Accounting Policies

The Company adopted the new IFRS 3 – Business Combinations accounting standard effective April 1, 2020. The adoption of this standard did not have a material impact on the unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2020.

## Financial Instruments

	Fair value	Basis of measurement	Fair value hierarchy
	\$		
<b>Financial assets</b>			
Cash	124	Amortized cost	Level 1
Accounts receivable	33	Amortized cost	Level 2
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	5,204	Amortized cost	N/A
Income tax payable	245	Amortized cost	N/A
Loans and borrowings	3,068	Amortized cost	Level 2
Convertible debentures <sup>(1)</sup>	4,794	Amortized cost	Level 2
Derivative liabilities <sup>(1)</sup>	84	FVTPL	Level 3

The Company is exposed in varying degrees to a few risks from financial instruments. A discussion of the types of financial risks the Company is exposed to, and how such risks are managed by the Company, is provided in note 21 to the Interim Financial Statements.

## Summary of Outstanding Share Data

As at the date of this MD&A, the Company had the following issued and outstanding securities:

Description of securities	Number of securities Post-consolidation
Issued and outstanding common shares	133,146,394
Warrants	36,849,312
Stock options	10,582,358
RSUs	-
Convertible debentures	4,439,217

## Controls and Procedures

In connection with National Instrument 52-109 (“NI 52-109”), the CEO and CFO of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the Interim Financial Statements and accompanying MD&A as at September 30, 2020 (together the “Interim Filings”).

In contrast to the certificate under NI 52-109, the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

## Disclosure Controls and Procedures

Disclosure controls and procedures (“DC&P”) are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting (“ICFR”) are intended to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with IFRS.

Venture companies are not required to provide representations in the Annual and Interim Filings relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **Additional Information**

Additional disclosure of the Company's, material change reports, new release, and other information can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com), or by requesting further information from the Company's head office in Kelowna, BC Canada.

## **Cautionary Statement Regarding Forward-Looking Information**

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. These statements relate to future events or future performance. Statements which are not purely historical are forward-looking statements and include any statements regarding beliefs, plans, outlook, expectations or intentions regarding the future including words or phrases such as "anticipate", "objective", "may", "will", "might", "should", "could", "can", "intend", "expect", "believe", "estimate", "predict", "potential", "plan", "is designed to", "project", "continue", or similar expressions suggest future outcomes or the negative thereof or similar variations. Forward-looking statements may also include, among other things, statements about the Company's: ability to reinvest profits generated from its operations; future business strategy; expectations of obtaining licenses and permits; expectations regarding expenses, sales and operations; future customer concentration; anticipated cash needs and estimates regarding capital requirements and the need for additional financing; total processing capacity; the ability to anticipate the future needs of customers; plans for future products and enhancements of existing products; future growth strategy and growth rate; future intellectual property; regulatory approvals and other matters; and anticipated trends and challenges in the markets in which the Company may operate.

Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which the Company will operate in the future, including the demand for our products; anticipated costs and ability to achieve goals; the Company's ability to complete any contemplated transactions; historical prices of cannabis; and that there will be no regulation or law that will prevent the Company from operating its businesses; the state of the economy in general and capital markets in particular; present and future business strategies; the environment in which the Company will operate in the future; the estimated size of the cannabis market; and other factors, many of which are beyond the control of the

Company. While such estimates and assumptions are considered reasonable by the management of the Company, they are inherently subject to significant business, economic, competitive and regulatory uncertainties and risks. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect. Given these risks, uncertainties and assumptions, the reader should not place undue reliance on these forward-looking statements.

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors that may cause the actual results to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: business, economic and capital market conditions; the ability to manage the Company's operating expenses, which may adversely affect the Company's financial condition; the Company's ability to remain competitive; regulatory uncertainties; market conditions and the demand and pricing for our products; exchange rate fluctuations; security threats; the Company's relationships with its customers, distributors and business partners; the Company's ability to attract, retain and motivate qualified personnel; industry competition; the impact of technology changes on the Company's products and industry; the Company's ability to successfully maintain and enforce its intellectual property rights and defend third-party claims of infringement of their intellectual property rights; the impact of litigation that could materially and adversely affect our business; the Company's ability to manage its working capital; and the Company's dependence on key personnel. The Company is not a positive cash flow company, has a history of losses and it may not actually achieve its plans, projections, or expectations.

Important factors that could cause actual results to differ materially from the Company's expectations include, consumer sentiment towards the Company's products and cannabis generally; risks related to the Company ability to maintain its licenses issued by governments in good standing; uncertainty with respect to the Company's to grow, store and sell cannabis; risks related to the costs required to meet the obligations related to regulatory compliance; risks related to the extensive control and regulations inherent in the industry in which the Company operates; risks related to governmental regulations, including those relating to taxes and other levies; risks related an early stage business and a business involving an agricultural product and a regulated consumer product; risks related to building brand awareness in a new industry and market; risks relating to restrictions on sales and marketing activities imposed by governments; risks inherent in the agricultural business; risks relating to energy costs; risks relating to product liability claims, regulatory action and litigation; risks relating to recall or return of products; and risks relating to insurance coverage; global economic climate; equipment and building failures; increase in operating costs; decrease in the price of cannabis; security threats; government regulations; loss of key employees and consultants; additional funding requirements; volatility in the securities of the Company; changes in laws; technology failures; failure to obtain permits and licenses; anticipated and unanticipated costs; competition; risks associated with the substantial obligations of being a public company; and failure of counterparties to perform their contractual obligations. This list is not exhaustive of the factors that may affect the forward-looking statements. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements.

Except as required by law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future event or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. Neither the Company nor any of its representatives make any representation or warranty, express or implied, as to the accuracy, sufficiency or completeness of the information in this MD&A. Neither the Company nor any of its representatives shall have any liability whatsoever, under contract, tort, trust or otherwise, to the reader or any person resulting from the use of the information in this MD&A by the reader or its representatives or for omissions from the information in this MD&A.