

# **LIBERTY HEALTH SCIENCES INC.**

## **(FORMERLY SECURECOM MOBILE INC.)**

### **MANAGEMENT'S DISCUSSION & ANALYSIS**

*This management discussion and analysis ("MD&A") of the financial condition and results of operations of Liberty Health Sciences Inc., (the "Company" or "Liberty") (formerly SecureCom Mobile Inc.), is for the three months ended November 30, 2017, and the period from May 1, 2017 to November 30, 2017. It is supplemental to, and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the period ended November 30, 2017, as well as the audited financial statements for the period from the date of incorporation March 20, 2017 to April 30, 2017. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").*

*This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Liberty Health Sciences Inc. is available on our website at [www.libertyhealthsciences.com](http://www.libertyhealthsciences.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

*In this MD&A, reference is made to adjusted gross profit, adjusted gross margin and EBITDA, which are not measures of financial performance under IFRS. The Company calculates each as follows:*

- Adjusted gross profit is equal to gross profit less the non-cash increase in the FV on harvest, less the non-cash increase in the FV on cost of goods sold, and less non-cash depreciation, if any. Management believes this measure provides useful information as it removes fair value metrics required by IFRS, and non-cash depreciation.*
- Adjusted gross margin is adjusted gross profit divided by revenue. Management believes this measure provides useful information as it represents the gross profit based on the Company's cost to produce inventory sold and removes fair value metrics required by IFRS.*
- EBITDA is net income (loss), plus (minus) income taxes (recovery), plus (minus) foreign exchange loss (gain), plus (minus) change in fair value of embedded derivative, plus interest accretion, plus share-based compensation, plus depreciation, plus interest expense, plus change in fair value of biological assets, plus change in fair value in cost of goods sold, and certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations.*

*These measures are not necessarily comparable to similarly titled measures used by other companies.*

*All amounts in this MD&A are expressed in Canadian dollars, unless otherwise indicated.*

*This MD&A is prepared as of January 29, 2018.*

## **COMPANY OVERVIEW**

---

Liberty Health Sciences Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) (the "BCBCA") on November 9, 2011 as SecureCom Mobile Inc. ("SecureCom").

On July 20, 2017, 1006397 B.C. Ltd. ("Subco"), a British Columbia company and wholly-owned subsidiary of SecureCom Mobile Inc., completed a business combination (the "Business Combination") with DFMMJ Investments, Ltd. ("Holdco") whereby SecureCom acquired all of the issued and outstanding shares of Holdco by way of a three-cornered amalgamation. Holdco amalgamated with Subco under the BCBCA to form a wholly owned subsidiary of SecureCom named "Liberty Health Sciences USA Ltd.". Concurrently with the Business Combination, SecureCom changed its name to "Liberty Health Sciences Inc.". Liberty's common shares (the "Common Shares") are listed under the symbol "LHS" on the Canadian Securities Exchange.

DFMMJ Investments, LLC (d/b Liberty Health Sciences Florida Ltd.) ("DFMMJ"), a wholly-owned subsidiary of the Company, is licensed to produce and sell medical marijuana in the State of Florida through the Florida Department of Health, Office of Medical Marijuana Use. The Company's business strategy is to focus on the sale of medical marijuana to patients throughout the State of Florida.

## QUARTERLY HIGHLIGHTS

---

### ***Closing of Private Placement***

During the quarter, the Company closed a private placement offering of convertible secured debentures ("Notes") for gross proceeds of \$15,466,800 (US\$12,000,000). The Notes bear interest of 12% per annum, payable semi-annually, and mature November 2020. The Notes are convertible at maturity into common shares of the Company at \$2.00 per share. The Company has the right to convert the Notes into common shares if the Company's shares are listed at a minimum of \$3.00 per share for ten consecutive trading days, on a volume weighted average basis.

### ***Listing on the OTCQX***

During the quarter, the Company graduated from the OTC Pink market to the OTCQX and began trading on the OTCX under the symbol "LHSIF".

### ***Investment in Green Tank Holdings Corp.***

During the quarter, the Company entered into a subscription agreement with Green Tank Holdings Corp. ("Green Tank") for the purchase of 49,213 preferred shares, for a total cost of \$325,003 (US\$250,000). Green Tank is the supplier of vaporizer pens for the Company, and this investment allows the Company to share in the growth of one of its major suppliers.

### ***License***

DFMMJ is licensed to operate as a "medical marijuana treatment center" under applicable Florida law and to possess, cultivate, process, dispense and sell medical marijuana in the State of Florida pursuant to the terms of the License issued by the Florida Department of Health, Office of Medical Marijuana Use under the provisions of the *Senate Bill 8A, Fla. Stat. 386.981 et seq.* DFMMJ obtained the rights to the License pursuant to an asset purchase agreement, as amended (the "Acquisition Agreement"), and a related management agreement (the "Management Agreement"), each between DFMMJ ("AcquireCo") and Chestnut Hill Tree Farm LLC ("Chestnut"). With the approval by the Florida Department of Health, Office of Medical Marijuana Use, to transfer the license to DFMMJ on September 28, 2017, the Management Agreement was terminated following the approval date. For a further description of the Acquisition Agreement and the Management Agreement, see *Quarterly Highlights – Recent Business and Other Agreements – Acquisition Agreement and Quarterly Highlights – Recent Business and Other Agreements– Management Agreement*.

### ***Expansion and Alico Acquisition***

In September 2017, Liberty's board of directors (the "Board") approved a three-part expansion process for its existing operations in Florida (the "Florida Expansion"). The first part of the Company's Florida Expansion involved the purchase of 36 acres of land in Alachua County, Florida, adjacent to and including the land used to operate its existing facility at Chestnut Hill Tree Farm, for US\$866,975 (the "Land Purchase"). Liberty entered into a conditional purchase and sale agreement in respect of the Land Purchase on August 16, 2017 and the purchase closed during the quarter.

Phase two of the Florida Expansion nears completion and is expected to increase annual medical cannabis production from 700 kgs currently to 1,600 kgs by February 2018. The previously announced, phase three and phase four of the Florida Expansion, are on hold pending the completion of the Alico Acquisition, discussed below.

LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

Subsequent to quarter-end the Company entered into a binding term sheet to acquire all the issued and outstanding shares of 242 Cannabis Canada Ltd., whose wholly owned subsidiary, 242 Cannabis, LLC, has agreed to purchase a 387 acre parcel of land in Gainesville, Florida from Alico Citrus Nursery, LLC, in exchange for 18,815,322 units of the Company (the "Alico Acquisition"). Each unit issued as part of the Alico Acquisition purchase price is to be comprised of one common share and one-half common share purchase warrant, with each whole warrant exercisable at a price of \$2.07 for a period of three years from the closing of the Alico Acquisition.

The Alico Acquisition enables the Company to expand its production a year sooner than initially projected in order to meet the growing patient demand in Florida. Upon completion of the acquisition and retrofit of the Alico facility, the Company expects to have annual production capacity of 12,000 kgs of medical cannabis. Until such time, the Company will continue to cultivate and process from the existing facility in Alachua.

### ***Rollout of Dispensaries***

Under the License, the Company is entitled to open up to 25 dispensaries across the State of Florida. In order to better serve the growing patient base, the Company has begun rolling out dispensary locations across the State. The Company opened the first location subsequent to quarter-end in the Villages community in north central Florida and, to date, has also signed leases for dispensary locations in Ft. Lauderdale, Fort Myers, Port St. Lucie and St. Petersburg. The Company has developed plans for these locations and commenced construction and expects that all of these locations will be opened by May 2018. The Company expects to have 8 to 12 dispensaries opened over the next 12 months with 15 to 18 in total by 2020.

### ***Patient Growth***

The medical cannabis marketplace in Florida is in its infancy, which is evidenced by the fact that approximately 64,000 patients have been added to the Compassionate Use Patient Registry to date statewide. With over 20 million people, Florida's patient population is vast. The patient registration volume has grown significantly in recent months as more supply has become available and as access to the growing number of physicians who are qualified to recommend medical cannabis has expanded. There are now over 1,000 qualified physicians in the State of Florida who can access medical cannabis for their patients. Patient volume is expected to continue increasing at a rapid pace in light of the expanded medical uses as well as the broad availability of high THC products. With expanded production capabilities, a primary goal of the business moving forward is the acquisition of qualified patients.

### ***Product Offerings***

During the quarter, the Company announced an exclusive licensing agreement for the state of Florida with MM Technology Holdings LLC which owns the Mary's Medicinal brand. Mary's products include marijuana infused transdermal patches, ointments and creams.

Subsequent to quarter-end, the Company also announced an exclusive licensing arrangement with MC Brands LLC whereby the Company would produce on an exclusive basis, edible products under the Incredibles brand in the State of Florida.

Both of these additions, which are subject to state approval, round out the Company's existing product line-up which includes: vape pens, capsules and tinctures.

## ***Recent Business and Other Agreements***

### ***The Offering***

On April 27, 2017, Holdco completed an equity private placement offering (the "Offering") of 56,089,743 (164,182,679 pre-consolidation) subscription receipts (the "Subscription Receipts") of Holdco at a price of \$0.624 (\$0.208 pre-consolidation) per Subscription Receipt for gross proceeds of \$34,149,997.23, pursuant to an agency agreement (the "Agency Agreement") dated April 27, 2017, between Holdco and Clarus Securities Inc. ("Clarus" or the "Agent").

Each Subscription Receipt issued under the Offering entitled the holder thereof, following the satisfaction of the Escrow Release Conditions (as defined below) without the payment of any further consideration or the undertaking of any further action by the holders thereof to receive one common share in the capital of Holdco (a "Subscription Share") immediately prior to the completion of the Business Combination.

Other than as described below, the gross proceeds from the Offering, less the Agent's commission, fees, and estimated costs and expenses, were held in escrow with TSX Trust Company pursuant to a subscription receipt agreement dated April 27, 2017 between TSX Trust Company, SecureCom, Holdco and Clarus (the "Subscription Receipt Agreement") pending the satisfaction of:

- (i) all conditions precedent to the Business Combination being satisfied or waived in accordance with the terms of the Agreement; and
- (ii) the acceptance from the Canadian Securities Exchange (the "CSE" or "Exchange") to list the Common Shares on the Exchange (collectively, the "Escrow Release Conditions").

On May 19, 2017, holders of an aggregate of approximately \$25 million of Subscription Receipts agreed to waive the application of the Escrow Release Conditions in order to fund, in part, the acquisition of the assets of Chestnut. See *The Acquisition Agreement*. Such holders were issued Holdco Shares in exchange for the cancellation of such Subscription Receipts. The balance of the proceeds held in escrow were released upon satisfaction of the Escrow Release Conditions on July 20, 2017.

The Holdco Shares issued upon the deemed exercise of the Subscription Receipts were exchanged for Common Shares on July 20, 2017.

Pursuant to the Agency Agreement, Holdco paid to the Agent, along with the reasonable expenses of the Agent, a cash commission of \$1,869,000, equal to six percent (6%) of the gross proceeds raised in the Offering, excluding the proceeds raised in connection with the sale of Subscription Receipts to certain accredited investors introduced to the Agent by Holdco (each a "President's List Purchaser"). In addition, the Agent received a total of 8,985,577 broker warrants ("Holdco Broker Warrants") entitling them to subscribe for the number of Holdco Shares as is equal to six percent (6%) of the aggregate number of Subscription Receipts sold pursuant to the Offering. Each Holdco Broker Warrant is exercisable at a price of \$0.208 for a period of 24 months following April 27, 2017. Following the Business Combination and the related consolidation, the Agents Holdco Broker Warrants were converted into 2,995,192 broker warrants of Liberty, each exercisable at a price of \$0.624.

### ***Acquisition Agreement***

On March 30, 2017, AcquireCo and Chestnut entered into the Acquisition Agreement pursuant to which AcquireCo agreed to acquire, and Chestnut agreed to sell, all or substantially all of the assets of Chestnut, the principal asset of which consists of the License, which License permits Chestnut to operate as a "dispensing organization" under applicable Florida law and to possess, cultivate, process, dispense and sell medical marijuana in the State of Florida.

## LIBERTY HEALTH SCIENCES INC. MANAGEMENT'S DISCUSSION & ANALYSIS

As consideration for the purchase of the License and related ancillary assets, AcquireCo agreed to pay the total sum of US\$40 million. The purchase price was payable by an immediate, up-front deposit of US\$3.26 million, with the balance paid on closing of the acquisition. The deposit became non-refundable after the expiration of an open due diligence period wherein AcquireCo satisfied itself of relevant due diligence investigations. A portion of the purchase price was to be held in escrow for a period of 12 months as a customary indemnity holdback to satisfy any indemnity claims that may be made by AcquireCo. Holders of an aggregate of approximately \$25.0 million of Subscription Receipts (or approximately US\$18.4 million) from the Offering waived the application of the Escrow Release Conditions in order to fund, in part, the purchase price and the balance of the purchase price (less the non-refundable deposit) was funded by Aphria Inc. ("Aphria").

The Acquisition Agreement was amended to clarify certain clerical matters on April 13, 2017 and further amended on May 19, 2017 (the "Second Amendment"). The Second Amendment was prepared in response to a delay by the Florida legislature to enact legislation that would have clarified the transfer protocols and authority to transfer the License. Accordingly, pursuant to the terms of the Second Amendment, the purchase of the assets of Chestnut has been effectuated in two stages.

The first stage of the purchase, which was completed concurrent with the execution of the Second Amendment on May 19, 2017, contemplated the sale of all assets of Chestnut, other than the License, on the condition that, among other things, the parties enter into the Management Agreement in respect of the control and operation of Chestnut, as further described below. The second stage of the purchase and sale was to be completed upon the approval of the State of Florida to transfer the License to AcquireCo. Prior to approval by the State of Florida for the transfer of the License from Chestnut to AcquireCo in accordance with the terms of the Second Amendment, the parties agreed that the terms of the Management Agreement shall govern. Effective September 28, 2017, the state approved the transfer of the license to AcquireCo, thereby terminating the Management Agreement 30 days thereafter.

### Management Agreement

In lieu of and prior to the transfer of the Florida license, a Management Agreement between AcquireCo and the former owners of the license was entered into wherein AcquireCo was exclusively responsible for control and determination of the day-to-day conduct of the business activities of Chestnut. These activities included: the business of growing, producing, and distributing marijuana pursuant to the License, including cultivation processes, cultivation, media relations, marketing, personnel control and personnel/employee decisions, banking, accounts payable, accounts receivable, billing procedures, collection matters, cash management policies, pricing, procurement of equipment used or useful in connection with such business, and such other matters as may be necessary or appropriate in connection with day-to-day conduct of the business. The management agreement was necessary at the time in order to give the Florida Department of Health the time needed to develop the regulations surrounding license transfers.

In consideration of the services to be provided under the Management Agreement, and to recognize that AcquireCo has paid Chestnut for the right to manage Chestnut's operations, AcquireCo was entitled to retain all pre-tax profits generated by the marijuana business of Chestnut during the term of the Management Agreement. The Management Agreement had an initial term of forty (40) years and shall thereafter automatically renew for successive terms of five (5) years each.

On May 22, 2017, the Florida Department of Health issued a written notice acknowledging and confirming that AcquireCo and Chestnut may proceed with their commercial arrangement pursuant to the terms of the Management Agreement. Effective September 28, 2017, the Florida Department of Health approved the transfer of the license to AcquireCo, thereby terminating the Management Agreement.



### Agreements for the Benefit of Aphria

Concurrently with the completion of the Business Combination, Liberty and Aphria entered into the following commercial agreements:

#### Know-How License Agreement

On April 25, 2017, Holdco entered into a know-how license agreement (the "Know-How License") with Aphria pursuant to which Holdco obtained a license to use any know-how (including knowledge, methodologies and techniques) made available by Aphria to Holdco related to the production of medical marijuana (the "Know-How") for the purposes of cultivating, distributing and selling medical marijuana in the State of Florida. To the extent Holdco makes any improvement or enhancement to the Know-How (an "Improvement"), such Improvement will be wholly owned by Aphria. Following the completion of the Business Combination, Holdco has made available such Know-How directly to AcquireCo, which has in turn been relayed to assist with the control and operation of the day-to-day marijuana business of Chestnut.

In exchange for such license, Holdco issued to Aphria 192,400,000 Holdco Shares and has agreed to pay Aphria an annual license fee of \$10,000 plus applicable taxes (the "Annual License Fee"). Following the Business Combination and related consolidation, such Holdco Shares were consolidated and converted into 64,133,333 Common Shares in the capital of Liberty.

The Know-How License has no defined term, but will immediately terminate in the event Holdco experiences a change of control, except to the extent Aphria provides its prior written consent thereto (which consent was provided by Aphria in respect of the Business Combination).

#### Investor Rights Agreement

Concurrently with the completion of the Business Combination, Liberty entered into an investor rights agreement (the "Investor Rights Agreement") pursuant to which, among other things, Aphria is be entitled to certain director nomination and pre-emptive rights. In particular, Aphria has the right to designate two director nominees for election to the Board for so long as Aphria beneficially owns, directly or indirectly, in the aggregate, 10% or more of the issued and outstanding Common Shares (on a non-diluted basis). Such nomination rights will terminate in the event that Aphria's ownership interest in the Company falls below 10%.

The Investor Rights Agreement also includes customary pre-emptive rights in favour of Aphria pursuant to which in the event of a proposed distribution or issuance of Common Shares or other securities convertible or exchangeable into Common Shares (other than stock options or other securities issued under security based compensation arrangements), the Company will grant Aphria the right to subscribe for that number of Common Shares, or, as the case may be, for securities convertible or exchangeable into Common Shares, on the same terms and conditions, including the same subscription or exercise price, as applicable, in order that Aphria may continue to maintain its pro rata equity ownership interest in the Company.

#### Trademark License Agreement

Concurrently with the completion of the Business Combination, Liberty entered into a trademark license agreement (the "Trademark License") with Aphria pursuant to which Liberty and its subsidiaries (including AcquireCo) obtained a license to use Aphria's trademarks identified therein (the "Trademarks") for the purposes of marketing, distributing and selling medical marijuana in the State of Florida. The Trademark License superseded the terms of an interim trademark license agreement which was in effect between Aphria and Holdco, which was implemented on a temporary basis following the Acquisition.

In exchange for such license, Liberty will pay Aphria a royalty of 3% on sales of each product that is sold or otherwise supplied by Liberty or any of its subsidiaries to another person under Aphria's name (excluding, for greater clarity, any costs of packing, insurance, transport, delivery and consumption taxes).

LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

Subject to each party's termination rights therein, the Trademark License will remain in effect for an initial term of five (5) years, automatically renewing for successive twelve (12) month periods unless a party provides the other party with notice of non-renewal. The Trademark License will immediately terminate in the event Liberty experiences a change of control, except to the extent Aphria provides its prior written consent thereto.

Registration Rights Agreement

Concurrently with the completion of the Business Combination, Liberty entered into a registration rights agreement (the "Registration Rights Agreement") pursuant to which, among other things, Aphria will be provided with customary demand and "piggy back" registration rights, as further described below.

Under the terms of the Registration Rights Agreement, Aphria may at any time and from time to time (but in no event more than 3 times per calendar year), require the Company to file a prospectus under applicable securities laws and take such other steps as may be necessary to facilitate a secondary offering in Canada of all or any portion of the Common Shares held by Aphria, by giving written notice of such request to the Company. Subject to certain conditions set out in the Registration Rights Agreement, the Company shall use commercially reasonable efforts to as expeditiously as possible, but in any event no more than 60 days after the Company's receipt of such notice, prepare and file a preliminary Prospectus under applicable securities laws and promptly thereafter take such other steps as may be necessary in order to effect the distribution in Canada of all or any portion of the Common Shares held by Aphria as may be requested.

Additionally, if at any time and from time to time from and after the Effective Date, the Company proposes to make a distribution for its own account, the Company will, at that time, promptly provide Aphria with notice of such proposed distribution. Upon the written request of Aphria to the Company that Aphria wishes to include a specified number of its Common Shares in the distribution, the Company will cause such Common Shares held by Aphria to be included in the distribution.

## QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the fiscal quarters from the date of incorporation, March 20, 2017, up to and including the third quarter of fiscal 2018, ended November 30, 2017. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements filed in the Company's 2017 Management Information Circular and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	Three months ended November 30, 2017	Three months ended August 31, 2017	From May 1, 2017 to May 31, 2017	From the date of incorporation March 20, 2017 to April 30, 2017
Revenue	141,292	57,328	9,201	-
Net income (loss)	(1,112,603)	(22,678,195)	(1,019,454)	478,198
Net comprehensive income (loss)	274,558	(26,223,791)	(982,756)	478,198
Income (loss) per share - basic	(0.004)	(0.090)	(0.005)	0.008
Income (loss) per share - fully diluted	(0.004)	(0.090)	(0.005)	0.008

## RESULTS OF OPERATIONS

### Revenue

Revenue for the three months ended November 30, 2017 was \$141,292, and for the seven month period from May 1, 2017 to November 30, 2017 was \$207,821.

Included in revenue for the three months ended November 30, 2017, the three months ended August 31, 2017 and the seven month period from May 1, 2017 to November 30, 2017, is interest earned from cash held in trust, and term deposits of \$20,085, \$10,304 and \$34,797 respectively. The increase in average monthly revenue in Q3 compared to the seven month period ended November 30, 2017, reflects the closing of the Chestnut deal on May 23, 2017, as well as the Company's efforts to develop the brand in the state.

### Gross profit and gross margin

The gross profit for the three months ended November 30, 2017 was \$411,503, and for the seven month period from May 1, 2017 to November 30, 2017 was \$666,071. Included in gross profit for the three months ended November 30, 2017 and for the seven month period from May 1, 2017 to November 30, 2017, were the unrealized gains on changes in fair value of biological assets of \$437,929 and \$710,168 respectively.

The gross profit for the three months ended November 30, 2017 and the seven month period from May 1, 2017 to November 30, 2017 are shown below:

	Three months ended November 30, 2017	From May 1, 2017 to November 30, 2017
<b>Revenue</b>		
Sales	121,207	173,024
Other income	20,085	34,797
Total revenue	141,292	207,821
<b>Costs of sales</b>		
Cost of goods sold	85,654	101,995
Depreciation	82,064	149,923
Change in fair value of biological assets	(437,929)	(710,168)
Total costs of sales	(270,211)	(458,250)
<b>Gross profit</b>	411,503	666,071

Cost of sales currently consist of three main categories: (i) cost of goods sold; (ii) depreciation and, (iii) change in fair value of biological assets.

(i) Cost of goods sold include the direct cost of materials and labour related to the medical cannabis sold. This would include the costs of any purchased medical cannabis, growing, cultivation and harvesting costs, quality assurance and quality control, cannabis oil processing costs, packaging, labelling, and maintenance and repairs of production equipment and greenhouse infrastructure utilized in the production of medical cannabis.

(ii) Depreciation is the depreciation of production equipment and greenhouse infrastructure utilized in the production of medical cannabis.



LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

(iii) Fair value adjustment on harvest of biological assets is part of the Company's cost of sales using IFRS reporting standards relating to agriculture and biological assets (i.e. living plants or animals). This line item represents the effect of the non-cash fair value adjustment of biological assets (medical cannabis) produced in the period.

Management believes that the use of non-cash IFRS adjustments in calculating gross profit and gross margin, does not represent the true underlying economics of the business due to the large value of non-cash fair value metrics required. Accordingly, management believes the use of an adjusted gross profit and adjusted gross margin provides better representation of performance by excluding non-cash fair value metrics required by IFRS, and non-cash depreciation.

Adjusted gross profit and adjusted gross margin are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

The following is the Company's adjusted gross profit and adjusted gross margin as compared to IFRS for the three months ended November 30, 2017:

	Three months ended November 30, 2017 IFRS	Adjustments	Three months ended November 30, 2017 Adjusted
<b>Revenue</b>			
Sales	121,207	-	<b>121,207</b>
Other income	20,085	-	<b>20,085</b>
Total revenue	141,292	-	<b>141,292</b>
<b>Costs of sales</b>			
Cost of goods sold	85,654	(14,147)	<b>71,507</b>
Depreciation	82,064	(82,064)	-
Change in fair value of biological assets	(437,929)	437,929	-
Total costs of sales	(270,211)	341,718	<b>71,507</b>
<b>Gross profit</b>	411,503		<b>69,785</b>
<b>Gross margin</b>	291.2%		<b>49.4%</b>

LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following is the Company's adjusted gross profit and adjusted gross margin as compared to IFRS for the seven month period from May 1, 2017 to November 30, 2017:

	From May 1, 2017 to November 30, 2017 IFRS	Adjustments	From May 1, 2017 to November 30, 2017 Adjusted
<b>Revenue</b>			
Sales	173,024	-	<b>173,024</b>
Other income	34,797	-	<b>34,797</b>
Total revenue	207,821	-	<b>207,821</b>
<b>Costs of sales</b>			
Cost of goods sold	101,995	(16,846)	<b>85,149</b>
Depreciation	149,923	(149,923)	-
Change in fair value of biological assets	(710,168)	710,168	-
Total costs of sales	(458,250)	543,399	<b>85,149</b>
<b>Gross profit</b>	666,071		<b>122,672</b>
<b>Gross margin</b>	320.5%		<b>59.0%</b>

The lower gross margin for Q3 compared to the seven month period ended November 30, 2017, reflects the need for the Company to hire additional staff to support the phase two expansion as well as the general increase in the business activity in order to meet the growing market demand for product.

### Operating expenses

	Three months ended November 30, 2017	From May 1, 2017 to November 30, 2017
<b>Operating expenses</b>		
Professional fees	<b>693,039</b>	1,104,419
Employee and staff costs	<b>356,247</b>	691,373
Office and general	<b>162,209</b>	239,576
Consulting fees	<b>135,193</b>	338,838
Security	<b>123,091</b>	254,265
Travel and entertainment	<b>114,397</b>	241,739
Interest expense	<b>70,757</b>	74,197
Advertising and marketing	<b>35,126</b>	180,423
Insurance	<b>38,713</b>	137,772
Selling costs	<b>33,929</b>	51,012
Rent	<b>14,068</b>	14,068
Depreciation	<b>419,881</b>	873,477
Share-based compensation	<b>35,308</b>	681,642
<b>Total operating expenses</b>	<b>2,231,958</b>	4,882,801

The increase in the average monthly operating expenses for Q3 compared with the seven period from May 1, 2017 to November 30, 2017, reflects the closing of the Chestnut transaction May 23, 2017, as well as the increased activity to support patient-facing services and the launching of the dispensary roll-out plan.

### ***Other expenses***

	Three months ended November 30, 2017	From May 1, 2017 to November 30, 2017
<b>Other expenses</b>		
Investor relations and filing fees	283,557	491,929
Transaction costs	81,266	20,674,851
Legal settlement	595,900	595,900
Interest accretion	38,315	38,315
Change in fair value of embedded derivative	(1,534,907)	(1,534,907)
Foreign exchange (gain) loss	(171,983)	327,434
<b>Total other expenses</b>	<b>(707,852)</b>	<b>20,593,522</b>

The seven month period from May 1, 2017 to November 30, 2017, reflects the completion of the reverse acquisition (pursuant to the Acquisition Agreement) in the period and becoming a publicly listed company. Transaction costs are a result of the Company completing the reverse acquisition which does not constitute a business combination. For accounting purposes, the legal subsidiary, DFMMJ Investments Ltd., has been treated as the acquirer and the Company, being the legal parent has been treated as the acquiree. Also included in transaction costs are costs incurred in obtaining the convertible debt financing in the period. Legal settlement represents the value of shares issued in an out of court settlement. Interest accretion represents the non-cash interest charge on the convertible debentures. Change in fair value of embedded derivative represents the gain from the change in fair value on the embedded derivative associated with the convertible debenture. The foreign exchange (gain) loss is a result of changes in foreign exchange rates in the period.

### ***Other comprehensive gain (loss)***

The Company recorded other comprehensive gain for the three months ended November 30, 2017 of \$1,387,161 compared to other comprehensive loss of \$2,121,737 for the seven month period from May 1, 2017 to November 30, 2017. The other comprehensive gain (loss) for the period is a result of the wholly owned subsidiary DFMMJ Investments, LLC using United States dollar as its functional currency and the changes in the exchange rates during the periods. The foreign exchange rate (United States dollar stated in Canadian dollars) were as follows: May 23, 2017 - 1.3490; November 30, 2017 - 1.2888; August 31, 2017 - 1.2536.

### ***Net loss***

The Company recorded net loss for the three months ended November 30, 2017 of \$1,112,603 or \$0.004 per share as opposed to net loss of \$24,810,252 or \$0.104 per share for the period from May 1, 2017 to November 30, 2017. The largest contributor to the loss for the period from May 1, 2017 to November 30, 2017, was the transaction costs of \$20,674,851 as described above.

## EBITDA

EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA as net income (loss), plus (minus) income taxes (recovery), plus (minus) foreign exchange loss (gain), plus (minus) change in fair value of embedded derivative, plus interest accretion, plus share-based compensation, plus depreciation, plus interest expense, plus change in fair value of biological assets, plus change in fair value in cost of goods sold and certain one-time non-operating expenses, as determined by management, all as follows:

	Three months ended November 30, 2017	From May 1, 2017 to November 30, 2017
<b>Net loss</b>	<b>(1,112,603)</b>	(24,810,252)
<b>Adjustments</b>		
Foreign exchange (gain) loss	(171,983)	327,434
Change in fair value of embedded derivative	(1,534,907)	(1,534,907)
Interest accretion	38,315	38,315
Legal settlement	595,900	595,900
Transaction costs	81,266	20,674,851
Share-based compensation	35,308	681,642
Depreciation	501,945	1,023,400
Interest expense	70,757	74,197
Change in fair value of biological assets	(437,929)	(710,168)
Change of fair value in cost of goods sold	14,147	16,846
<b>EBITDA</b>	<b>(1,919,784)</b>	(3,622,742)

## LIQUIDITY AND CAPITAL RESOURCES

The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at November 30, 2017, Liberty maintained \$21,819,819 of cash and term deposits, with maturities under 1 year, on hand, compared to \$26,365,123 in cash at April 30, 2017. The decrease is a result of the Company acquiring the Chestnut assets for \$45,398,694. To help fund the acquisition, an additional \$31,796,913 was raised through share issuances. The Company acquired from Chestnut cash on hand of \$3,026,807. The Company also received \$15,465,600 (US\$12,000,000) from the issuance of convertible debentures.

Working capital provides funds for the Company to meet its operational and capital requirements. As at November 30, 2017, the Company maintained working capital of \$23,555,266. Management expects the Company to have adequate funds available on hand to fund the Company's planned phase two expansion and dispensary roll-out plan. Management expects the Company to have sufficient funding available to finance the planned retrofit of the Alico facilities upon completion of the Alico acquisition in early 2018.

## COMMITMENTS

During the period, the Company acquired a finance lease obligation related to production equipment acquired as part of the Chestnut acquisition. The finance lease is repayable over a period expiring October 2018. During the period, the Company entered into a lease for office space until October 31, 2023. The minimum payments are as follows:

	Years ending November 30,
2018	\$ 173,093
2019	183,013
2020	186,576
2021	186,900
Thereafter	365,053
	<b>\$ 1,094,635</b>

Except as disclosed elsewhere in this MD&A, there have been no material changes with respect to the contractual obligations of the Company during the period.

## SHARE CAPITAL

Liberty has the following securities issued and outstanding, as at January 26, 2018:

	Presently outstanding	Exercisable	Exercisable & in-the-money*	Fully diluted
Common shares	284,543,026			284,543,026
Warrants	2,995,192	2,995,192	2,995,192	2,995,192
Stock options	12,784,832	2,416,490	2,209,824	2,209,824
<b>Fully diluted</b>				<b>289,748,042</b>

\*Based on closing price on January 26, 2018

## RELATED PARTY BALANCES AND TRANSACTIONS

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. Key management personnel include the Company's directors and members of the senior management group. Included in employee costs and consulting fees are \$168,155 and \$nil for the three months ended November 30, 2017 (\$261,908 and \$71,317 for the period from May 1, 2017 to November 30, 2017) respectively paid to key management personnel.

## ISSUERS WITH U.S. CANNABIS-RELATED ACTIVITIES

On October 16, 2017, the Canadian Securities Administrators published Staff Notice 51-352 *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

As a result of the Company's operations in the United States, Liberty is properly subject to the Staff Notice and accordingly provides the following disclosure:

### ***Nature of Involvement***

The Company is licensed to operate as a "medical marijuana treatment center" under applicable Florida law pursuant to the terms of the License issued by the Florida Department of Health, Office of Compassionate Use under the provisions of the *Compassionate Medical Cannabis Act of 2014*. The Company operates a 36-acre facility in Alachua, Florida where the Company cultivates and sells medical cannabis. The Alachua Facility currently employs or has under contract approximately 20 full or part time staff, including lab technicians, horticulturalists, operations, sales, marketing and security personnel.

### ***Enforcement of United States Federal Laws***

In the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 29 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the CSA and as such, violates federal law in the United States.

As a result of the conflicting views between state legislatures and the United States 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 attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain 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 has never provided specific guidelines for what regulatory and enforcement systems it deems 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, newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he disagreed that it had been implemented effectively and, on January 4, 2017, Attorney General Jeff Sessions issued a memorandum (the "Sessions Memorandum") that rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principals are included in chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute marijuana activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal



prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. See *"United States Enforcement Proceedings"*. Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. See *"Industry Trends and Risks"*.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company. See *"Industry Trends and Risks"*.

For the reasons set forth above, the Company's existing operations in the United States, and any future operations or investments the Company may engage in, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States or any other jurisdiction. See *"Industry Trends and Risks"*.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See *"Industry Trends and Risks"*.

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

### ***United States Enforcement Proceedings***

The United States Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the United States Department of Justice for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, the United States government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations.

### ***Ability to Access Public and Private Capital***

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. The Company has had cannabis-related activities in the United States since its inception in July 2017. At that time, the CSE approved the Business Combination and the resulting reverse takeover and listing of the Company's Common Shares. In addition, the Company has had success completing private offerings in the past, including the November 2017 Offering which raised US\$12 million of capital for the Company in the form of secured notes, and has an ongoing banking relationship with Windsor Family Credit Union, a Canadian credit union based out of Windsor, Ontario ("WFCU").

### ***Regulation of Medical Cannabis in Florida***

Liberty is licensed to produce and sell medical cannabis in the State of Florida through the Department under the provisions of the Florida Legislation. The Florida Department of Health issued the License to Chestnut on November 23, 2015 and Liberty acquired the rights to the License on May 23, 2017 via the exclusive management agreement entered into between Liberty and Chestnut. On September 28, 2017, the Department approved the transfer of the License to DFMMJ, the wholly-owned subsidiary of Liberty, which now solely owns and is entitled to utilize the License in Florida.

The License permits the sale of low-THC cannabis (now grandfathered to produce and sell high-THC cannabis) and medical cannabis to treat a number of medical conditions in the State of Florida which are delineated in Florida Statutes section 386.981. Under the terms of the License, Liberty is permitted to sell medical cannabis only to qualified medical patients that are registered with the state. Only certified physicians who have successfully completed a medical cannabis educational program can register patients and their medical cannabis orders on the Florida Office of Compassionate Use Registry. Liberty maintains an open and collaborative relationship with the Florida Department of Health and Liberty's operations are in full compliance with all laws and regulations.

Under the Liberty License, Liberty can operate up to 25 dispensaries statewide. Currently, the dispensaries can be in any geographic location within the state as long as the local municipality's zoning regulations authorize such a use and/or the proposed site is zoned for a pharmacy use and is not within 500 feet of a church or school. In the State of Florida, only cannabis that is grown in the state can be sold in the state. As Florida is a vertically integrated system, Liberty (and other licensees) is required to cultivate, harvest, process and sell/dispense/deliver its own medical cannabis products. The State also allows Liberty to make a wholesale purchase of medical cannabis from, or a distribution of medical cannabis to, another licensed dispensing organization within the state under certain circumstances such as crop failure. At the present time, Liberty's principal products include cannabis oil in capsule, oral solution, sublingual solution and vaporizer forms. The sale of dry flower in the State is prohibited.

### **Regulatory Framework**

The State of Florida Statutes 381.986(8)(a) provides a regulatory framework that requires licensed producers, which are statutorily defined as "Medical Marijuana Treatment Centers" ("MMTC"), to both cultivate, process and dispense medical cannabis in a vertically integrated marketplace.

### **Licensing Requirements**

Licenses issued by the Department are renewed annually so long as the licensee meets requirements of the law and pays a renewal fee. License holders can only own one MMTC license.

Applicants must demonstrate (and licensed MMTC's must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years, (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture, (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) they have

LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

the ability to maintain accountability of all raw materials, finished products, and any byproducts to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) they have the financial ability to maintain operations for the duration of the two-year approval cycle, including the provision of certified financial statements to the Department, (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Upon approval of the application by the Department, the applicant must post a performance bond of up to US\$5 million, which may be reduced by meeting certain criteria such as a minimum patient count.

#### Dispensary Requirements

An MMTC may not dispense more than a 70-day supply of cannabis. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) the qualified patient and the caregiver, if applicable, each has an active registration in the registry and active and valid medical cannabis use registry identification card, (ii) the amount and type of cannabis dispensed matches the physician certification in the registry for the qualified patient, and (iii) the physician certification has not already been filled. An MMTC may not dispense to a qualified patient younger than 18 years of age, only to such patient's caregiver. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug-related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed, (ii) the type of cannabis delivery device dispensed, and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

#### Security Requirements for Cultivation, Processing and Dispensing Facilities

With respect to security requirements for cultivation, processing and dispensing facilities, an MMTC must maintain a fully operational alarm system that secures all entry points and perimeter windows, and is equipped with motion detectors, pressure switches, and duress, panic and hold-up alarms. The MMTC must also have a 24-hour video surveillance system with specified features. MMTCs must retain video surveillance recordings for at least 45 days, or longer upon the request of law enforcement. An MMTC's outdoor premises must have sufficient lighting from dusk until dawn.

An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area and such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may perform all other operations and deliver cannabis to qualified patients 24-hours a day.

#### Transportation and Storage Requirements

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival

LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

date and time, (vi) delivery vehicle make and model and license plate number; and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual, MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

#### Department Inspections

The Department shall conduct announced or unannounced inspections of MMTCs to determine compliance with the laws and rules. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

### ***Compliance of United States Operations***

Liberty is in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Florida. As further detailed above, Liberty is licensed to operate as a "medical marijuana treatment center" under applicable Florida law pursuant to the terms of the License. The License grants Liberty the authority to possess, cultivate, process, dispense and sell medical cannabis in the State of Florida. Liberty has not experienced any material non-compliance nor has been subject to any notices of violation by the Department. Although the Company's state chartered bank, First Green Bank, has recently ceased its line of business servicing businesses in the cannabis industry, Liberty maintains a banking relationship with WFCU and is capable of lawfully paying all expenses and managing its operations and assets in full compliance with all federal statutes and regulations while it seeks a replacement for First Green Bank. In the interim, the Company engages armored car services as a custodian of deposits and will continue to do so until such time as it is able to engage a bank for these purposes in the State of Florida.

The Company has implemented measures designed to ensure compliance with applicable state laws in the United States on an ongoing basis, including:

- weekly correspondence and updates with advisors;
- development of standard operating procedures;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure compliance with the FCEN Memo (as defined herein).

### **INDUSTRY TRENDS AND RISKS**

---

The Company's overall performance and results of operations are subject to a number of risks and uncertainties. The economic, industry and risk factors discussed in our Annual Information form, dated October 20, 2017, and in our preliminary short form prospectus dated January 11, 2018 remain substantially unchanged in respect of the period ended November 30, 2017, the more significant of which are reported below.

### ***Risk Factors Related to the United States***

#### ***While marijuana is legal in many US state jurisdictions, it continues to be a controlled substance under the United States federal Controlled Substances Act***

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 29 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form, including Florida. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and as such, violates federal law in the United States.

The United States Congress has passed appropriations bills each of the last three years that have not appropriated funds for prosecution of cannabis offenses of individuals who are in compliance with state medical cannabis laws. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. And if Congress restores funding, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations.

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

#### ***The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.***

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 the Cole Memorandum addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain 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 has never provided specific guidelines for what regulatory and enforcement systems it deems 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, newly appointed Attorney General Jeff Sessions again noted limited federal resources and



LIBERTY HEALTH SCIENCES INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS

acknowledged that much of the Cole Memorandum had merit; however, he disagreed that it had been implemented effectively and, on January 4, 2017, Attorney General Jeff Sessions issued the Sessions Memorandum, which rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principles are included in chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. See "*United States Enforcement Proceedings*". Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company or the seizure of corporate assets; however as of the date hereof, the Company believes and has obtained legal advice in respect thereof that proceedings of this nature are remote.

***The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations.***

The Company is 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 February 2014, the Financial Crimes Enforcement Network ("FCEN") of the Treasury Department issued a memorandum (the "FCEN Memo") providing instructions to banks seeking to provide services to cannabis-related businesses. The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.



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

***The Company's investments in the United States may be subject to heightened scrutiny.***

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

Given the heightened risk profile associated with cannabis in the United States, CDS may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the United States. It is not certain whether CDS will decide to enact such measures, nor whether it has the authority to do so unilaterally. However, if CDS were to decide that it will not handle trades in our securities, it could have a material adverse effect on the ability of investors to make and settle trades and on the liquidity of our securities generally. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. While there can be no assurance that this would occur, and while it would be subject to regulatory approval, a third party has publicly expressed interest in providing clearing services should CDS decide not to do so.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

***Volatile Market Price of the Common Shares***

The market price of the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Liberty or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares. Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have

not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

### ***Risks Inherent in an Agricultural Business***

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

### ***Reliance on License***

Liberty's ability to grow, store and sell medical marijuana and cannabis oil in the State of Florida is dependent on maintaining its License in good standing with the Florida Department of Health. Failure to comply with the requirements of the License or any failure to maintain its License would have a material adverse impact on the business, financial condition and operating results of the Company. The Company's License is currently in good standing and the Company remains fully compliant with the associated state laws and regulations.

### ***Product Liability***

As a distributor of products designed to be ingested by humans, Liberty faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of Liberty's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of Liberty's products alone or in combination with other medications or substances could occur. Liberty may be subject to various product liability claims, including, among others, that Liberty's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Liberty could result in increased costs, could adversely affect Liberty's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of Liberty. Although Liberty has secured product liability insurance, and strictly enforces a quality standard within the operations, there can be no assurances that Liberty will be able to maintain its product liability insurance on acceptable terms or with adequate coverage against potential liabilities. This scenario could prevent or inhibit the commercialization of Liberty's potential products. To date, there have been no product related issues.

### ***Regulatory or Agency proceedings, Investigations and Audits***

The Company's business requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. Liberty may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require Liberty to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

### ***Litigation***

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of the Common Shares and could use significant resources. Even if Liberty is involved in litigation and wins, litigation can redirect significant Company resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand. At this time, there is no outstanding litigation against the Company.

### ***Legislative or Regulatory Reform and Compliance***

The Company's operations are subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, management, packaging/labelling, processing, production, advertising, sale, transportation, storage and disposal of medical marijuana but also including laws and regulations relating to drugs, controlled substances, health and safety, relationships with health care providers, the conduct of operations and the protection of the environment. The Florida Department of Health, Office of Medical Marijuana Use, is presently developing its final set of industry rules, and the Company is actively working with the Department to ensure its business operations will be in compliance with current law as well as the rules that will be promulgated in the short term. The Company has also engaged medical cannabis regulatory lawyers in the State of Florida who routinely work with the Department in a collaborative manner on behalf of the Company. The Company also maintains a detailed compliance plan and set of protocols that are tailored to strictly adhere to all state medical cannabis laws, state and federal environmental laws and any local municipal laws or regulations that are triggered by the Company's business operations. This Compliance Plan and Protocols are administered and overseen by the Company's Cultivation Manager and/or Compliance Officer, and strict adherence to the plan and protocols is checked and confirmed on a daily basis and recorded to ensure full transparency to the Florida Department of Health. All staff who work on-site for the Company are trained on the regulations and compliance as part of their onboarding activities. To managements' knowledge, the Company is currently in full compliance with all such laws and will closely monitor any changes to such laws and regulations, guidelines and ensure that the business remains in full compliance.

The commercial medical marijuana industry is in its infancy and the Company anticipates that such regulations will be subject to change as the state and federal government monitors licensed producers in action. As was noted above, the Florida Department of Health is set to release its first draft of proposed medical cannabis industry rules needed to support the legislation in place, and the Company will review the draft and actively participate in the rule making process. The Company will continue to monitor compliance on an ongoing basis in accordance with all applicable internal and external policies and procedures, which can be found in the Company's initial application for licensure and in company manuals and protocols.

### ***Information technology systems and cyber-attacks***

Liberty has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations, including the use of Aphria's IT group for support and systems work. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

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

### ***Securing Adequate Financing to Fund Operations and Meet Expected Consumer Demand***

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of Liberty may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. In addition, from time to time, Liberty may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may also contain provisions which, if breached, may entitle lenders or their agents to accelerate repayment of loans and/or realize upon security over the assets of the Company, and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing.

### ***Limited Operating History***

Holdco was incorporated on March 20, 2017 and has yet to generate net income from the sale of products. Liberty is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Liberty will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

## **SUBSEQUENT EVENTS**

---

Subsequent to quarter-end, the Company's board of directors granted 7,445,000 options to purchase common stock to various directors and officers, at an exercise price of \$1.62, for a term of 5 years, pursuant to the Company's incentive stock option plan.

Subsequent to quarter-end, the Company announced a bought deal which would result in the issue of 10,952,381 common shares and 5,476,190 common share purchase warrants for gross proceeds of \$23,000,000. Each common share purchase warrant would entitle the holder to purchase one common share at a price of \$2.54 per common share purchase warrant. The bought deal has not closed as at the date of this report.

Subsequent to quarter-end, the Company entered into a binding term sheet to acquire all of the issued and outstanding shares of 242 Cannabis Canada Ltd., whose wholly-owned subsidiary 242 Cannabis, LLC, has agreed to purchase a 387 acre parcel of land in Gainesville Florida (the "Property"). The Property includes over 200,000 square feet of state-of-art greenhouses, head houses, tissue culture lab and processing facilities. The Company plans to retrofit the facilities over the coming months which will enable the Company to expand their production capacity a year sooner than projected in order to meet the growing patient demand in Florida. Upon completion of the retrofit, the Company expects to have an annual capacity of 12,000 Kgs.

*This MD&A contains forward-looking statements within the meaning of applicable securities legislation with regards to expected financial performance, strategy and business conditions. We use words such as "forecast", "future", "should", "could", "enable", "potential", "contemplate", "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risks and uncertainties. Many factors could cause actual results, performance or achievement to be materially different from any future forward-looking statements. Factors that may cause such differences include, but are not limited to, general economic and market conditions, investment performance, financial markets, legislative and regulatory changes, technological developments, catastrophic events and other business risks. These forward-looking statements are as of the date of this MD&A and the Company and management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. The Company and management caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.*

*Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:*

- the intention to grow the business and operations of the Company;*
- the expected growth in the Company's growing capacity;*
- the competitive conditions of the industry;*
- any commentary related to the legalization of marijuana and the timing related thereto;*
- the applicable laws, regulations and any amendments thereof;*
- the competitive and business strategies of the Company;*
- the framework for the enforcement of medical marijuana and marijuana-related offenses in the United States; and*
- the grant and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof for each respective state in which the Company does business.*