**Delta 9 Cannabis Inc.**

**Management's Discussion and Analysis**

(For the three-month and six-month period ended June 30, 2018)

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## Introduction

The management's discussion and analysis ("MD&A") of the financial condition and results of operations of Delta 9 Cannabis Inc. ("Delta 9" or the "Company"), is for the three-month and six month period ending June 30, 2018, and is prepared as of August 28, 2018. It is supplemental to, and should be read in conjunction with, the Company's consolidated interim financial statements for the three-month and six month period ending June 30, 2018.

This MD&A provides information that management of the Company believes is important to assess and understand the results of operations and financial condition of the Company. Our objective is to present readers with a view of the Company from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. All monetary amounts herein are expressed in Canadian Dollars unless otherwise specified.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards.

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

## Notice Concerning Forward-looking Statements

This MD&A contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements. Prospective investors can identify many of these statements by looking for words such as "believes", "expects", "will", "may", "intends", "projects", "anticipates", "plans", "estimates", "continues" and similar words or the negative thereof.

Forward-looking statements are necessarily based upon a number of expectations or assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned to not place undue reliance on forward-looking statements which only speak as to the date they are made. Although management believes that the expectations and assumptions underlying such forward-looking statements are reasonable, there can be no assurance that such expectations or assumptions will prove to be correct. A number of factors could cause actual future results, performance, achievements and developments of the Company and/or its subsidiaries to differ materially from anticipated results, performance, achievements and developments expressed or implied by such forward-looking statements, including all of the risk factors set out under "Risk Factors" herein.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A or such other date specified in such statement. Except as required by law, the Company disclaims any obligation to update any forward-looking information, estimates or opinions, future events or results or otherwise.

## Company Overview

The Company, through its wholly-owned subsidiary, Delta 9 Bio-Tech Inc. ("Delta 9 Bio-Tech"), is a licensed producer of medical cannabis pursuant to the *Access to Cannabis for Medical Purposes Regulations* (Canada) (the "ACMPR") and operates an 80,000 square foot production facility in Winnipeg, Manitoba, Canada. On October 31, 2017, the Company, under its former name "SVT Capital Corp." completed a reverse takeover transaction pursuant to which it acquired all of the issued and outstanding shares of Delta 9 Bio-Tech by way of a three-cornered amalgamation (the "Amalgamation") pursuant to an amalgamation agreement (the "Amalgamation Agreement") among the Company, Delta 9 Bio-Tech, and a wholly-owned subsidiary of the Company ("Newco"). In connection with the closing of this transaction, the Company changed its name from "SVT Capital Corp." to "Delta 9 Cannabis Inc.".

Pursuant to the Amalgamation Agreement, Delta 9 Bio-Tech amalgamated with Newco under the provisions of the *Canada Business Corporations Act*, with the amalgamated company continuing as a wholly-owned subsidiary of the Company under the name "Delta 9 Bio-Tech Inc.". The Company issued one common share of the Company (a "Common Share") to each former shareholder of Delta 9 Bio-Tech for each share of Delta 9 Bio-Tech owned by such shareholder. All other securities of Delta 9 Bio-Tech were exchanged for securities of the Company at a ratio of one security of Delta 9 Bio-Tech for one security of the Company. The Common Shares of the Company resumed trading following the Amalgamation on the TSX Venture Exchange on November 6, 2017 under the symbol "NINE".

Due to the fact that the Amalgamation was considered to be a reverse takeover transaction and that the Company changed its financial year end from March 31 to December 31 to conform with the financial year end of Delta 9 Bio-Tech, the comparative financial information of the Company for the six-month period ended June 30, 2017 consists of financial information of Delta 9 Bio-Tech Inc., Delta 9 Bio-Tech LP, and Delta 9 Lifestyle Cannabis Clinic Inc. References to the Company in this MD&A prior to October 31, 2017 refer to Delta 9 Bio-Tech unless otherwise noted.

The address of the registered office of the Company is Suite 1800, 355 Burrard Street, Vancouver, British Colombia, V6C 2G8.

Delta 9 Bio-Tech owns one subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc. ("Delta 9 Lifestyle"). Delta 9 Lifestyle was incorporated under *The Corporations Act* (Manitoba) on February 9, 2017. Delta 9 Bio-Tech owns 51% of the issued and outstanding shares of Delta 9 Lifestyle. The remaining 49% of the issued and outstanding shares are owned by 7217804 Manitoba Ltd., an arm's length third party. Delta 9 Lifestyle operates a medical clinic, which markets the "Delta 9" brand to patients and provides physician consultation services to patients seeking a medical recommendation.

In addition to Delta 9 Bio-Tech, the Company owns two other subsidiaries, 10007705 Manitoba Ltd. and Delta West Inc.

10007705 Manitoba Ltd. was incorporated under *The Corporations Act* (Manitoba) on December 14, 2017. The Company owns 50% of the issued and outstanding shares of 10007705 Manitoba Ltd. The remaining 50% of the issued and outstanding shares are owned by Canopy Growth Corporation, an arm's length third party. See "Company Updates and Quarterly Highlights – Retail License" for a description of the business of 10007705 Manitoba Ltd.

Delta West Inc. was incorporated under the *Business Corporations Act* (Alberta) on March 29, 2018. The Company owns 50% of the issued and outstanding shares of Delta West Inc. The remaining 50% of the issued and outstanding shares are owned by Westleaf Cannabis Inc. ("Westleaf"). See Company Updates and Quarterly Highlights – Delta West Project.

## Company Updates and Quarterly Highlights

**Positioning for Legalization of Recreational Use Cannabis in Canada**

On April 13, 2017, the Canadian federal government put forward proposed legislation, the *Cannabis Act* (Canada), outlining the framework for the legalization of recreational, adult-use of cannabis, as well as laws to address drug-impaired driving, protect public health and safety, and prevent youth access to cannabis. Provincial and municipal governments have been given explicit authority by the federal government to provide regulations regarding retail and distribution of cannabis, as well as the ability to alter some of the existing regulations, such as increasing the minimum age for purchase and consumption. The ACMPR will continue to operate in tandem with the recreational regime, and will be re-evaluated within five years of the *Cannabis Act* (Canada) coming into force. Licensed cannabis producers under the ACMPR will be deemed to be licensed under the *Cannabis Act* (Canada) as well.

On November 27, 2017, the House of Commons passed the *Cannabis Act* (Canada) at third reading. Once the *Cannabis Act* (Canada) is passed by the Senate, it will receive royal assent and become law; however, the provinces will need an additional eight to twelve weeks from such date to prepare for retail sales. On March 22, 2018, the *Cannabis Act* (Canada) passed second reading in the Senate, giving the bill approval in principle. The bill is now before the Standing Senate Committee on Social Affairs, Science and Technology for closer scrutiny, witness testimony, and proposed amendments before returning to the Senate for a final debate and vote. On June 20, 2018 the *Cannabis Act* (Canada) received Royal Assent and was passed into law. The government has stated that recreational cannabis sales in Canada will begin on October 17$^{th}$, 2018.

On December 5, 2017, the Government of Manitoba introduced *The Safe and Responsible Retailing of Cannabis Act* (Manitoba), which would amend *The Liquor and Gaming Control Act* (Manitoba) and *The Manitoba Liquor and Lotteries Control Act* (Manitoba) to authorize and regulate the retail sale of cannabis in Manitoba as soon as it is permitted under federal law. Once in place, all businesses selling cannabis in storefronts or online must be provincially licensed. Under the proposed legislation, Manitoba Liquor & Lotteries Corporation ("MLLC") would be responsible for acquiring all cannabis for retail sale, and only cannabis sourced through them may be sold. MLLC would be authorized to enter into agreements with licensed cannabis distributors. It is anticipated that the Liquor and Gaming Authority of Manitoba will be renamed the Liquor, Gaming and Cannabis Authority of Manitoba and will be responsible for licensing cannabis stores and distributors in the province of Manitoba, with its inspectors being responsible for compliance enforcement.

In light of the Canadian federal government's demonstrated commitment to the enactment of the proposed *Cannabis Act* (Canada) and the introduction of related legislation and regulations by the Government of Manitoba and other provincial governments, the Company continues to prepare for the launch of the adult-use, recreational cannabis market in Canada, which is currently anticipated to occur during the third quarter of 2018. After such legalization, management will focus on vertical integration into retail sales of adult-use, recreational cannabis products and value added products such as cannabis oils and extracts across the Prairie provinces.

**Retail Licence**

On February 16, 2018, the Government of Manitoba announced that it conditionally awarded a consortium comprised of the Company and Canopy Growth (the "Consortium") the opportunity to become licensed to legally retail recreational cannabis in the province of Manitoba when it becomes permitted under Canadian federal law. The issuance of the retail licence (the "Retail Licence") is conditional on the Consortium entering into a formal agreement with the Government of Manitoba and satisfying a series of other conditions as part of the retail licensing process.

It is anticipated that the Retail Licence will be held by 10007705 Manitoba Ltd., a company incorporated under laws of the province of Manitoba on December 14, 2017, equally owned by the Company and Canopy Growth. The Retail License will allow each of the Company and Canopy Growth to licence individual retail store locations to sell recreational cannabis, which will be independently owned, operated, and branded by subsidiaries of the Company and Canopy Growth, respectively.

The Company plans to open and operate a chain of up to 18 retail outlets in Manitoba over the next 36 months, which will be operated under the trade name “Delta 9 Cannabis Store” or a similar name. The first retail location for the Company, operated by Delta 9 Lifestyle, has already been constructed in the Osborne Village area in the city of Winnipeg and has been operating for several months as a resource centre and medical cannabis clinic.

**Manitoba Supply Agreement**

On June 27, 2018 the Company signed a supply agreement with MLCC to supply the Province of Manitoba with a minimum of 2,100,000 grams of recreational dried cannabis products over the one-year term of the agreement. Under the Supply Agreement, MLCC will supply Manitoba retailers with a range of Delta 9 products ranging from Delta 9's lower-end "House Blend" to a selection of Delta 9's premium cannabis products.

**Exploring Growth Drivers and Pursuing Growth Opportunities in Medical Use Cannabis in Canada and Globally**

***Dried Cannabis***

Delta 9 Bio-Tech currently produces approximately 20 different genetic strains of cannabis, each with its own unique chemical cannabinoid content, terpene, and flavonoid profiles, and with another 40 strains being stored on site in a seed bank to provide for product options in the future. All cannabis production by Delta 9 Bio-Tech is done at Delta 9 Bio-Tech’s production facility, located at 760 Pandora Avenue East in Winnipeg, Manitoba. Management believes that Delta 9 Bio-Tech has one of the largest in-house stocks of unique genetic cannabis strains among cannabis producers in Canada. Delta 9 Bio-Tech currently produces, processes and dries these genetic cannabis strains into whole flower medical cannabis products. “Whole flower” cannabis refers to the unaltered flower of the female cannabis plant that appears in “bud” form. No undesirable components such as stalks, stems and leaves are included in whole flower cannabis. Whole flower dried cannabis currently accounts for approximately 90% of Delta 9 Bio-Tech’s overall product offering.

Delta 9 Bio-Tech currently produces two alternative dried cannabis products to complement its offering of whole flower dried cannabis.

The first is a house blend product, which consists of several high quality dried cannabis products blended together to produce a milled finished product. The products used for the house blend are products which would not otherwise meet quality standards for whole flower dried cannabis and, as opposed to becoming a waste product, are turned into a cheaper blended material, which is used by Delta 9 Bio-Tech for pre-rolled joints or cannabis cigarettes, and cannabis teas, extracts and edible products. Delta 9 Bio-Tech’s house blended products currently account for approximately 10% of its overall production output and currently sell for a discounted $4.25 per gram.

The second is a dried sift cannabis product which involves sifting Delta 9 Bio-Tech’s house blend and refining it, leaving more of the high potency resin glands and less of the low potency plant material. The final product is a yellow/brownish powder and has a potency that is up to double that of the whole flower dried cannabis materials. Delta 9 Bio-Tech’s dried sift cannabis product is a premium quality and potency dried extract product, and currently sells at a premium price of between $15 and $20 per gram.

Virtually all of Delta 9 Bio-Tech's revenues over the past two financial years have come from the sale of dried cannabis to its third party customers. Delta 9 Bio-Tech also sells Grow Pods and live cannabis plants directly to customers and other cannabis producers, but these sales represent a small portion of Delta 9 Bio-Tech's current revenues. In the three month period ending June 30, 2018 sales of non-dried cannabis products and services made up 48% of overall revenues, however management anticipates dried cannabis revenues to increase substantially with the onset of legalized recreational use sales on October 17, 2018. Delta 9 Bio-Tech also sells a small amount of ancillary products, such as cannabis vaporizers and accessories, to Delta 9 Lifestyle for sale by it, but these sales represent a very small portion of Delta 9 Bio-Tech's current revenues.

***Oils, Extracts and Derivative Products***

Delta 9 Bio-Tech is currently licensed to produce cannabis oils, extracts, and derivative products. However, Delta 9 Bio-Tech is not currently licensed to sell these materials and has not commercialized a product in these lines to the point that it is ready for sale to the public. The market for these products is very restrictive, with strict limits on potency and content of extract materials. It is management's belief that these products will become an increasingly important component of the medical and recreational cannabis markets in the future. Delta 9 Bio-Tech anticipates commercializing its first run of cannabis extract products by the end of the third quarter of 2018.

***Medical Clinic***

Delta 9 Lifestyle operates a medical clinic located at 478 River Avenue in Winnipeg, Manitoba, in the heart of the Osborne Village area, which is a high density, mixed use character neighborhood on the periphery of the downtown core. The clinic helps market the "Delta 9" brand to patients and provides physician consultation services to patients seeking a medical recommendation for a cannabis prescription.

***Pharmacy Distribution***

It is management's belief that over the long term, pharmacies will be integrated into the distribution chain for medical cannabis products.

On April 10, 2018, the Company announced that it entered into a non-binding letter of intent with Pharmasave Drugs (National) Ltd. ("Pharmasave") to become a preferred supplier of medical cannabis to Pharmasave and its affiliates. The letter of intent is to be replaced and superseded by the terms and conditions of definitive agreements to be entered into between the parties providing for the supply and distribution of Delta 9 Bio-Tech's medical cannabis through Pharmasave pharmacies, pending changes to applicable laws to allow such distribution.

Pharmasave is a member owned and governed cooperative of more than 650 independent community pharmacies across Canada.

***International Opportunities***

On March 27, 2018, the Company announced that it entered into a non-binding letter of intent with CanPharma GmbHNeue ("CanPharma") and Global Group Kalapa S.L. ("Kalapa") pursuant to which the Company has agreed to export a minimum of 40 kilograms of cannabis a month (480 kilograms per year) and an additional amount of cannabis extracts to CanPharma for sale to medical cannabis patients in Germany. The letter of intent is to be superseded by the terms and conditions of a binding export agreement to be entered into between the Company, CanPharma, and Kalapa. Prior to entering into the export agreement the Company will need to: (i) acquire a dealer license from Health Canada in order to legally export cannabis; (ii) acquire a Good Manufacturing Practices certification; and (iii) satisfy an onsite audit of its production practices by German authorities. The execution of the export agreement also remains subject to standard closing conditions, including the completion of satisfactory due diligence by the parties.

Kalapa is a holding company based in Barcelona, Spain, which owns Kalapa Clinic—the first pan-European medical consultancy specializing in treatments with cannabinoids—as well as KSK Labs, a producer and manufacturer of products based on cannabidiol. It is a joint venture partner in various other projects involving medicinal cannabis, including a joint venture with CanPharma, an applicant for an import and distribution license in Germany.

***Memorandum of Understanding with Sundial***

On March 15, 2018, the Company announced that it entered into a memorandum of understanding (a "MOU") with Sundial Growers Inc. ("Sundial") pursuant to which Sundial will supply up to 5,000,000 grams of cannabis and cannabis derivative products per year to Delta 9 Bio-Tech. Sundial is currently licensed to produce cannabis under the ACMPR; however, it is not yet licensed to sell cannabis. The purpose of the supply partnership is to enable the Company to distribute Sundial products through its retail outlets following cannabis legalization and potentially for medical cannabis sales as well.

Both parties to the MOU have agreed to share market data and marketing strategies in order to ensure that the production and delivery of product is optimized to meet consumer preferences and demand. The parties will also work together on product trials, marketing and branding strategies, technology services, and education. The terms and conditions of the MOU are subject to applicable regulatory requirements, including Health Canada approvals and regulations.

Sundial is a privately held, Alberta-based Health Canada ACMPR-approved licensed producer of medical cannabis. It operates a 31,000 square foot production facility in Rocky View, Alberta and has two separate production facilities in various stages of completion and licensing.

***Strategic Collaboration Agreement with Fort Garry Brewing***

On March 21, 2018, the Company entered into a strategic collaboration agreement with Fort Garry Brewing to jointly produce and market a hemp beer in Manitoba. It is anticipated that the first product to be produced pursuant to the strategic collaboration will be an alcoholised beer infused with material from hemp seeds, which will contain no cannabis or any other psychoactive agent produced from the cannabis plant. Fort Garry Brewing will be responsible for distribution of the Phase 1 product in any province where the brand is sold. Delta 9 Bio-Tech will provide the hemp seed used in the production of the product.

The parties to the agreement also plan to develop a co-branded, cannabinoid-infused beer that contains no alcohol. This Phase 2 product would be developed as a concept beverage, pending regulatory approval from Health Canada and provincial regulatory bodies. The Company will incur the costs associated with marketing and advertising of the product.

Under the terms of the agreement, the Company and Fort Garry Brewing will share the research and development costs, while Fort Garry Brewing will incur marketing and advertising costs associated with the launch, sale and distribution of the Phase 1 product. Delta 9 Bio-Tech will provide hemp and/or cannabis to Fort Garry Brewing for use in producing the new beer and may also contribute funds to marketing and advertising. The agreement is to be replaced and superseded by the terms and conditions of a definitive agreement to be entered into between the parties.

On June 12, 2018 the Company released its co-branded, phase 1 beer, named “Legal Lager” for sale in MLLC outlets across the province of Manitoba.

**Delta West Project**

On April 19, 2018 the Company announced that it had entered into a limited partnership agreement with Westleaf and Delta West Inc. for the joint development of a large-scale cannabis cultivation facility in Southern Alberta (the “Delta West Project”). On this date, each of the Company and Westleaf contributed $3,000,000 for their 50% equity interests in the limited partnership that will own the Delta West Project, Delta West Limited Partnership. Certain cannabis genetics products, as well as other assistance, will be provided to the Delta West Project by the Company. Westleaf Cultivation Management II Inc., a wholly owned subsidiary of Westleaf, will act as manager of the Delta West Project. The Delta West Project will involve the retrofit of an existing building that is intended to be equipped to produce approximately 4,000 kilograms of dried cannabis flower per annum and an extraction lab for the production of cannabis oil and derivative products. The Delta West Project is expected to be operational as early as the third quarter of 2018 and is intended to supply cannabis products to Alberta medical and recreational markets.

## Discussion of Operations

**Cash Flows**

Over the three-month and six-month period ending June 30, 2018, the Company’s overall cash position decreased to $13,908,610, from $21,250,653 at March 31, 2018 and from $23,548,451 as at December 31, 2017. Management will continue to monitor the Company’s cash position to ensure adequate capital to fund the Company’s expansion and operations.

Management would highlight the limited partnership agreement with Westleaf Cannabis Inc. and Delta West Inc. which was completed on April 19, 2018, and the associated $3,000,000 cash investment in the project, as a significant capital deployment over the three-month period ended June 30, 2018.

Management would also highlight the cash investment of $1,201,624 in property, plant, and equipment at its Winnipeg based facilities as a major cash investment during the second quarter. The majority of this investment was used to construct additional cannabis grow pods (the “Grow Pods”), which are modular, scalable, and stackable production units that are constructed by the Company from standard shipping containers. Grow Pods are the main productive assets used by the Company for the cultivation of cannabis.

The Company also invested $710,226 in pre-payment for dried cannabis products. This will assist the Company in building sufficient inventories of medical and recreational cannabis products in anticipation of increased in demand associated with legalization of recreational use cannabis on October 17, 2018.

**Revenue, Cost of Sales and Gross Profitability**

Revenues from the sale of cannabis products and services for the three-month and six-month period ending June 30, 2018, were $715,746, and 1,047,853 respectively, versus revenues of $190,099 and $337, 953, for the three-month and six-month period ending June 30, 2017. These increases are reflective of a percentage increase for the three-month and six-month periods of 277% and 210% respectively, compared to the previous year. Cannabis products and services include dried cannabis,

cannabis plants and seeds sold to medical patients and other licensed producers, ancillary cannabis products and accessories, hemp products, medical consulting services, and sales of Grow Pod systems.

Management attributes the increase in revenues to an increase in the overall number of registered cannabis patients from 1,657 registered patients as at June 30, 2017 to 3,052 registered patients as at June 30, 2018.

Delta 9 also completed sales of Grow Pod systems to third parties, realizing revenues of $244,734, and sales of genetics products of the Company through sale of plants and seeds, realizing revenues of $96,400 for the three month period ending June 30, 2018.

The cost of sales of cannabis products and services for the three-month and six-month period ending June 30, 2018 was $380,520 (53.2% of sales) and $603,689 (57.6% of sales) respectively, versus $155,354 (81% of sales) and $315,324 (93.3% of sales) the previous year.

Management attributes the proportionate decrease in cost of sales to increases in overall production capacity and output of dried cannabis products over the reporting periods as well as increased sales in high-margin genetics products and Grow Pod systems. Management anticipates that as production capacity increases in the second half of 2018 cost of production and cost of sales will continue to trend down as a percentage of overall revenues, due to incremental efficiencies in labour costs and increased purchasing power for key inputs. Management is currently actively pursuing opportunities in its value-added revenue streams and anticipates expanding its business for sales of genetics products, licensing services, and Grow Pods over the second half of 2018.

Gross profit, after accounting for the unrealized gain from changes in the fair value of biological assets, for the three-month and six-month period ending June 30, 2018, was $663,440 (92.7%% of overall revenue) and $866,135 (82.7% of overall revenue) respectively. Management expects that overall revenues and gross profits will increase measurably upon legalization of recreational use cannabis in Canada on October 17, 2018.

**Operating Expenses**

Operating expenses for the three-month and six-month period ending June 30, 2018 were $2,851,263 and $4,984,412 respectively, versus $1,316,751 and $1,773,774 for the previous year. When factoring out non-cash costs, such as share-based compensation, expenses were $2,329,665 and $3,841,624 for the period.

Management attributes the increase in overall operating expenses for the three-month and six-month periods to increases in the following major expense categories:

- Legal and Investor Relations – Increased to $593,097 and $983,010, up from $0 and $0 in the previous year due to increased expenses as a reporting issuer.
- Other Operating Expenses – Increased to $211,616 and $477,368, up from $123,667 and $143,647 in the previous year due to increases in sales and marketing activities, consulting fees and fees relating to retail store development, and operating leases for 27 Grow Pods.
- Personnel Expenditures – Increased to $664,750 and $1,103,737, up from $249,162 and $471,200 in the previous year due to increased staffing across the Company's operations as the Company expands production operations and prepares for legalization of recreational use cannabis in Canada.
- Rent and Utilities – Increased to $508,313 and $721,473, up from $164,043 and 334,651 in the previous year due to increased rented space in production facilities and retail.

- Site Renovation Costs – Increased to $145,773 and $240,909, up from $48,323 and $76,025 in the previous year due to increased non-capitalized renovations to Delta 9 Bio-Tech's production site as the Company expands its production operations.

Overall operating expenses were in line with management expectations and Board approved budgeted expenditures for the period.

**Net Loss**

The Company's net loss for the three-month and six-month period ending June 30, 2018 was $2,183,009 and $4,106,769, versus $1,072,381 and $1,495,192 in the previous year. Management expects that the Company's net losses will begin to decrease upon legalization of cannabis for recreational use based on expanded sales and profitability.

## Summary of Quarterly Results

| Consolidated Statement of Net Loss | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 |
|---|---|---|---|---|
| **Revenue** | **$302,284** | **$303,877** | **$190,099** | **$147,854** |
| Cost of Sales | $42,137 | $269,815 | $155,354 | $159,970 |
| Gross Profit Before Unrealized Gain From Changes In Biological Assets | $260,147 | $34,062 | $34,745 | $(12,116) |
| Unrealized gain from changes in fair value of biological assets | - | - | $208,850 | $43,578 |
| **Gross Profit (Loss)** | **$260,147** | **$34,062** | **$243,595** | **$31,462** |
| | | | | |
| Expenses | | | | |
| General and Administrative | $908,458 | $591,806 | $1,207,954 | $385,225 |
| Sales and Marketing | $133,893 | $69,309 | $108,797 | $71,798 |
| Share Based Compensation | - | - | - | - |
| **Total Operating Expenses** | **$1,042,351** | **$661,115** | **$1,316,751** | **$457,023** |
| | | | | |
| **Income (Loss) from Operations** | **$(782,204)** | **$(627,053)** | **$(1,073,156)** | **$(425,561)** |
| **Basic and Diluted Earnings (Loss) Per Share** | **$(0.01)** | **$(0.02)** | **$(0.02)** | **$(0.01)** |

| Consolidated Statement of Net Loss (Continued) | Q2 2018 | Q1 2018 |
|---|---|---|
| **Revenue** | **$715,746** | **$332,107** |
| Cost of Sales | $380,520 | $223,169 |
| Gross Profit Before Unrealized Gain From Changes In Biological Assets | $335,226 | $108,938 |
| Unrealized gain from changes in fair value of biological assets | $328,214 | $93,757 |
| **Gross Profit (Loss)** | **$663,440** | **$202,695** |
| | | |
| Expenses | | |
| General and Administrative | $2,064,333 | $1,388,313 |
| Sales and Marketing | $265,332 | $123,646 |
| Share Based Compensation | $521,598 | $621,190 |
| **Total Operating Expenses** | **$2,851,263** | **$2,133,149** |
| | | |
| **Income (Loss) from Operations** | **$(2,187,823)** | **$(1,930,454)** |
| **Basic and Diluted Earnings (Loss) Per Share** | **$(0.03)** | **$(0.02)** |

# Liquidity

**Working Capital Position**

The Company is exposed to liquidity risk or risk of not meeting financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at June 30, 2018, the Company had a working capital position of $16,164,816 versus a working capital position of $24,281,206 as at December 31, 2017. Management believes that this is sufficient capital to meet these needs for the current fiscal year.

Cash flows from operations are expected to increase in the later part of the third quarter of 2018 with increased revenues anticipated from the sales of recreational use cannabis products resulting from the federal government's planned legalization.

# Capital Resources

The Company has committed a portion of its working capital for expansion purposes as follows:

- 112 Additional Grow Pods: $4,336,000
- Related Infrastructure Costs: $675,000
- Total Budgeted Capital Expansion Costs: $5,011,000
- 50% Interest in Westleaf Project (as described herein) $3,000,000
- Total Planned Capital Commitments for 2018 $8,011,000

## Off-Balance Sheet Arrangements

As at June 30, 2018, the Company had no off-balance sheet arrangement such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## Transactions Between Related Parties

Related entities have advanced funds to the Company through various loans, some of which were secured by promissory notes and others which were unsecured with no specified terms of repayment.

During the six-month period ended June 30, 2018, the Chairman and the Chief Executive Officer of the Company used their corporate credit cards to cover expenses of the Company. These funds were subsequently repaid by the Company.

A loan agreement between Oceanside Strategies Inc. (whose Chief Executive Officer is a director of the Company) and SVT Capital Corp. (now the Company) was signed for a total of $72,571 on September 20, 2017. The loan was settled during the period ending June 30, 2018.

On April 1, 2017, Delta 9 Bio-Tech entered into a unanimous shareholders agreement with the other shareholder of Delta 9 Lifestyle, 7217804 Manitoba Ltd. Delta 9 Bio-Tech has provided a shareholder loan in the amount of $51,000 to Delta 9 Lifestyle.

Delta 9 Bio-Tech currently leases its production facility from 6599362 Canada Ltd. ("6599362"), a company controlled by a director of the Company. The original lease agreement in respect of the production facility expired and was replaced with the current lease agreement effective February 1, 2018. Delta 9 Bio-Tech leased 80,510 square feet of the building housing the facility at a basic rent of $6.60 per square foot per year ($531,366 per year) and additional rent of $11,517 per month until March 31, 2018 and, as of April 1, 2018, leases 96,450 square feet of the building at the same rate of basic rent per square foot ($636,570 per year) and additional rent of $12,646 per month.

On March 19, 2018, Delta 9 Bio-Tech entered into a letter of intent and a lease agreement in respect of an expansion facility with 6599362. Pursuant to the terms and conditions of the letter of intent, it is anticipated that Delta 9 Bio-Tech or its nominee(s) will purchase from 6599362 certain expansion properties located adjacent to the Company's main production facility, together with all fixtures thereon, appurtenances thereto, and all chattels of any kind associated with the maintenance and use thereof. The expansion properties consist of three warehouse buildings having a total floor area of approximately 100,000 square feet and approximately 40 acres of additional land located adjacent to Delta 9 Bio-Tech's main production facility. Pending completion of the purchase and sale of the expansion properties, pursuant to the expansion facility lease, Delta 9 Bio-Tech is leasing from 6599362 the approximately 53,162 square foot expansion facility known as building D, which forms part of the expansion properties, at a basic rent of $6.60 per square foot per year ($350,875 per year) and additional rent of $4,440 per month.

For information on additional proposed property transactions between the Company and 6599362, see "Proposed Transactions" below.

## Proposed Transactions

**Agreements With 6599362 Canada Ltd.**

On March 23, 2018, Delta 9 Bio-Tech entered into a definitive agreement with 6599362 to exercise an option to purchase: (i) the building housing its main production facility and the land upon which it is situated for a purchase price of $6,250,000, plus applicable taxes; and (ii) 27 Grow Pods that were constructed by 6599362 for Delta 9 Bio-Tech for a purchase price of $951,798, plus applicable taxes.

It is anticipated that Delta 9 Bio-Tech will complete the purchase of its production facility and the shipping containers during the third quarter of 2018 prior to completing the acquisition of the expansion properties described above under "Transactions Between Related Parties". The acquisition of the expansion properties cannot take place until a subdivision is completed by the City of Winnipeg, a process that may take several months to complete. All of these transactions remain subject to standard closing conditions, including the completion of satisfactory due diligence by the Company and the approval of the TSX Venture Exchange.

Management believes that the acquisition of these properties and assets will have a positive effect on the financial condition of the Company, as the Company will no longer be required to pay rent for the use thereof and the Company will be able to more quickly expand its production of cannabis products.

For information on additional proposed transactions between the Company and 6599362, see "Transactions Between Related Parties" above.

## Changes in Accounting Policies including Initial Adoption

For a summary of the accounting policies of the Company and certain proposed changes to accounting standards that may affect the Company, please see Section 3 "Significant Accounting Policies" and Section 4 "Accounting Standards" of the review engaged financial statements of the Company for the three-month and six-month period ended June 30, 2018.

## Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Company, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the most recent interim financial report and this MD&A (collectively, the "Interim Filings") of the Company and that, based on their knowledge having exercised reasonable diligence: (a) the Interim Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the Interim Filings; and (b) the interim financial report together with the other financial information included in the Interim Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company as of the date of and for the periods presented in the Interim Filings.

Investors should be aware that there are inherent limitations on the ability of the certifying officers to cost effectively design and implement Disclosure Controls and Procedures and Internal Controls over Financial Reporting (as those terms are used in NI 52-109). This may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## Financial Instruments and Other Instruments

The Company's financial instruments consist solely of cash and cash equivalents, trade and other receivables, accounts payable, accrued liabilities and amounts due to related parties. As at June 30, 2018 there were no significant differences between the carrying value of these items and their estimated fair values because of the short-term nature of these instruments.

## Disclosure of Outstanding Share Data

The Company manages its capital with the objective of maximizing shareholder value and ensuring that it has adequate resources to foster growth and development of the business. As of the date of this MD&A, the Company's authorized share capital consists of an unlimited number of Common Shares without par value. The Company has the following securities outstanding as at the date hereof:

| Type of Security | Number Outstanding |
|---|---|
| Common Shares | 79,550,284 |
| Warrants[1] | 8,521,500 |
| Agent's Warrants[2] | 30,478 |
| Agent's Warrants[3] | 596,505 |
| Stock Options[4] | 4,535,908 |
| Stock Options[5] | 635,700 |
| Stock Options[6] | 376,500 |
| **Fully Diluted** | **94,246,875** |

1. 8,521,500 warrants issued under on December 28, 2017 pursuant to the short form prospectus offering by the Company, each of which entitles the holder thereof to acquire one Common Share at an exercise price of $3.25 per share until June 28, 2020;
2. 30,478 agent's warrants, each of which entitles the holder thereof to acquire one Common Share at an exercise price of $0.65 per share until October 31, 2019; and
3. 596,505 agent's warrants, each of which entitles the holder thereof to acquire one Common Share at an exercise price of $2.70 per share until December 28, 2019.
4. 4,535,908 stock options each exercisable to acquire one Common Share at an exercise price of $0.65 until October 31, 2022, 3,635,908 of which shall vest over two years, with 25% vesting every six months, commencing on April 30, 2018, and 900,000 of which shall vest over two years with 50% vesting on October 31, 2018 and the remaining 50% vesting on October 31, 2019.
5. 635,700 stock options each exercisable to acquire one Common Share at an exercise price of $2.77 until January 22, 2023. The options will vest over 12 months, with one third vesting immediately, one third vesting after six months, and one third vesting after 12 months.
6. 376,500 stock options each exercisable to acquire one Common Share at an exercise price of $2.30 until February 20, 2023. The options will vest over 12 months, with one third vesting after four months, one third vesting after eight months, and one third vesting after 12 months.

## Subsequent Events

**Developments since June 30, 2018**

In addition to the matters set forth in "Proposed Transactions" above, the following events have taken place regarding the Company since June 30, 2018.

***MOU with Nanosphere Health Sciences***

On July 31, 2018 the Company announced that it had entered into a memorandum of understanding (the "MOU") with Nanosphere Health Sciences Inc. ("Nanosphere"). The MOU provides that Delta 9 and Nanosphere intend to negotiate and enter into a master agreement (the "Nanosphere Agreement") pursuant to which Nanosphere will grant a master license for Nanosphere's patented technology to Delta 9 for all of Canada. Delta 9 may also sub-license the technology to other licensed producers of cannabis under the ACMPR.

The MOU provides that Delta 9 and Nanosphere will each receive 50 per cent of the net revenue from sales of Nanosphere products in Canada if the Nanosphere Agreement is entered into. Delta 9 will have the right to sub-contract distribution to third-party license holders in Canada where the opportunity exists. Under those circumstances, Delta 9 would receive a portion of that sub-licensee's net profit, and remit 50 per cent of the net revenue to Nanosphere.

The initial term of the Nanosphere Agreement is intended to be 36 months following the date of the first commercial sale of licensed products pursuant to such agreement. The Nanosphere Agreement is intended to be renewed by mutual agreement of the parties. Also, if the Nanosphere Agreement is entered into, Delta 9 is bound to apply to Health Canada for authorization to distribute Nanosphere products. The parties intend that the MOU will be replaced by the Nanosphere Agreement by September 30, 2018, subject to satisfactory completion of due diligence by both parties.

**Credit Facility with Tier 1 Bank**

On July 25, 2018 the Company announced that it had come to terms on a $12,000,000 loan and credit facility with a Tier 1 Canadian chartered bank (the "Bank"). The name of the Bank has not been released as a non-disclosure agreement is in effect until the signing of a definitive credit agreements. Under the terms agreed to between Delta 9 and the Bank, there will be four separate loan segments, each of which is allocated for a different purpose, and each with its own terms:

1. A demand operating loan of $2,000,000 to be used to finance day-to-day operations. Interest will float at a rate of 1.00% per annum above the Bank's prime lending rate, which at the current time is 3.45% per annum.

2. A demand revolving loan of $4,500,000 which is intended to assist in financing the purchase of Delta 9's current production facility. Interest will initially float at 1% above prime, but the Bank will use its best efforts to obtain funds on a fixed rate acceptable to Delta 9 and the Bank, which is intended to be at between 4.68% per annum for a one-year term up to 5.45% per annum for a five-year term.

3. A demand non-revolving loan of $4,500,000 to assist in the purchase of lands adjacent to the Company's current production facility. Interest will float at a rate of 1.00% per annum above prime, with fixed rate pricing subject to negotiation up to the date of draw down.

4. A non-revolving credit facility of $1,000,000 for the purchase or lease of equipment required for the operation of the Company's business. Interest will float at a rate of 1.75% above prime, with fixed rate pricing to be the subject of negotiation up to the date of draw down.

Management anticipates signing of definitive credit agreements to occur in the third quarter of 2018.

# Risk Factors

Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company.

## Strategic Risks

**Management of Growth**

The Company may be subject to growth-related risks, including capacity constraints and pressure on internal systems and controls.

**Conflicts of Interest**

Certain of the directors and officers of the Company are also directors and officers of other companies outside of the cannabis sector. Conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

**Competition**

The Company is expected to face competition from other companies in the cannabis space. In addition to existing competitors, because of the early stage of industry growth, the Company expects to face competition from additional new market entrants.

## Industry Risks

**Change in Laws, Regulations, and Guidelines**

The Company's operations are subject to a variety of laws, regulations, and guidelines relating to the production, management, transportation, storage, and disposal of cannabis and laws relating to health and safety, conduct of business, and environmental protection. To the knowledge of the Company's management the Company is currently in compliance with all such laws.

**Risks Related to the Agricultural Business**

The Company's operations involve growing of the cannabis plant, an agricultural product. As such, the business is subject to the risks inherent to any agricultural business. Although the Company produces its products indoors in a climate controlled and monitored environment, there can be no assurance that natural elements will not have an adverse effect on its production operations.

**Vulnerability to Rising Energy Costs**

The Company's operations consume considerable energy making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely affect the ability of the Company to operate profitably.

**Product Transportation Cost and Disruptions**

The Company is currently dependent on mail order delivery for product distribution. Any prolonged disruption of mail services could have an adverse effect on the financial health of the business and the operations of the Company. Rising costs associated with product transport could adversely affect the Company's profitability.

**Product Liability**

As a manufacturer and distributor of ingestible products, the Company faces an inherent risk exposure to product liability claims, regulatory action and litigation, if its products are alleged to have caused significant loss or injury. There can be no assurance that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against any potential liability.

**Product Recalls**

As a manufacturer and distributor of ingestible products, the Company's products may be subject to recall or return. If any of the Company's products are recalled for any reason, the Company could be required to incur additional costs related to operations or expenses from legal proceedings which may arise from such a recall. Although the Company has detailed procedures in place to prevent a recall there can be no assurance that any quality issue will be detected in time to prevent a recall and avoid regulatory action or lawsuits.

## Operational Risks

**Regulatory Risks**

The activities of the Company are subject to regulation by government authorities, particularly Health Canada. Achievement of its business objectives is contingent, in part, on compliance with regulatory requirements enacted by these authorities and on the Company's ability to obtain and retain necessary licensing and approvals for the production and sale of its products.

**Reliance on License**

The Company's ability to produce, store, and sell cannabis is dependent on its Health Canada license. The Company's current license is set to expire on August 31, 2019 and although the Company believes that it will continue to meet all of the requirements under Health Canada to renew the license, there can be no guarantee that Health Canada will extend or renew the license.

**Limited Operating History**

The Company, through Delta 9 Bio-Tech, began carrying on business in 2013, and 2014 was the first year that the Company generated revenues from the sale of dried cannabis. The Company is therefore subject to the risks common to early stage companies, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of material revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investments, and the likelihood of success must be considered in light of the early stage of operations.

**Reliance on Key Inputs**

The Company's business is dependent on a number of key inputs, including raw materials and supplies relating to its growing operations, as well as electricity, water, and other local utilities. Any significant interruption or negative change in the availability or pricing of the supply chain for these key inputs could materially impact the Company's operations, financial condition, and operating results.

**Variable Revenues and Earnings**

The Company's revenues may vary from quarter to quarter as a result of a number of factors, including, among others, timing of new product releases, timing of sales orders or deliveries, activities of the Company's competitors, possible delays in production or shipment of products, concentration of the Company's customer base, possible delays or shortages in critical inputs.

**Operating Risk and Insurance Coverage**

The Company has insurance to protect its assets, operations, and employees. While the Company believes that its insurance adequately addresses material risks to which it is exposed and is at a level customary for its current state of operations, such insurance coverage is subject to coverage limits and exclusions and may not be available for all risks and hazards to which the Company is exposed.

**Environmental and Employee Health and Safety Regulations**

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air, and land; the handling and disposal of hazardous and non-hazardous materials and wastes; and employee health and safety. The Company expects to incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters.

**Cyber Security Risks**

The Company relies on certain internal processes, infrastructure and information technology systems to efficiently operate its business in a secure manner, including infrastructure and systems operated by third parties. The inability to continue to enhance or prevent a failure of these internal processes, infrastructure or information technology systems could negatively impact the Company's ability to operate its business.

## Financial Risks

**Additional Financing Requirements**

In order to execute its anticipated growth strategy, the Company may require additional equity and/ or debt financing to support on-going operations, to undertake capital expenditures, to expand into new markets, or other such initiatives. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise additional financing could limit the Company's growth and may have a material adverse effect upon its business, operations, results, financial condition or prospects.

**Unprofitable Business Operations**

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur losses in the future.

**Litigation**

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business.

**Share Price Fluctuations**

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the company and its subsidiaries; divergence in financial results from analyst expectations; changes in earnings estimates by stock market analysts; changes in the business prospects for the Company and its subsidiaries; general economic conditions; legislative changes; and other events and factors outside of the Company's control. In addition, stock markets have, from time to time, experienced extreme price and volume fluctuations, which can adversely affect the market price of the Common Shares.