



Vext Science, Inc. (formerly Vapen MJ Ventures Corporation)

**MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS
ENDED MARCH 31, 2020**

Dated as of June 1, 2020

(All amounts expressed in U.S. dollars, unless otherwise stated)

CAUTIONARY NOTE REGARDING FORWARDING LOOKING STATEMENTS

This Management’s Discussion and Analysis (“MD&A”) contains certain statements that may constitute “forward-looking statements”. Forward-looking statements include, but are not limited to, statements regarding future expansion, business goals, anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, business and financing plans, and other forward-looking statements including, but not limited to, information concerning intentions, plans and future actions of the Company.

In connection with the forward-looking information contained in this MD&A, the Company has made assumptions about the Company’s ability to expand operations; profitably license its brands and operate in the future without any regulation or law imposed which would prevent the Company from operating its business. The Company has also assumed that no significant events occur outside of the Company’s normal course of business.

The forward-looking information in this MD&A reflects the current expectations, assumptions and/or beliefs of the Company based on information currently available to the Company. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company’s ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

BACKGROUND

This MD&A has been prepared as of June 1, 2020 and it presents an analysis of the consolidated financial position of Vext Science, Inc. (“Vext” or the “Company”) (formerly Vapen MJ Ventures Corporation, Calyx Growth Corporation, and Fabula Exploration Inc.) for the three months ended March 31, 2020. The following information should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2019 and December 31, 2018, including the notes contained therein. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements of the Company include the financial statements of the Company and its direct subsidiaries, indirect subsidiaries that are not wholly owned by the Company and other entities consolidated other than on the basis of ownership:

Name	Jurisdiction	Ownership
Vext Science, Inc.	BC, Canada	100%
New Gen Holdings, Inc.	Wyoming, USA	100%
Step 1 Consulting, LLC	Arizona, USA	100%
New Gen Admin Services, LLC	Arizona, USA	100%
New Gen Agricultural Services, LLC	Arizona, USA	100%
New Gen Real Estate Services, LLC	Arizona, USA	100%
Hydroponics Solutions, LLC	Arizona, USA	100%
X-Tane, LLC	Arizona, USA	100%
Pure Touch Botanicals, LLC	Arizona, USA	100%
Vapen, LLC	Arizona, USA	100%
Vapen CBD, LLC	Arizona, USA	100%
Joint Ventures:		
Vapen Mass, LLC	Massachusetts, USA	50%
Vapen-Oklahoma, LLC	Oklahoma, USA	25%
Vapen Kentucky, LLC	Kentucky, USA	50%

Vext, through its wholly-owned subsidiaries, currently operates in the U.S. as an agricultural technology, services and property management company utilizing a full vertical integration business model to oversee and execute all aspects of cultivation, extraction, manufacturing (THC and CBD cartridges, concentrates, edibles), retail dispensary, and wholesale distribution of high margin cannabis THC and hemp CBD products under the Vapen and Pure Touch Botanicals Brands. Vext’s expansion plans include partnering with cannabis license holders and hemp farms in multiple states within the U.S.

New Gen is a service company that provides services to Herbal Wellness Center Inc. (“HWC”), licensed dispensaries for medical marijuana products and extracts pursuant to licenses granted by the State of Arizona. On April 6, 2020 the Company acquired 100% of RDF Management LLC, which owned management contracts to provide services to Organica Patient Group Inc., and Organica Patient Group Medical Marijuana Dispensary As a result of this acquisition, the Company through its operating subsidiaries, has management contracts with two licensed medical marijuana dispensaries in the State of Arizona.

During the period covered by this MD&A, the Company continued its expansion strategy by entering into additional joint venture agreements, management service agreements, and operating agreements with partners located in various states in the United States. As of March 31, 2020, two of these relationships commenced commercial operations and three additional relationships commenced operations in Q2 2020.

MATERIAL EVENTS THAT OCCURRED DURING THE THREE MONTHS ENDED MARCH 31, 2020

On January 1, 2020, the Company entered into a \$5,000,000 line of credit secured promissory note (“Promissory Note”) with Herbal Wellness Center, Inc. (“HWC”) whereby HWC promises to pay the Company the principal and 10% interest per annum.

On January 8, 2020, the Company extended three notes payable of a total of \$727,000 for one year.

On January 23, 2020, Robert J. Brilon resigned as President, CFO, Corporate Secretary and a Director of the Company. Mr. Brilon received \$125,000 upon his departure and will receive a total of \$125,000 in monthly installment payments of \$10,417 per month commencing March 2020 through February 2021, and a final lump sum amount of \$250,000 upon the earlier of any change of control of the Company, a debt or equity financing greater than \$10 million of the Company on or after February 7, 2020, or February 22, 2022.

On February 1, 2020, an Operating Agreement of Vapen Kentucky, LLC (“Vapen KY”) was signed for the purpose of being engaged in commercial hemp processing, manufacturing, extraction, and distribution activities. The Company owns 50% of Vapen KY with Emerald Pointe Hemp, LLC (“EPH”) owning the other 50%.

On February 10, 2020, Denise Lok was appointed CFO of the Company and Brian Cameron was appointed Corporate Secretary of the Company.

On February 12, 2020, the Company entered into a Joint Venture Term Sheet with Texoma Processing and Extraction, LLC (“TPE”) regarding Vapen-Oklahoma, LLC (“Vapen-OK”). The Company is a minority member of Vapen-OK owning 25%, whereas TPE is a majority member owning 75% of Vapen-OK. The terms of the initial joint venture will be five years, with automatic successive renewal terms of additional five-year periods each. Both TPE and the Company will contribute equal amounts of capital to cover the initial expenses and assist in operations.

On February 14, 2020, Jason “Thai” Nguyen assumed the role of Executive Chairman of the Board of the Company and Eric Offenberger assumed the role of CEO of the Company.

On February 18, 2020, Eric Offenberger was appointed to the Board of Directors of the Company. Mr. Offenberger continues as COO of the Company.

On February 18, 2020, Caroline Williams was appointed to the Board of Directors of the Company.

On March 18, 2020, 48,850 multiple voting shares were converted into 488,500 subordinate voting shares.

On March 26, 2020, the Company entered into a Release and mutual Settlement Agreement (the “Release”) with Tree of Life Seeds, Inc. to terminate the Joint Venture Operating Agreement in relation to Vapen 501 Labs, LLC.

On March 30, 2020, the Company entered into a loan agreement with Appalachian Pharm Processing, LLC (“APP”), an Ohio limited liability company. The Company agreed to advance APP the aggregate principal sum of \$500,000 in two equal installments of \$250,000 each for the exclusive purpose of acquiring biomass for the manufacturing and production of cannabis products as well as associated expenses related to this.

COMPANY OVERVIEW

The Company was incorporated in British Columbia, Canada on December 11, 2015 and its head office is located at 2250 – 1055 West Hastings Street, Vancouver, BC, Canada, V6E 2E9. On May 13, 2019, the Company commenced trading on the Canadian Securities Exchange (“CSE”) under the symbol “VEXT”. On July 12, 2019 the Company commenced trading on the OTCQX Best Market under the ticker symbol (OTCQX: VEXTF).

On December 31, 2018, the Company closed a share exchange agreement where it acquired all the issued and outstanding shares of New Gen Holdings Inc. (“New Gen”) in exchange for certain shares of the Company. New Gen incorporated in the State of Wyoming on July 8, 2014. New Gen has several wholly-owned subsidiaries for the

purpose of providing exclusive operating services to Herbal Wellness Center Inc. (HWC), a not-for-profit company that holds licenses to cultivate, extract, and dispense connoisseur-grade cannabis brands and cannabis-related products in Arizona. New Gen manages the activities of its operating subsidiaries and has done so since incorporation.

The Company is an agricultural technology, services and property management company utilizing a full vertical integration business model to oversee and execute all aspects of cultivation, extraction, manufacturing (THC and CBD cartridges, concentrates, edibles), retail dispensary, and wholesale distribution of high margin cannabis THC and hemp CBD products. The Company currently provides these management and marketing services in Arizona to two licensed dispensaries. The Company has also entered into management agreements, operating agreements, or non-binding letters of intent at the date of this MD&A in Kentucky, Nevada, Massachusetts, California, and Oklahoma. From the beginning in Arizona, the Company has developed proven and sought after standard operating procedures (SOPs) to produce a full line of branded flower, Vapen branded THC and CBD distillates, concentrates, extracts, and edibles.

The Company has built and operates a service business for cannabis cultivation and processing located in the State of Arizona. Products produced under contract are sold through Herbal Wellness Center (“HWC”) and Organica Patient Group Medical Marijuana Dispensary (“Organica”), both licensed not-for-profit dispensaries located in Phoenix, Arizona. In other jurisdictions, the Company will provide SOPs and extraction expertise to partners pursuant to operating agreements. Products produced from these facilities will be branded as “Vapen”. The Company will earn and record its proportional interests in the derived gross revenue and net income for each location, where appropriate, and in certain circumstances treat its annual share of income or loss as part of its investment in those entities. The Company may assist in opening retail dispensaries where appropriate. The model minimizes the capital needed to enter new markets by avoiding, where appropriate, the costs and time associated with licensing and acquiring real estate. The business model provides both near term return on invested capital and minimized lead time to market.

The Company’s multi-state operations will encompass a full spectrum of medical and adult-use cannabis and CBD product and services, including cultivation, processing, product development, and wholesale and retail distribution. Cannabis products include flower and trim, products containing cannabis flower and trim (such as pre-rolls), cannabis infused products, and products containing cannabis extracts (such as cartridges, concentrates, wax products, oils, tinctures, topical creams and edibles). CBD products include tinctures, lotions, balms, cartridges and inhaler delivery systems.

The Company will enter new markets with limited capital risk, leveraging its operational expertise and brand strength. As a leader in the Arizona market, the Company is now monetizing both its manufacturing and distribution expertise. The Company has negotiated joint ventures, management agreements and operating agreements in multiple states, some of which have commenced production at the date of this MD&A. The Company continues to grow by reinvesting its net profits back into the business.

Competitive strengths:

Product Development, Branding and Standard Operating Procedures (“SOPs”): The business commenced in Arizona, where the Company entered the market to provide cultivation, extraction and manufacturing, support for retail and wholesale distribution for high margin cannabis THC and hemp CBD through HWC. The Vapen brand is widely recognized throughout the entire State of Arizona.

The Company’s established SOPs provide consistency in product quality whether flower, extracts or edibles. Industry participants have sought out these capabilities, thus enabling a rapid expansion into other markets, many without the inherent time and costs associated with either direct license acquisition or the acquisition of existing operations. For this reason, the Company’s footprint is expanding rapidly with minimal capital requirements. The Company may also seek out attractive acquisitions of existing operations that are accretive.

Licensing SOPs and Acquisitions: The strategy is to identify opportunities where the Company can deliver its SOPs to a rapidly expanding national and international market, where medical and recreational markets are converging and where the ability to penetrate both retail and wholesale markets effectively with the Vapen brand is quantifiable.

Secondly, the Company seeks out partners for joint ventures and management agreements who have strength in cultivation, licenses and real estate to support its extraction capabilities for both high margin cannabis THC and hemp CBD.

High Quality Cannabis and CBD Products: The Vapen Clear THC high quality solvent-free concentrates include daytime (sativa), afternoon (hybrid), and nighttime (Indica) products, offered with multiple and convenient delivery options. Vapen extracts include high quality products produced from premium biomass. Vapen Clear THC products can be produced from any cannabis biomass thus complementing state-by-state expansion plan without compromising quality.

Vapen CBD and Pure Touch Botanicals branded products complement the Vapen brand and facilitate multi-state expansion plans.

Edibles produced under the Vapen Kitchens Brand consist of Vapen Clear infused products, THC chocolate bars, THC syrup, THC snacks, candies, and gummies. Vapen branded products have earned industry-wide recognition.

Management Team: The Vext management team possesses expertise in the cannabis industry, finance, capital markets, regulations, operations, project management, and marketing. This team has proven its ability to grow and scale companies, skills that have been inherited from the experience gained by the team over many years.

Replicable Processes and Scalability. The Company's production processes are replicable and scalable, resulting in consistent quality and taste across all the Company's products. SOPs utilized in the Arizona operation are being deployed in other states under various agreements.

Growth Strategies and Strategic Priorities:

Joint Ventures and or Management Services Agreements: The Company's growth strategies involve partnering with established operators in multiple states. Several management agreements have been negotiated. In each market, the Company provides the equipment, and operating experience, while the partners provide licensure, access to raw material (biomass), and real estate for the facility to the joint venture. Both the Company and the joint venture partners will provide a working capital loan to the joint ventures.

Growth of Core Arizona Business: Marketing and sales strategies are focused on attracting new and existing patients and customers to the dispensaries and the Vapen CBD and the Pure Touch Botanicals CBD brands in Arizona.

The acquisition of the Organica management agreement through acquiring RDF Management LLC provides the Company another organization to support with the infrastructure developed, which is anticipated to be reflected in the increase in management service revenue in the second quarter and onward. With the Company now managing the Organica, an application to relocate the dispensary to the Phoenix Metro area has been requested with the State of Arizona.

DESCRIPTION OF BUSINESS AND OVERALL PERFORMANCE

Overview

The Company began operations in the State of Arizona, through its operating subsidiary, New Gen Holdings Inc. and subsidiaries. The Company was incorporated on December 11, 2015. New Gen was incorporated in the State of Nevada on July 8, 2014. New Gen has multiple subsidiaries for the purpose of providing operating services for not for profit cannabis companies that hold licenses to cultivate, extract, infuse and dispense cannabis products in Arizona. Vext operates under management agreements, joint ventures, investments or service agreements in Arizona, Kentucky, Ohio, Oklahoma, Nevada, Hawaii, Massachusetts, and California. Expansion into Massachusetts is anticipated in October 2020.

On April 6, 2020, the Company acquired RDF Management, LLC and Firebrand, LLC, Arizona based companies, in order to provide exclusive services for the management, administration and operation of Organica Patient Group, Inc. (“Organica”), an Arizona not for profit corporation, which was issued and holds in good standing, a Medical Marijuana Dispensary Registration Certificate, by the Arizona Department of Health Services in the State of Arizona and certain intangible assets (collectively the “Transaction”).

Vext began its expansion in 2019 into other markets as summarized in the MD&A.

Arizona Operations:

The Company’s services are provided individually by operating subsidiaries pursuant to ten-year renewable management contracts, providing, among other things, employee leasing services, physical plant for cultivation and extraction of cannabis and derivative products, agricultural technology and research services, and related management and administrative services.

New Gen generates revenue from a wide range of CBD products. These brands are marketed and sold under the Vapen CBD and Pure Touch Botanicals brands worldwide.

HWC and Organica sell products on a retail basis to customers holding a valid medical marijuana card and on a wholesale basis to other licensed cannabis operations throughout the State of Arizona.

HWC’s wholesale customer base increased approximately 10% during the recently completed fiscal year. Vapen branded products are in approximately 80% + of licensed operations in the state of Arizona at the date of this MD&A.

HWC and Organica are independent from New Gen and operate pursuant to Arizona law as a not-for-profit corporation. The Company’s subsidiaries provide services to HWC and Organica enabling both to conduct its business.

For the quarter ended March 31, 2020, the Company had revenue of \$4,096,098 a gross profit of \$1,205,791 and a profit margin of 29.4%. Comparatively, for the quarter ended March 31, 2019, the Company had revenue of \$6,499,928, gross profit of \$3,171,405, and a profit margin of 48.8%.

The decrease in gross revenue for the first quarter of 2020 as compared to the first quarter of 2019 is attributable to the following: (a) management fee revenue was reduced by 50% in the quarter as compared to the comparative period. This is consistent with the adjustment to management fee revenue taken in the 4th quarter of 2019 to better reflect the current business trend. Management fee revenue is anticipated to increase in subsequent quarters based on the Company’s acquisition of RDF Management LLC, which owned management contracts to provide services to Organica Patient Group Inc., and Organica Patient Group Medical Marijuana Dispensary. As a result of this acquisition, the Company through its operating subsidiaries, has management contracts with two licensed medical marijuana dispensaries in the State of Arizona; (b) product sales to HWC was lower than the comparative quarter by \$1.2 million as a result of delayed shipments from China that were anticipated by management as a result of COVID-19. The Company bills its customers upon receipt of products purchased through the supply chain. Shipment delays reduced the amount of product billed to our customers in the quarter ended March 31, 2020. Product shipments have recovered subsequent to quarter end.

Joint Ventures

Vapen Mass, LLC

In 2019, Vapen, LLC entered into an operating agreement with Caregiver Patient Connection, LLC and formed Vapen Mass, LLC (“Vapen Mass”), which will operate on a 50/50 basis as a joint venture extracting THC in Massachusetts. Operations are anticipated to commence in October 2020. The Company is providing the capital equipment, SOPs, branding, training of staff, and a working capital loan. Caregiver Patient Connection, LLC is providing the facility, operating license, and working capital loan as needed by Vapen Mass to operate in Massachusetts.

Vapen Oklahoma, LLC

Vapen, LLC entered into an operating agreement with Texoma Processing and Extraction, LLC (“Texoma”) and formed a joint venture called Vapen Oklahoma, LLC (“Vapen OK”). Vapen OK conducts business in Oklahoma. Operations commenced in Q2 2020. Vapen OK is owned 25% by the Company and has equal voting rights. Vapen is providing equipment, training, SOPs, marketing and branding, and working capital loans as needed for startup. Texoma is providing the licensing, facilities, and working capital for startup as needed. This will be a outdoor cultivation and processing facility.

Vapen Kentucky, LLC

Vapen, LLC entered into an operating agreement with Emerald Pointe Hemp, Inc. and formed venture a joint venture called Vapen Kentucky, LLC (“Vapen KY”). Vapen KY conducts business in Kentucky. Operations commenced in Q1 2020. Vapen is supplying equipment, training, SOPs, and working capital for startup as needed. Emerald Pointe Hemp is supplying building, licensing, access to biomass from its existing farming operations and working capital for startup as needed. Product will primarily be sold through wholesale distribution channels worldwide. Each party owns 50% of Vapen KY and shares in net profits on a 50/50 basis.

Investments and Management Agreements

Las Vegas Wellness and Compassion, LLC

Vapen, LLC entered into a management services agreement and intellectual property and commercialization agreement effective September 6, 2019 with Las Vegas Wellness and Compassion, LLC. (“LVWC”) Vapen, LLC earns a participation fee (the “Participation Fee”) equal to 33% of the Net Income of LVWC as calculated in accordance with the management services agreement and GAAP, such Participation Fee to be paid on an annual basis. The management services agreement has a 5-year term and is renewable for consecutive 5-year terms, effective September 6, 2019. The intellectual property and commercialization agreement schedules the trademarks for all licensed products to LVWC and from which LVWC will derive revenue and from which Vapen LLC will receive its Participation Fee.

Legacy Ventures Hawaii LLC

Vapen, CBD, LLC, a subsidiary of Vapen, LLC entered into a subscription agreement dated August 22, 2019, to purchase 350,000 Class B Units of Legacy Ventures Hawaii, LLC. (“Legacy”), an LLC formed to make an investment in Archipelago Ventures Hawaii, LLC. (“Archipelago”), for a total purchase price of \$350,000 and earn a 12.28% membership interest in Legacy Ventures Hawaii, LLC. Archipelago was formed as a partnership between Arcadia Bio Science Inc. and Legacy to engage in the cultivation and production of Hemp related products in Hawaii. Vapen CBD, LLC was issued 350,000 Class A Units of Legacy in consideration of providing services related to Archipelago business.

Happy Travels, LLC

In 2019, Vapen LLC entered into a manufacturing services agreement with Happy Travels, LLC, which is based in California. Through the manufacturing services agreement, Happy Travels, LLC will be able to produce high quality distillate product for wholesale and Vapen branded product. Operations are anticipated to fully commence in the second quarter of 2020.

Appalachian Pharms Processing, LLC

In 2019, Vapen, LLC entered a non-binding LOI with Appalachian Pharms Processing, LLC (“Appalachian”) in Ohio in regard to forming a joint venture in Ohio. The Company has not entered into a definitive agreement with Appalachian as of the date of this MD&A. As of the date of this MD&A, the Company has advanced \$500,000 to Appalachian. Interest will accrue on the loans at a rate of 10% per annum after October 1, 2020. The loan matures on September 30, 2020. Filings have been made with the State of Ohio to recognize Vext’s interest in the Appalachian Pharm Processing, LLC as applicable with Ohio statute.

Competitive Advantages:

Brand Strength:

The Company's brand strength enables both its wholesale distribution and partnership relationships across multiple geographic markets. The Company's continued commitment to product growth, diversity of delivery methods, results in consistent pure products of a high quality. The Vapen and related brands resonate with all consumers across broad demographic segments.

Distribution Channels:

The Company has a well-developed distribution process at both retail and wholesale levels in Arizona. The Vapen brand is carried by most of the dispensaries in that market. Joint ventures as noted elsewhere in the MD&A will further expand the distribution capability of the Company as it moves into new markets. The cost of expanding distribution is shared with partners in each location.

Supply Chain:

The Company has a well-established supply chain. The Company uses multiple suppliers, both international and domestic. Suppliers are proven and reliable to meet the needs of the Company.

Financial Strength:

The Company has a proven track record of operating profitable cannabis companies, providing access to capital markets to support growth and expansion into different geographic markets.

HIGHLIGHTS FOR THE THREE MONTHS ENDED MARCH 31, 2020

The financial information reported herein reflects the operations of the Company as at March 31, 2020. Although certain joint ventures have been executed for activities in states other than Arizona, and production is now operational, no revenues have yet been generated from these joint ventures during the quarter.

The Company has reviewed its financial position and results of operations for the three months ended March 31, 2020 with a view to assessing an impact that the novel corona virus known more particularly as COVID-19 has had or will have on the business going forward. Although there can be no assurance that there will not be an impact on the Company's financial position or operations (see Risk Factors – COVID-19), at the date of this MD&A, the following determinations have been made by management:

- a) There has been no inherent loss in the carrying value of the Company's assets as at March 31, 2020. Management is of the opinion that both its current and long-term assets are fully collectable and or realizable at their recorded values.
- b) The Company has no obligations to third parties which have or will require renegotiation at the date of this MD&A
- c) Although there can be no assurances given with respect to future unknown events (See Risk Factors -COVID-19), the Company's outlook for 2020 remains on target. Construction delays have slowed initiation of operations in certain markets. These delays are being reflected in internal planning tools for revenue expectations in 2020 and were not caused by the COVID-19 outbreak.
- d) The Company has funded the majority of its currently planned expansion programs in the markets referred to in this MD&A and accordingly the capital requirements to operate in these expanded markets has been met. Management is particularly conservative with the application of its current liquid assets and therefore the 2020 expansion plans are not dependent upon additional outside capital. Continued growth will of course be determined by market forces outside the control of the Company.
- e) To date, the Company has been deemed an essential service in all its markets and therefore continues to operate without interruption or suspension. That said, management is taking all necessary preventative

actions to protect and safeguard its employees and customers from the effects of COVID-19.

SELECTED QUARTERLY INFORMATION

The following table summarizes the results of operations for the eight most recent quarters.

Quarter over quarter results may vary due to New Gen being a service and product supplier to cannabis companies, meaning that as product is received at New Gen from the supply chain, revenues from the customer companies will follow in that period. Revenues tend to decrease in periods with lower procurement of raw materials and supplies.

Three months ended

	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Total Revenue	\$4,096,098	\$3,551,319	\$5,574,546	\$6,696,775
Cost of Sales and Expenses	\$5,201,235	\$4,383,404	\$4,789,616	\$5,517,713
Net Income/(Loss)	(\$971,020)	(\$832,085)	\$784,930	\$1,179,062
Net Income per share (Basic)	(\$0.01)	(\$0.01)	\$0.01	\$0.02
Net Income per share (Diluted)	(\$0.01)	(\$0.01)	\$0.01	\$0.02

Three months ended

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Total Revenue	\$6,499,928	\$4,702,065	\$4,703,730	\$4,671,205
Cost of Sales and Expenses	\$4,838,511	\$4,352,153	\$3,350,908	\$3,695,375
Net Income	\$1,661,417	\$349,912	\$1,352,822	\$975,830
Net Income per share (Basic)	\$0.02	\$0.01	\$0.01	\$0.02
Net Income per share (Diluted)	\$0.02	\$0.01	\$0.01	\$0.02

Financial Position as at March 31, 2020

The following discussion of the Company's financial position is based on the Company's consolidated statement of financial position as at March 31, 2020.

Current Assets

As at March 31, 2020 the Company had total current assets of \$22,987,725 (2019 - \$24,837,122). The current assets were made up of the following: cash of \$5,414,859 (2019 - \$7,292,261), accounts receivable of \$16,567,843 (2019 - \$15,548,015), prepaid deposits and other receivables of \$323,919 (2019 - \$303,402), advances to joint ventures of \$250,000 (2019 - \$440,830) and investment in sublease - current of \$128,820 (2019 - \$122,027), and notes receivable - current of \$302,284 (2019 - \$1,130,587).

Non-current Assets

As at March 31, 2020, the Company's non-current assets were \$15,339,159 (2019 - \$13,943,372). Non-current assets are comprised of \$2,020,182 (2019 - \$2,020,182) in long term notes receivable, loans receivable of \$2,181,785 (2019 - \$2,181,785), right of use asset \$280,508 (2019 - \$287,890), Investment in joint ventures \$779,914 (2019 - \$nil), investment in sub-lease \$542,866 (2019 - \$576,887), investment \$350,000 (2019 - \$350,000), property plant and equipment \$9,183,904 (2019 - \$8,526,628).

Current Liabilities

As at March 31, 2020, the Company's current liabilities were \$2,209,237 (2019 - \$2,370,431). Current liabilities include the following: accounts payable and accrued liabilities of \$996,718 (2019 - \$1,068,635), current portion of notes payable of \$920,516 (2019 - \$920,414), income taxes payable of \$45,728 (2019 - \$45,728), a current portion of lease liability of \$139,796 (2019 - \$132,654) and a contribution payable of \$106,479 (2019 - \$203,000), which is related to Legacy Ventures Hawaii, LLC.

Non-current Liabilities

As at March 31, 2020, the Company's non-current liabilities were \$10,983,270 (2019 - \$10,736,865). Non-current liabilities consist of loan payable of \$5,323,476 (2019 - \$5,280,467), deferred tax liabilities of \$4,499,000 (2019 - \$4,499,000), long-term portion of lease liability of \$821,605 (2019 - \$858,504), and long-term portion of notes payable of \$339,291 (2019 - \$136,383).

Shareholders' Equity

As at March 31, 2020, the Company had shareholders' equity of \$25,134,377 (2019 - \$25,673,198).

Working Capital Position

As at March 31, 2020, the Company's working capital position was \$20,778,488 compared to \$22,466,691 as at December 31, 2019.

Financial Results for the Quarter Ended March 31, 2020

The following discussion of the Company's results of operations is based on its condensed interim consolidated financial statements for the period ended March 31, 2020.

Revenue

For the three months ended March 31, 2020, the Company's revenues from operations was \$4,096,098, compared to \$6,499,928 in 2019, a decrease of 2,403,830 or 37%.

Management fees for the three months ending March 31, 2020 were \$600,000 compared to \$1,200,000 for the three months ended March 31, 2019, a 50% decrease. This decrease is consistent with the reduction in management fees taken in the 4th quarter, 2019.

Professional services revenue for the three months ended March 31, 2020 was \$1,402,839 compared to \$1,479,618 for the three months ended March 31, 2019, a decrease of \$76,779 or 5%.

Product sales revenue during for the three months ended March 31, 2020 was \$2,005,085 compared to \$3,228,888 for the three months ended March 31, 2019, a decrease of \$1,223,803 or 38%. The decrease in product sales is due to delays in supply chain and delivery of product for sale to HWC in the first quarter of 2020 related to the COVID-19 pandemic.

Equipment leasing revenues for the three months ended March 31, 2020 was \$20,752 compared to \$351,422 for the three months ended March 31, 2019, a decrease of \$330,670 or 94%. The decrease is due to a lower investment in new capital equipment needed by HWC.

Property leasing revenues for the three months ended March 31, 2020 was \$67,422 compared to \$240,000 for the three months ended March 31, 2019 a decrease of \$172,578 or 72%. This decrease is a continuation of the general reduction in lease charges to our customer.

Cost of Sales

Total cost of sales for the three months ended March 31, 2020 was \$2,890,307 compared to \$3,328,523 for the three months ended March 31, 2019, a decrease of \$438,216 or 13%. The cost of sales decrease reflects a corresponding reduction in comparative sales for the quarter and a lower supplies procurement in the quarter attributable to the COVID-19 pandemic.

Gross profit for the three months ended March 31, 2020 was \$1,205,791 compared to \$3,171,405 for the comparative period, a decrease of \$1,965,614 or 62%.

Operating Expenses

The Company's total operating expenses were \$2,310,928 for the three months ended March 31, 2020 compared to \$983,679 for the three months ended March 31, 2019, an increase of \$1,327,249 or 135%. This increase is in part attributable, among other things, to a settlement agreement with the Company's former President and CFO which is reflected in the office and general expense category. Accounting for these expenses were the following items:

Advertising and Promotion: For the three months ended March 31, 2020, the Company's advertising and promotion expenses totaled \$117,497 compared to \$192,460 for the comparative quarter, a decrease of \$74,963 or 39%. Advertising expense decreased for the quarter largely due to a reduction in expenditures needed to support the Company's brand which is now well established in Arizona.

Amortization: For the three months ended March 31, 2020, the Company's amortization expense totaled \$56,983 compared to \$34,232 an increase of \$22,751 or 67%. This increase reflects additional amortization as equipment purchased during 2019 was placed in service to support the multi-state joint venture programs.

Bank Charges and Interest: For the three months ended March 31, 2020, the Company's bank charges, and interest totaled \$169,505, compared to \$19,704 for the comparative reporting period an increase of \$149,801 or 760%. This increase is primarily attributable to the accrued interest of \$137,557 and accretion expense of \$26,134 related to the Company's \$5.5 million financing that closed in December 2019.

Consulting Fees: For the three months ended March 31, 2020, the Company recorded consulting fees of \$280,591 compared to \$24,208 for the three months ended March 31, 2019, an increase of 256,383 or 1,059%. The increase is attributable to increased extraction and outdoor grow cultivation consultants, capital market related costs, and corporate finance expenses. The increase is also due to the fact that the Company was a private company in Q1 2019 so it didn't have to incur consulting expenses relating to capital markets, and corporate business development.

Insurance: For the three months ended March 31, 2020, the Company's insurance expense was \$6,588 compared to \$26,184, a decrease of \$19,596 or 75%. The decrease is a result of no longer insuring the discontinued X-Tane operations.

Office and General Expense: For the three months ended March 31, 2020, the Company's office expense was \$796,750 compared to \$64,597 for the comparative reporting period, an increase of \$732,153 or 1,133%. The majority (74%) of this increase is directly attributable to Robert J. Brilon resigning as President, CFO, Corporate Secretary and a Director of the Company in January 2020. Mr. Brilon received \$125,000 upon his departure and will receive a total of \$125,000 in monthly installment payments of \$10,417 per month commencing March 2020 through February 2021, and a final lump sum amount of \$250,000 upon the earlier of any change of control of the Company, a debt or equity financing greater than \$10 million of the Company on or after February 7, 2020, or February 27, 2022. Additionally, in prior period, the Company was still a private company so it did not have any head office expenses in Canada.

Professional Fees: For the three months ended March 31, 2020, professional fees were \$264,166 compared to \$172,462 for the comparative reporting period, an increase of \$91,704 or 53%. The increase is due to additional, legal/compliance fees related to being a public company and costs related to the RDF Management, LLC and Firebrand, LLC acquisitions and the establishment of joint venture agreements.

Rent, Property Taxes, and Utilities: For the three months ended March 31, 2020, rent and property taxes were \$27,069

compared to \$21,776 for the comparative reporting period, an increase of \$5,293 or 24%. The increase is attributable to expanding the head office administration facility.

Repairs and Maintenance: For the three months ended March 31, 2020, repairs and maintenance expense were \$19,952 compared to \$81,760 for the comparative reporting period, a decrease of \$61,808 or 76%. The Company's equipment is relatively new and obsolete equipment was replaced, reducing repairs and maintenance expenditures.

Research and Development: For the three months ended March 31, 2020, research and development expense was \$30,098 compared to \$36,562 for the comparative reporting period, a decrease of \$6,464 or 18%.

Share-based Compensation: For the three months ended March 31, 2020 share based compensation was \$87,406 compared to \$67,393 for the comparative reporting period an increase of \$20,013 or 30%. The increase is attributable to share based compensation expense related to the May 2019 stock options and special advisory warrants grant.

Salaries, Wage and Commissions (Operating): For the three months ended March 31, 2020, salaries, wages and commissions were \$330,590 compared to \$120,671 for the comparative reporting period, an increase of \$209,919 or 174%. This increase is attributed to a higher percentage of labor being reclassified to operating expenses versus cost of goods sold, due to executive, management, and administrative personnel allocated to the multistate operations.

Travel and Training Costs: For the three months ended March 31, 2020, travel and training costs were \$110,821 compared to \$121,670 for the comparative reporting period, a decrease of \$10,849 or 9%. Travel and training costs remained relatively the same as the prior period.

During the three months ended March 31, 2020, the net loss before taxes is \$971,020 compared to a net income of \$2,187,726, a \$3,158,746 difference. The bulk of this difference is attributable to the decreased revenues in management fees and product sales due to the COVID-19 pandemic and the increase in office and general expenses related to an employee resignation.

CASH FROM ACTIVITIES

The following table summarizes the sources and uses of cash for the three months ended March 31, 2020 and 2019:

	March 31, 2020	March 31, 2019
Cash used in operating activities	\$ 1,016,219	\$ 876,217
Net cash used in investing activities	1,667,883	388,413
Net cash provided by financing activities	806,700	18,454
Net decrease in cash	\$ 1,877,402	\$ 1,246,176

Operating Activities

During the three months ended March 31, 2020, operating activities used \$1,016,219 compared to \$876,218 for the comparative period, a \$140,002 difference. For the three months ended March 31, 2020, the Company reported a net loss of \$971,020 compared to a net income of \$1,661,417 for the comparative period, a \$2,632,437 difference. This was offset by the change in accounts receivable of \$1,538,158 and prepaid expenses, deposits, and other receivables of \$567,349. We were advised by HWC that the increased demand in the first quarter required them to purchase approximately \$1.1 million of raw material biomass thus reducing cash they could pay for their receivable. The Company agreed to these terms and anticipates increased cash flow from HWC in 2nd and 3rd quarters of 2020.

Investing Activities

During the three months ended March 31, 2020, cash flows used in investing activities was \$1,667,883 compared to \$388,413 in the comparative period, an increase of \$1,279,470. This increase is a result of

investments in working capital in the Kentucky and Oklahoma joint ventures, and capital equipment acquired for the multistate operations. The working capital investments for the joint ventures will be repaid prior to any income distributions to the joint venture partners.

Financing Activities

During the three months ended March 31, 2020, cash flows provided by financing activities was \$806,700 compared to \$18,454 for the comparative period, an increase of \$788,246. The bulk of this change is from the paydown of the note receivable by HWC.

LIQUIDITY AND CAPITAL RESOURCES

These condensed consolidated interim financial statements have been prepared using International Financial Reporting Standards applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The continuing operations of the Company are dependent upon the Company's ability to continue to earn adequate revenues from operations, and to raise adequate financing. The Company intends to finance its future requirements through continued operations.

As at March 31, 2020, the Company had working capital of \$20,777,488 (December 31, 2019 - \$22,466,691) and retained earnings of \$14,320,194 (December 31, 2019 - \$15,291,214). There is uncertainty as the likely effects of the novel coronavirus ("COVID-19") outbreak which may, among other things, impact the Company's operations and ability to raises further financing. Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated financial statements not disclosed elsewhere in these condensed consolidated financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and corporate officers, including the Company's Executive Chairman, Chief Executive Officer, Chief Operating Officer, and President and Chief Financial Officer.

Remuneration attributed to key management personnel as of March 31, 2020 and 2019 is summarized as follows:

	March 31, 2020	March 31, 2019
Share-based payments	\$ 16,582	\$ 25,809
Salaries and wages included in cost of sales	219,445	144,961
Salaries, wages and commissions included in operating expenses	11,550	7,629
Former officer and director settlement included in operating expenses	500,000	-
	\$ 747,577	\$ 178,399

Other related parties

Other related parties include close family members of the Company's Executive Chairman and the former CFO,

President, and Director and a company that is controlled by a Director.

Remuneration attributed to other related parties for the three months ended March 31, 2020 and 2019 is summarized as follows:

	March 31, 2020	March 31, 2019
Salaries and wages included cost of sales	\$ 42,019	\$ 32,562
Salaries, wages and commissions included in operating expenses	2,211	1,714
Consulting fees included in operating expenses	34,074	-
	\$ 78,304	\$ 34,276

Balances with related parties:

Due from related parties:

	March 31, 2020	December 31, 2019
Non-interest bearing, due on December 31, 2021 from the Executive Chairman	\$ 537,151	\$ 537,151
Non-interest bearing, due on December 31, 2022 from the Executive Chairman	316,251	316,251
Non-interest bearing, due on December 31, 2023 from the Executive Chairman	1,328,383	1,328,383
	\$ 2,181,785	\$ 2,181,785

The Company has every reasonable expectation to collect these amounts.

Due from other related parties:

	March 31, 2020	December 31, 2019
Non-interest-bearing advances to Joint Ventures	\$ 250,000	\$ 440,830

Due to related parties:

Amounts due to related parties as at March 31, 2020 and December 31, 2019 included the following:

- Included in payables and accrued liabilities as at March 31, 2020 is \$338,049 (2019 - \$338,198) owing to the Executive Chairman, companies controlled by him, and his close family members. Most of this amount is made up of accrued salary.
- Included in payables and accrued liabilities as at March 31, 2020 is \$11,900 (2019 - \$nil) owing to a company controlled by a director and \$114,583 (2019 - \$nil) owing to the former CFO, President, Corporate Secretary, and Director of the Company.
- Included in the long-term loans payable as at March 31, 2020 is \$80,466 (2019 - \$87,316) due to the Executive Chairman of the Company, his spouse, and a company controlled by him. These loans bear interest of 13% per annum, and are due between 2022 – 2026. Effective January 1, 2020, no further interest will accrue on these loans.
- Included in the long-term payables as at March 31, 2020 is \$250,000 (2019 - \$nil) due to the former CFO, President, Corporate Secretary, and Director of the Company. This obligation bears no interest and is due the earlier of any change of control of the Company, a debt or equity financing greater than \$10 million of the Company on or after February 7, 2020, or no later than February 27, 2022.

OUTSTANDING SHARE DATA

The following share capital data is current as of the date of this document:

Number Outstanding as at:	June 1, 2020	December 31, 2019
Subordinate voting shares	22,616,226	21,834,626
Multiple voting shares	684,471	625,287
Stock Options	2,066,334	1,043,000
Warrants	980,210	1,022,910
Special advisory warrants	1,000,000	1,000,000

PROPOSED TRANSACTIONS

The Company does not have any other proposed transactions to discuss at this time other than the acquisition and joint ventures entered into subsequent to the quarter ended March 31, 2020 discussed in the subsequent events section within this MD&A and a proposed conversion of the California investment into a joint venture which has not been completed.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company adopted all of the requirements of IFRS 16 Leases (“IFRS 16”) as of January 1, 2019. IFRS 16 replaces IAS 17 Leases. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The Company choose to apply the effect of changes retrospectively with the cumulative effect of initially applying the standards recognized to retained earnings at the date of initial application which is January 1, 2019.

The following is the Company’s new accounting policy for leases under IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right of use asset and lease liability is recognized at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, including periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company’s incremental rate of borrowing is used. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

If a right-of-use asset is re-leased, the corresponding right-of-use asset is derecognized and an investment asset is recorded at the present value of the lease income not paid at the commencement date discounted using the implicit

rate in the lease or the Company's incremental rate of borrowing.

The Company has elected not to recognize right of use assets and lease liabilities for leases for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of the Company's accounts receivable, current notes receivable, advances to joint ventures, deposits and other receivables, payables, and amount due to Legacy Ventures Hawaii, LLC, approximate carrying value, due to their short-term nature. The carrying amounts of the long-term notes receivable and amount due from related parties approximate fair value. The fair values of the investment in sublease, right of use asset, and lease liability have been recorded as discussed in the audited financial statements Note 13. The long-term loan payable is recorded at fair value as discussed in the audited financial statements Note 14. The Company's cash and investment in Legacy are measured at fair value under the fair value hierarchy based on Level 1 quoted prices in active markets for identical assets or liabilities.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, price risk, and currency risk.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its receivables. As at March 31, 2020, the Company was dependent on one major customer from its consulting business segment. The majority (\$15,667,852) of the Company's accounts receivable are from this customer. The Company is of the opinion that it is not exposed to significant credit risk from this customer as at March 31, 2020 as it continues to collect accounts receivable routinely.

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customer, current business environment, customer and industry concentrations, and historical experience. To reduce credit risk, cash is only held at major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management. As at March 31, 2020, the Company had cash, accounts receivable and short-term notes receivable of \$22,284,986 to settle its current liabilities of \$2,209,237. During the quarter ended March 31, 2020, the maturity dates of \$727,000 of current loans were extended for an additional year to help reduce liquidity risk. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and foreign exchange rates.

a) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company does not hold any financial instruments with variable interest rates, and as a result, is subject to

insignificant interest rate risk.

b) Price risk

The Company is not exposed to significant price risk as it does not hold investments in publicly traded securities.

c) Currency risk

The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in U.S. dollars. As at March 31, 2020, the Company had CAD\$(14,729) net financial assets denominated in Canadian currencies. A 10% change in the foreign exchange rate between the U.S. dollar and the Canadian dollar would result in a change on approximately \$1,038 in other comprehensive income.

OFF-BALANCE SHEET TRANSACTIONS

The Company has not entered into any significant off-balance sheet arrangements or commitments.

SUBSEQUENT EVENTS

- On April 6, 2020, the Company acquired RDF Management, LLC and Firebrand, LLC, Arizona based companies, in order to provide exclusive services for the management, administration and operation of Organica Patient Group, Inc., an Arizona not for profit corporation, which was issued and holds in good standing, a Medical Marijuana Dispensary Registration Certificate, by the Arizona Department of Health Services in the State of Arizona and certain intangible assets (collectively the "Transaction").

In consideration for the Transaction, the Company issued:

- (i) 67,000 multiple voting shares;
- (ii) a promissory note of \$5,500,000 for a period of 18 months. No interest will accrue on the promissory note during the 18-month period, and thereafter, interest will accrue at 10% per annum; and
- (iii) an undertaking to assist RDF Management, LLC in settling and resolving certain existing liabilities, allocating a total maximum of \$3,500,000 in funds to settle such liabilities.

As part of the closing of the Transaction, the Company entered into a \$3,000,000 line of credit secured promissory note ("Promissory Note") with Organica whereby Organica promises to pay the Company the principal and 10% interest per annum. As at the date of the financial statements, no money had been drawn from this line of credit by Organica.

- On May 12, 2020, the Company granted 1,083,334 stock options at an exercise price of CAD\$0.75 to directors, an officer, and consultants. The stock options are exercisable for a term of 10 years.
- On May 22, 2020, 42,700 warrants expired.
- On May 26, 2020, 2,931 multiple voting shares were converted to 293,100 subordinated voting shares.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to decide of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

RISK AND UNCERTAINTIES

Uninsured or Uninsurable Risk

The Company may become subject to liability for risks against which it cannot insure or against which it may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on its financial position and operations.

DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Marijuana-Related Activities ("CSA Notice 51-352"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved. In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

Legal and Regulatory Matters

United States Federal Overview

In the United States, thirty-three (33) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and eleven states and Washington D.C. have legalized "adult use" or "recreational" marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the CSA. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis related practices or activities including, without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law. Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the DOJ issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses. However, on January 4, 2018, the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum". The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community". While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime", it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses.

Arizona Overview:

Arizona has authorized the cultivation, extraction and dispensing of medical marijuana products by licensed dispensaries located throughout the State. There are 130 licenses in the state which cover all categories of production and sale of cannabis and cannabis related products. In 2010, Arizona became the 14th state to legalize medicinal cannabis for adults over 21 under Proposition 205: the Arizona Medical Marijuana Act (AMMA). Arizona is one of the 33 states to have some form of medical marijuana law in place. The AMMA is regularly used as an example for other states as an effective way to regulate a legal cannabis industry. In Arizona, the dispensaries operate as not-for-profit entities and engage with management companies to provide real estate rental, administrative, general management and advisory services, financing and logistics to medical marijuana businesses (the dispensaries) licensed under the provisions of the Arizona Medical Marijuana Act, A.R.S. Title 36, Section 28.1 (the "AMMA") and to provide material support. These management companies exert considerable influence and control over not-for-profit dispensaries. It is illegal in Arizona to possess marijuana in the absence of holding a medical marijuana card. Holders are entitled to purchase not more than 2.5 grams of product every two weeks. Purchases are tracked by cardholder and all dispensaries are required to report cardholder sales. New Gen and its subsidiaries are in compliance with Arizona's medical marijuana regulatory requirements and programs where applicable.

Regulatory Risks

The U.S. cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may impact on actual results.

Participants in the U.S. cannabis industry will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct its business. Litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on the Company's financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The U.S. cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of the Company and which cannot be reliably predicted.

The Company expects to derive most of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law (other than its business related to high CBD/low THC products, known as "hemp"). As a result of the conflicting views between state legislatures and the federal government regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company is expected to remain focused in those U.S. states that have legalized the medical and/or adult-use of cannabis. Almost half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA. The federal government of the U.S. has specifically reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use use marijuana even if state law sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened

by the revocation of the Cole Memorandum in January 2018.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's business would be materially and adversely affected. U.S. federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company.

Nature of the Company's Involvement in the U.S. Cannabis Industry

Currently, the Company is engaged in the branding and procurement for companies that manufacture and distribute cannabis in the medical and adult-use cannabis marketplace. As at December 31, 2018, the Company's assets and revenues are directly attributable to the medical marijuana use in the State of Arizona.

As previously stated, 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, the listing of its securities on any stock exchange, 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.

The Company's involvement in the U.S. cannabis industry will be (i) only in those states that have enacted laws legalizing cannabis; and (ii) only in those states where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

The Company will continue to monitor, evaluate and re-assess the regulatory framework in each state in which it may hold license, and the federal laws applicable thereto, on an ongoing basis; and will update its continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the U.S.

Heightened Scrutiny

For the reasons set forth above, the Company's activities in the U.S. 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 activities in the U.S. or any other jurisdiction, in addition to those described herein.

Change in Laws, Regulations and Guidelines

The Company's business operations will directly and indirectly be affected by a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also including laws and regulations relating to consumable products health and safety, the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations, which could require participants to incur substantial costs associated with compliance or alter certain aspects of its business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plans and result in a material adverse effect on certain aspects of its operations.

Unfavorable Publicity or Consumer Perception

The legal cannabis industry in the U.S. is at an early stage of its development. Cannabis has been, and will continue to be, a controlled substance for the foreseeable future. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory opinion and support for medical and adult-use cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). The Company's ability to gain and increase market acceptance of its business activities may require substantial expenditures on proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Public investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful, and their failure may have an adverse effect on the Company.

Local, state and federal laws and regulations governing marijuana for medicinal and recreational purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

Other Regulatory Risks

The activities and products of the Company are subject to regulation by governmental authorities, including, the U.S. Food and Drug Administration, and others. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Reliance on Management

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

Additional Financing

In order to execute the anticipated growth strategy, the Company will require some additional equity and/or debt financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. 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.

Cannabis Industries are Highly Competitive

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

Operating Risk and Insurance Coverage

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

Key Personnel Risk

The Company's success will depend on its directors and officers to develop the business and manage operations, and on its ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on the business. Competition for qualified technical, sales and marketing staff, as well as for officers and directors, can be intense and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact operations.

Global Economy Risk

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a client base for its product. Access to financing has been negatively impacted by the ongoing global economic downturn. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on its operations and, if applicable, the trading price of its Common Shares on any stock exchange.

Dividend Risk

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt.

Securities and Dilution

There is no assurance that sources of financing will be available on acceptable terms, if at all. If the Company seeks additional equity financing, the issuance of additional shares will dilute the interests of their current shareholders. Failure to obtain such additional financings could result in delay or indefinite postponement of the Company's strategic goals.

Future Capital Requirements

The Company's future capital requirements will depend on many factors, including inorganic growth initiatives, securing new contracts, the rate of expansion and the status of competitive products. Depending on these factors, the Company may require additional financing which may or may not be available on acceptable terms. If additional funds are raised by issuing equity securities, dilution to the existing shareholders may result. If adequate funds are not available, the Company may not be able to achieve its growth objectives and operational targets, which could have a material adverse effect on the Company's business.

Novel Corona Virus Known as "COVID-19"

The Company may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic, or a similar public health threat, such as the recent outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing, supply chain, and project development delays and disruptions, labor shortages, travel, and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). It is unknown whether and how the Company may be affected if such a pandemic persists for an extended period of time, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which the Company is subject. Although the Company has been deemed essential and/or has been permitted to continue operating its facilities in the states in which it operates during the pendency of the COVID-19 pandemic, there is no assurance that the Company's operations will continue to be deemed essential and/or will continue to be permitted to operate. The Company may incur expenses or delays relating to such events outside of its control, which the Company cannot estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods.

OTHER INFORMATION

Additional information on the Company is available on SEDAR at www.sedar.com.