EMERALD HEALTH THERAPEUTICS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2017

Dated: November 15, 2017

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Forward-Looking Statements

Certain statements contained in this Management Discussion and Analysis ("MD&A") constitute forward-looking information or forward-looking statements under applicable securities laws (collectively, "forward-looking statements"). These statements relate to future events or future performance, business prospects or opportunities of Emerald Health Therapeutics Inc. (the "Company"). Forward-looking statements include, but are not limited to, statements in respect of: potential increases in the number of registered patients of Emerald Health Botanicals Inc. ("Botanicals"), the Company's wholly-owned subsidiary, and increases in the Company's sales as a result; the Company's intention to scale up production; the eventual profitability of the business of the Company; benefits received by the Company from its transactions with Emerald Health Sciences Inc. ("Sciences"), a control person of the Company, and the opportunities that such transactions will provide including loans from Sciences to the Company; the expansion of Botanicals' current production facility and the development of a new production facility; advancement of funds to the Company's joint venture in Pure Sunfarms Corp. ("Pure Sunfarms") the expectation that the Pure Sunfarms joint venture will result in large-scale, high-quality, low-cost cannabis production; the estimate that Pure Sunfarm's initial greenhouse could yield more than 75,000 kg of dried cannabis annually upon completion of full licencing and conversion; timing of such licensing and conversion and the costs thereof; use of proceeds of the Company's 2017 prospectus financings; the purchasing by Botanicals of additional strains of dried medical marihuana from another producer who is licensed (a "Licensed Producer") under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"); the expectation of the impact of the ACMPR; the launch of additional cannabis oil products and introduction of new oils; Botanicals' intention to continue to communicate with and provide education and services to medical doctors and other healthcare professionals; the continued increase of the client base and revenue as a result of the introduction of cannabis oils; the Company's and Botanicals' continued research and development of strains and products; clinical trials to be undertaken by Botanicals; the acquisition by Botanicals' of pre-approval applications from other ACMPR applicants; the expansion at Botanicals' current facility and the potential resulting increase to Botanicals' production capacity of dried product and oils; the use and funding of Botanicals research and development project related to strains of medical cannabis; and the effect that each risk factor will have on the Company.

These forward-looking statements involve risks and uncertainties relating to, among others, market price; continued availability of capital financing and general economic, market or business conditions; Botanicals' reliance on the Current Licence (as defined herein) to produce and sell medical marihuana and cannabis oils issued to it under the ACMPR and its ability to maintain the Current Licence; Botanicals' ability to increase registered patients and sales and to make the Company profitable; whether Sciences will continue to provide loans to the Company and the terms of such loans; regulatory risks relating to Botanicals' compliance with the ACMPR; regulatory approvals for expansion of Botanicals' current production facility and development of new production facilities by Botanicals and Pure Sunfarms; changes in laws, regulations and guidelines relating to medical marihuana and the possible legalization of non-therapeutic marihuana by the Federal government; changes in government; changes in government policy; increased competition in the marihuana market; the limited operating history of the Company; Botanicals' reliance on a single production facility; changes in business priorities and re-allocations of capital by the Company at the discretion of management; the Company's reliance on management; difficulties in securing additional financing; unfavourable publicity or consumer perception of the medical marihuana industry; the impact of any negative scientific studies on the effects of cannabis; changes in the Company's over-all business strategy; and restrictions of the TSX Venture Exchange on the Company's business. See "Risks and Uncertainties" in this MD&A and other factors described the Company's Annual Information Form under the heading "Risk Factors".

The Company believes that the expectations reflected in any forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. Actual results may differ materially from those expressed or implied by such forward-looking statements.

Management's Discussion and Analysis

The following MD&A is prepared as of November 15, 2017 and is intended to assist the understanding of the results of operations and financial condition of Emerald Health Therapeutics, Inc.

This MD&A should be read in conjunction with the condensed interim consolidated financial statements and accompanying notes of the Company for the three and nine months ended September 30, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All figures are in Canadian dollars unless otherwise noted.

Additional information related to the Company is available on its website at www.emeraldhealth.ca and on the Canadian Securities Administrator's website at www.sedar.com.

Overview

Emerald Health Therapeutics, Inc. (the "Company" or "Emerald") was incorporated pursuant to the *Business Corporations Act* (British Columbia) on July 31, 2007 as Firebird Capital Partners Inc. and changed its name to Firebird Energy Inc. in December 2012. On September 4, 2014, the Company completed the acquisition of all the issued and outstanding common shares of Thunderbird Biomedical Inc. ("Thunderbird"), by way of a reverse takeover (the "Transaction") under the rules of the TSX Venture Exchange (the "TSXV") and concurrently changed its name to T-Bird Pharma, Inc. At that time, Thunderbird became a wholly-owned subsidiary of T-Bird. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. ("Botanicals").

The Company is a publicly traded company with headquarters in Victoria, British Columbia, Canada. Common shares of the Company (the "Common Shares") are listed on the TSXV under the trading symbol "EMH". The Company is classified as a Tier 2 Venture Issuer on the TSXV. The Company also trades on the OTCQX® Best Market, operated by OTC Markets Group under the ticker symbol "EMHTF". The Company is the parent of its wholly-owned subsidiary Botanicals.

Botanicals is a private, Victoria, British Columbia based company and was incorporated pursuant to the *Business Corporations Act* (British Columbia) on January 28, 2013. The principal business of Botanicals is the production and sale of medical marihuana pursuant to a licence (the "Current Licence") issued to Botanicals under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"), formerly the Marihuana for Medical Purposes Regulations ("MMPR"). The Current Licence is valid until November 2019.

On June 6, 2017, the Company and Botanicals entered into a joint venture arrangement with respect to Botanicals' 50% equity interest in Pure Sunfarms Corp., for the purpose to produce, cultivate and distribute wholesale cannabis and cannabis extracts for therapeutic and non-therapeutic use purposes, if permitted by applicable law. Botanicals also owns 100% of the shares of Emerald Health Farms Inc., a holding company incorporated pursuant to the Business Corporations Act (British Columbia) on September 7, 2017.

Emerald is focused on four priorities to meet the current needs of the Canadian medical marijuana market and future demand in the therapeutic and non-therapeutic adult-use market: 1) Significant production expansion; 2) Research and development and clinical work; 3) Extraction expertise and downstream product development; and 4) Expanding nationwide distribution channels.

Recent Developments and Events after the Reporting Period

New CEO

On October 2, 2017, the company announced the appointment of Chris Wagner as Chief Executive Officer and as a director of Emerald. Mr. Wagner has spent more than 25 years in marketing pharmaceutical products and building biotechnology companies. Bin Huang, PhD, will continue to focus on the management of the Company's operations and expansion as President of Botanicals.

Second Site License Granted by Health Canada

In early October 2017, Health Canada granted a sales license for Botanicals' second site. The second site is primarily being used to house the Company's customer service representatives and administration. The Company expects to expand the second site license to allow for additional cannabis related activities, pending receipt of municipal government approval. The Current Licence is valid until October 2020.

Expansion projects

Emerald is undergoing two major expansion projects that are expected to significantly increase the Company's production capacity. Both projects will need to be licenced by Health Canada to produce cannabis. The applications for licences at both project sites have been filed with Health Canada.

In June 2017, the Company announced a transaction with Village Farms International, Inc. ("Village Farms") to form the joint venture Pure Sunfarms, for large-scale, high-quality, low-cost cannabis production. Botanicals and Village Farms each own a 50% equity interest in Pure Sunfarms. Under the terms of the agreement, Village Farms has contributed a 1.1 million-square foot (25-acre) greenhouse facility located on a 50-acre parcel of land in Delta, British Columbia. The Company was required to initially contribute an aggregate of $20 million in cash, of which $2 million was advanced at closing, $10 million has been deposited into an escrow account, and the remaining $8 million will be advanced in tranches upon satisfaction of certain milestones to fund conversion of the initial greenhouse. The combination of Botanicals' cannabis experience with a leading North American greenhouse produce grower is expected to optimize the path to rapidly and cost effectively accelerate large scale, high quality, low cost Canadian cannabis production. It is estimated that the initial greenhouse could yield more than 75,000 kg of dried cannabis annually upon completion of full licencing and conversion.

Pure Sunfarms also entered into an agreement with Village Farms for options to lease or purchase from Village Farms a second 1.1 million square foot greenhouse (25 acre) and a 2.6 million square foot (60 acre) greenhouse, both located adjacent to the initial greenhouse. Combined, these three greenhouse assets could provide the joint venture with total potential aggregate production capacity of approximately 4.8 million square feet (110 acres).

The Pure Sunfarms greenhouse retro-fit and the Health Canada license application are priorities for the Company and for Village Farms. Both companies have allocated staff to assist with this project and expect to make significant progress on both by the end of the fiscal year. In September, Emerald filed an application to Health Canada to produce cannabis at the Pure Sunfarms Delta, BC facility. Pure Sunfarms has commenced physical conversion of the initial 1.1 million square foot Delta 3 greenhouse. Completion of conversion of the first 250,000 square feet of the greenhouse facility and submission of the confirmation of readiness documentation to Health Canada are expected in February 2018.

The Company entered into a thirty-year agreement in May 2017 to lease 32 acres of lands in Metro Vancouver, British Columbia at a market rate of $320,000 per year. The land was leased for the purpose of building a Health Canada licensed production facility to expand growing capability. The landlord is a corporation controlled by Dr. Avtar Dhillon, the Executive Chairman of the Company.

Site prep and construction at the Metro Vancouver location began in April 2017 and $1 million in costs were incurred from April 1 to September 30, 2017. The Company has completed a significant amount of construction and in October submitted an application to Health Canada to produce cannabis at this facility. The undertaking of the Pure Sunfarms facility retro-fit caused the original Metro Vancouver site construction schedule to be extended and construction costs of up to $20 million for the first two modular greenhouses that were anticipated in 2017 are expected to be incurred throughout the remainder of 2017 and into 2018.

Acquisitions

On October 26, 2017, the Company announced it signed a definitive agreement with Norther Vine Canada Inc ("Northern Vine") and Abattis Bioceuticals ("Abbatis") Corp to invest $2.5 million into Northern Vine to acquire 53% of the company and appoint three of its four directors. Abattis will continue to hold the remaining 47% of the shares. Pending receipt of all necessary regulatory approvals and certain other conditions customary in transactions of this nature as set forth in the agreement, the Company expects this proposed transaction to close in November 2017.

Northern Vine is a Licensed Dealer under the provisions of the Canadian Controlled Drugs and Substances Act, which permits Northern Vine to carry out a broader range of cannabis research and development and pursue international business opportunities. The Licensed Dealer status allows Northern Vine to export and import not only cannabis, but also to export and import cannabis oils. Currently Licensed Producers such as Botanicals, are not permitted to export or import cannabis oils under the ACMPR.

The acquisition of Northern Vine significantly expands Emerald's ability to carry out research and development, as Northern Vine is authorized under ACMPR to prepare any manipulation, formulation, dosage from, strength or package size of cannabis which can be mixed with additives and other controlled drugs.

Northern Vine will also provide Emerald with preferred customer access to complete microbiology and chemical analysis, with testing of product potency as well as testing for the presence of pesticides, microbes, and environmental toxins in dried plant products and extracts.

Financings

In February and April 2017, the Company completed public financings that resulted in total gross proceeds of $40.9 million and net proceeds of $37.8 million. The Company intends to use the proceeds of the financings to accelerate facility expansion, including partnership transactions, and for working capital and general corporate purposes.

In April 2017, the Company completed the public financing of 13,170,000 units of the Company on a bought deal basis pursuant to a supplement to the Company's base shelf prospectus (the "Prospectus") at a price of $1.85 per unit, for total gross proceeds of $23,364,500. Each such unit consisted of one Common Share and one-half of one common share purchase warrant of the Company. In addition, the underwriter exercised its over-allotment option to acquire a further 1,465,100 common shares and 987,750 common share purchase warrants for proceeds of $2,758,923 (the "April Prospectus Offering"). Total gross proceeds received from the April Prospectus Offering was $26,123,423.

Each full warrant issued under the April Prospectus Offering, entitles the holder to acquire one Common Share at a price of $2.60 for a period of 24 months following the Closing Date, subject to acceleration. In the event that the closing sale price of the Common Shares on the TSXV is greater than $3.50 per share for a period of 20 consecutive trading days at any time after the closing of the April Prospectus Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

In February 2017, the Company completed a public financing of 10,235,000 units of the Company on a bought deal basis pursuant to a supplement to the base shelf prospectus at a price of $1.35 per unit, for total gross proceeds of $13,817,250 (including the exercise in full of an over-allotment option) (the "February Prospectus Offering"). Each such unit consisted of one Common Share and one-half of one common share purchase warrant of the Company.

Each full warrant issued under the February Prospectus Offering entitles the holder to acquire one Common Share at a price of $2.00 for a period of 24 months following the Closing Date, subject to acceleration. In the event that the closing sale price of the Common Shares on the TSXV is greater than $2.50 per share for a period of 20 consecutive trading days at any time after the closing of the February Prospectus Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

In connection with the April Prospectus Offering, the Company also issued to the underwriter a total of 439,053 compensation options and in connection with the February Prospectus Offering the Company issued to the underwriter 307,050 compensation options. Each compensation option entitles the holder to acquire a Unit at a price of $1.85 per Unit (April Prospectus Offering) or $1.35 per Unit (February Prospectus Offering) for a period of 24 months following the closing of the Offering.

Research and development

As the Company has been planning for expansion, much of its research and development focus has involved increasing plant diversity and product offerings, as well as improving on its cultivation, manufacturing, and standardization processes in anticipation of a significant scale up.

The Company's collection of genetic materials and established team of experts will continue to play a major role as Botanicals continues to build its propriety strains, products and reputation. Through its research program the Botanicals team has characterized the cannabinoids and terpenes profiles of its plant materials, and has identified several strains with exceptionally high CBD levels allowing Botanicals to produce and sell a high concentration CBD oil starting in April 2017.

In June 2017, Botanicals established an Advisory Board to provide strategic guidance to the company on its continuing product and market development, the development of pharmaceutical formulations and observational and clinical studies. The Advisory Board includes researchers and physicians specializing in pain management, addiction research, immunology, natural medicines, and pharmaceutical product development, as well experts in cannabinoids and the endocannabinoid system.

Sales and distribution

Client acquisition and client service is an ongoing focus for Botanicals. After the introduction of cannabis oils, the client base began to increase quickly resulting in a corresponding increase in revenue in 2017. Botanicals also recognizes that the medical profession plays an important role in the introduction of medical marihuana to clients and continuing education of medical professionals on the product is required. In partnership with other professional organizations, Botanicals intends to continue to communicate with medical doctors and other healthcare professionals, and to provide education and services to these professionals.

With legalization of non-medical marihuana in Canada a potential opportunity, Botanicals' longer term strategy includes becoming a leading provider of quality products for the broader marihuana market. Being one of the limited number of Licensed Producers with scalable systems and processes, management of the Company is of the opinion that Botanicals is well positioned to benefit from the legalization of non-medical marihuana.

Regulatory

On April 13, 2017, the federal government of Canada introduced before parliament Bill C-45 *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* (the "**Cannabis Act**"), the draft legislation setting out the federal regulatory framework for legalization of cannabis for non-medical purposes. The federal government of Canada has set a target date of July 2018 for the implementation of the Cannabis Act. However, the Cannabis Act must be passed by both houses of Parliament before it can be enacted. It is likely that the draft Cannabis Act will be revised and amended prior to being passed into law. Further, many aspects of the regulatory regime will be determined by regulations that still need to be drafted and published. In addition, many other aspects regarding the distribution, sale and taxation of non-medical cannabis are not within the power of the federal government and will be subject to provincial or municipal jurisdiction. No drafts of any required provincial or municipal legislation are available at this time. There are therefore no guarantees as to if, when, or how non-medical cannabis will be legalized and regulated. Until the Cannabis Act is in force, existing laws remain in place and the terms of the Cannabis Act are subject to change.

Omnibus Incentive Plan

In May 2017, the board of directors approved the adoption of a New Omnibus Incentive Plan (the "New Plan"), which was approved by shareholders in June 2017. The New Plan replaces the stock option plan that was previously approved by the shareholders (the "Previous Plan"), however any options granted under the Previous Plan will remain outstanding and governed by the terms of the Previous Plan. Under the New Plan, the maximum number of common shares issuable upon the exercise or redemption and settlement of all awards granted under the New Plan shall not exceed 10% of the issued and outstanding Shares at the time of granting of such award less the number of Shares reserved for issuance under all other security based compensation arrangements of the Company. Under the New Plan, the following types of awards can be issued: stock options, share appreciation rights, restricted share units and other performance awards.

Disclosure of Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares of which 93,117,798 were issued and outstanding as of September 30, 2017 and 93,541,891 were issued and outstanding as of November 15, 2017.

During the three-month period ended September 30, 2017, the Company granted an aggregate of 150,000 stock options to directors, employees and consultants. Each option is exercisable into one Common Share of the Company for a period of up to five years. The exercise prices at the time of the grants ranged from $1.19 and $1.21 per share.

There were 7,285,200 stock options and 200,000 restricted share units outstanding as of September 30, 2017. As of November 15, 2017, there were 7,636,107 stock options and 200,000 restricted share units outstanding.

Summary of Quarterly Results

The following tables summarize selected financial information for the Company for the last eight quarters:

	2017			**2016**
	September 30 ($)	**June 30 ($)**	**March 31 ($)**	**December 31 ($)**
Revenue	211,316	245,708	201,268	124,251
Expenses	1,661,700	1,602,443	1,205,940	867,562
Share-based payments	271,968	369,788	201,186	137,113
Interest income	60,997	57,497	-	-
Share of loss from joint venture	(278,016)	-	-	-
Net Loss	(1,939,371)	(1,669,026)	(1,205,858)	(880,424)
Net Loss per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.01)

	2016			**2015**
	September 30 ($)	**June 30 ($)**	**March 31 ($)**	**December 31 ($)**
Revenue	48,933	38,729	41,408	23,902
Expenses	590,896	547,447	507,129	521,509
Share-based payments	467,878	37,618	38,179	37,751
Net Loss	(1,009,841)	(546,336)	(503,900)	(535,358)
Net Loss per share (basic and diluted)	(0.02)	(0.01)	(0.01)	(0.01)

Results of Operations

Quarter ended September 30, 2017

The net loss for the quarter ended September 30, 2017 was $1.9 million (loss of $0.02 per share), compared to the net loss of $1.0 million (loss of $0.02 per share) for the same quarter in the prior year. Factors contributing to the net loss for the current periods include the following:

Revenue

Revenue for the quarter ended September 30, 2017 was $211,316 compared to $48,933 for the same period in the prior year. The Company's client base increased during the current year, resulting in an increase in revenue compared to the prior year. For the quarter ended September 30, 2017, revenue was comprised of approximately 60% dried product and 40% oils, compared to substantially 100% dried product in the quarter ended September 30, 2016.

Cost of goods sold

Cost of goods sold currently consists of three main categories: (i) cost of goods sold expensed to inventory (ii) production costs, and (iii) change in the fair value of biological assets.

(i) Cost of goods sold expensed to inventory is the cost (or net realizable value) attributable to the goods sold. The costs include growing, cultivation and harvesting costs and extraction as well as packaging and labelling. Also included in cost of goods sold is the direct cost incurred in purchasing product from other Licenced Producers. Cost of goods sold expensed to inventory for the quarters ended September 30, 2017 and 2016 was \$161,136 and \$35,261 respectively. The increases in cost of goods sold in the current year is directly related to the increase in the amount of product sold by the Company.

(ii) Production costs include all indirect production related costs, including security, compliance, quality control and quality assurance costs, as well as related overhead. In addition, all inventory costs in excess of net realizable value are expensed to production costs. In the quarter ended September 30, 2017, the Company incurred production costs of \$114,487 versus \$139,497 in the quarter ended September 30, 2016. The decrease in the 2017 quarter is due to more efficient production costs allocated to inventory as production volumes have increased and write-downs have decreased.

(iii) Changes in the fair value of biological assets is part of the Company's cost of goods sold due to IFRS standards relating to agriculture and biological assets (i.e. living plants or animals). This line item currently represents the change in fair value in biological assets (medical marihuana) during the period. The change in biological assets for the quarter ended September 30, 2017 was a gain of \$64,307 compared to a loss of \$6,555 in the same quarter in the prior year.

Cost of goods sold increased in the current period compared to the same period in the prior year due to higher sales volumes and an increase in volumes produced in the current year. Total gross profit for the quarters ended September 30, 2017 and 2016 was \$Nil and negative \$132,380 respectively. As the production volumes in 2017 have increased, the Company has been able to improve the gross margin. However, as the production volumes to date have been small due to limitations on space available and with high fixed costs required to meet the regulatory requirements, the costs of goods sold have been greater than revenue. Once the Company is able to produce larger volumes of product, the gross margins are expected to become positive.

Other expenses

General and Administrative – During the quarter ended September 30, 2017, the Company incurred general and administration expenses of \$1.3 million versus \$256,000 for the quarter ended September 30, 2016. The current quarter included expenses related to a significant increase in activities including investor relations, business development, media, and project management. Additional staff have been hired and office space has been expanded. In the quarter ended September 30, 2017, general and administrative costs included; salaries and benefits of \$213,795 (2016 - \$104,297), consulting and professional services fees of \$234,427 (2016 - \$72,554), investor relations and media \$247,345 (2016 - \$883), office and insurance of \$110,291 (2016 - \$47,991) and travel and accommodation of \$86,290 (2016 - \$12,255). In addition, for the quarter ended September 30, 2017, the Company paid \$400,000 in management fees to Sciences as per the amended services agreement effective August 2017.

Sales and marketing – In the quarter ended September 30, 2017, the Company incurred sales and marketing expenses of $77,958 versus $50,718 in the comparable 2016 prior period. The current year increase reflects the increase in sales and marketing activity related to an expanded client base and sales volumes.

Research and development – In the quarter ended September 30, 2017, the Company incurred research and development expenses of $30,711 versus $70,971 in the comparable 2016 prior period. Research and development projects in the current quarter include development and testing of processes to manufacture a variety of cannabis oils and capsules and planning for upcoming clinical trials. The prior year included development and testing of cannabis oils as well as testing a variety of growing and production methodologies and continuation of the National Research Council's Industrial Research Assistance Program (IRAP) project to characterize medical cannabis strains.

Share-based compensation – In the quarter ended September 30, 2017, the Company incurred share-based compensation expenses of $271,968 versus $467,878 in the comparable 2016 prior period. The amounts are compensation expenses related to employee, director and consultant incentive stock options which are measured at fair value at the date of grant and expensed over the options' vesting period. During the current quarter, the Company granted 150,000 stock options to employees and consultants. The decrease in the share-based compensation expense is due to a large volume of options that were issued in the quarter ended September 30, 2016 which vested immediately and therefore were recognized immediately as share-based compensation expense.

Share of loss from joint venture – In the quarter ended September 30, 2017, the Company recognized $278,016 as its 50% share of the loss from the Pure Sunfarms joint venture, which started operations during the quarter ended September 30, 2017.

The net loss for the quarter ended September 2017 was $1.9 million (loss of $0.02 per share), compared to the prior year quarter net loss of $1.0 million (loss of $0.02 per share). Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Year to date September 30, 2017

For the nine-months ended September 30, 2017 the net loss was $4.8 million compared to a net loss of $2.1 million for the same period in the prior year. Factors contributing to the net loss for the current periods include the following:

Revenue

Revenue for the nine-month period ended September 30, 2017 was $658,292 compared to $129,070 in the prior year as the Company's client based increased during the current year. In addition, oil product sales, which command higher selling prices, increased at a faster rate than dried cannabis sales.

Cost of goods sold

Cost of goods sold increased in the current period compared to the same period in the prior year due to higher sales volumes and an increase in volumes produced in the current year. Total gross profit for the nine-months ended September 30, 2017 and 2016 was negative $89,145 and negative $271,679 respectively. The improvement in gross margin is due to larger production and sales volumes.

Other expenses

General and Administrative – During the nine-month period ended September 30, 2017, the Company incurred general and administration expenses of $3.1 million versus $724,000 for the same period ended September 30, 2016. The year-to-date expenses related to a significant increase in activities including investor relations, business development, media, annual general meeting and project management. Additional staff have been hired and office space has been expanded. For the nine-month period ended September 30, 2017, general and administrative costs included; salaries and benefits of $556,682 (2016 - $329,426), consulting and professional services fees of $1,049,598 (2016 - $185,481), investor relations and media $545,137 (2016 - $883), office and insurance of $358,920 (2016 - $137,663) and travel and accommodation of $230,870 (2016 - $37,566). In addition, the Company paid $400,000 in management fees to Sciences as per the amended services agreement effective August 2017.

Sales and marketing – For the nine-month period ended September 30, 2017, the Company incurred sales and marketing expenses of $282,158 versus $193,398 in the comparable 2016 prior period. The current year increase reflects the increase in sales and marketing activity related to an expanded client base and sales volumes.

Research and development – For the nine-month period ended September 30, 2017, the Company incurred research and development expenses of $167,274 versus $244,231 in the comparable 2016 prior period. Research and development projects in the current year include development and testing of processes to manufacture a variety of cannabis oils and capsules and planning for upcoming clinical trials.

Share-based compensation – Share-based compensation expense for the nine-month period ended September 30, 2017 was of $842,942 compared to $543,675 in the comparable 2016 prior period. The amounts are compensation expenses related to employee, director and consultant incentive stock options which are measured at fair value at the date of grant and expensed over the options' vesting period. During the current year, the Company granted 2,230,000 stock options and 200,000 restricted share units to employees and consultants. The increase in the share-based compensation expense reflects the increase in the number of stock options granted in late 2016 and early 2017 that vested during the current period.

Share of loss from joint venture – The Company recognized $278,016 as its 50% share of the loss from the Pure Sunfarms joint venture, which started operations during the quarter ended September 30, 2017.

The net loss for the nine-month period ended September 30, 2017 was $4.8 million (loss of $0.06 per share), compared to the prior year net loss of $2.1 million (loss of $0.04 per share). Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Additional Disclosure for Venture Issuers Without Significant Revenue

As the Company did not have significant revenue from operations in either of its last two financial years, the following is a breakdown of the material costs incurred:

	For the three months ended September 30, 2017 ($)	For the three months ended September 30, 2016 ($)	For the nine months ended September 30, 2017 ($)	For the nine months ended September 30, 2016 ($)
Expensed research and development costs	30,711	74,672	167,274	288,899
General and administrative expenses	1,292,148	255,797	3,141,208	724,443
Purchase of plant and equipment	428,431	12,847	1,160,868	239,983

Liquidity and Capital Resources

The Company continually monitors and manages its cash flow to assess the liquidity necessary to fund operations. As at September 30, 2017, the Company had positive working capital of $15,746,870.

While the Company has incurred losses to date, management anticipates eventual profitability of the business, though there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient gross margins to reach profitability.

Operating, Investing and Financing Activities

The chart below highlights the Company's cash flows for the nine-month periods ended September 30:

	For the nine months ended September 30, 2017 ($)	**For the nine months ended September 30, 2016 ($)**
Net cash provided by (used in):		
Operating activities	(4,755,345)	(1,398,317)
Investing activities	(13,603,665)	(214,102)
Financing activities	37,964,069	2,406,036
Increase in cash	19,605,059	793,617

Total net cash provided was $19.6 million for the nine-months ended September 30, 2017, compared with net cash provided of $793,617 for the nine-months ended September 30, 2016. Operating activities used cash of $4.8 million for the current period, compared with cash used of $1.4 million for the nine-month period ended September 30, 2016. The cash outflow increase for the period ended September 30, 2017 was due to an increase in operating activities and related expenditures.

Cash used in investing activities for the nine-month period ended September 30, 2017 was $13.6 million, compared to cash used of $214,102 for the same period in the prior year. In the current year, $12.2 million was used to make an investment in the Pure Sunfarms joint venture transaction and for construction on the new production facility.

Cash provided by financing activities for the nine-months ended September 30, 2017 was $38.0 million, compared to cash provided of $2.4 million in the prior year. Cash generated in the current year included $37.8 million from net proceeds received on the prospectus offerings completed in February and April 2017.

Financial Risk Management

The Company's Board has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. Management identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated in accordance with the approved policies.

Measurement uncertainty and impairment assessments

As of September 30, 2017, management of the Company has determined that no impairment indicators of its assets were present and no additional impairment write-downs in excess of those that had been previously recorded were required. Management continues to review each of its assets for indications of impairment.

Transactions with Related Parties

Sciences charged the Company $599,250 and $1.3 million during the three and nine months ended September 30, 2017 (2016 - $19,500 and $85,890) for services related to financing, business development, investor relations and joint venture negotiations. Sciences charged the Company $67,488 and $244,485 during the three and nine months ended September 30, 2017 (2016 - $Nil) for invoices paid on behalf of the Company. As of September 30, 2017, the Company owed $65,342 (December 31, 2016 - $97,696) to Sciences.

As of September 30, 2017, Sciences holds an aggregate of 45,636,555 shares, representing 49% of the issued and outstanding Common Shares, and 8,489,451 common share purchase warrants of the Company.

As of September 30, 2017, Pure Sunfarms owes the Company $132,538 (December 31, 2016 - $Nil) for expenditures made on behalf of the joint venture.

During the period ended September 30, 2017, the Company entered into a 30-year lease with a company (the "Landlord") that is controlled by Dr. Avtar Dhillon, the Executive Chairman of the Company with respect to land in Metro Vancouver, British Columbia on which the Company is constructing its new production facility. During the three and nine months ended September 30, 2017, the Company paid to the Landlord $86,471 (2016 - $Nil) in rent, and a further $196,391 utility deposit, refundable if usage minimum is met as expected by 2022. The Landlord also charged the Company $144,979 during the three and nine months ended September 30, 2017 (2016 - $Nil) for services related to construction of the Company's new facility. As of September 30, 2017, the Company owed $83,623 (December 31, 2016 - $Nil) to the Landlord.

Proposed Transactions

There are no material decisions by the Board of the Company with respect to any imminent or proposed transactions that have not been disclosed.

Critical Accounting Policies and Estimates

Included in Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2016 and Note 3 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2017, are the accounting policies and estimates that are critical to the understanding of the business operations and results of operations.

Changes in Accounting Standards not yet Effective

Refer to Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2016 and to Note 4 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2017 for additional information on several new standards, amendments to standards and interpretations, which are not effective yet, and have not been applied in preparing these consolidated financial statements but may affect the Company when applied in the future.

Commitments

The Company has entered into certain operating lease commitments for land and office space through 2047. The future minimum lease payments for the next five years and thereafter are as follows:

		Due by year ending					
	2017	2018	2019	2020	2021	2022	thereafter
Production facilities	$30,409	$123,081	$89,245	$10,812	$-	$-	$-
Land	$80,000	$320,000	$320,000	$320,000	$320,000	$320,000	$7,760,000
	$110,409	$443,081	$409,245	$330,812	$320,000	$320,000	$7,760,000

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Risks and Uncertainties

Investment in the Common Shares must be regarded as highly speculative due to the proposed nature of the Company's business and its present stage of development. The following is a non-exhaustive list of certain risk factors associated with the Company:

Reliance on Current Licence

Botanicals' ability to grow, store and sell medical marihuana in Canada will be dependent on the Current Licence from Health Canada pursuant to which the Company may produce dried marihuana, cannabis oils and cannabis resin and sell or provide dried marihuana, cannabis oils, marihuana plants, marihuana seeds and cannabis resin in accordance with the ACMPR and the terms set out in the Current Licence. Failure to comply with the requirements of the Current Licence, or any failure to maintain the Current Licence would have a material adverse impact on the business, financial condition and operating results of Botanicals and the Company. The Current Licence was recently renewed and is valid for a two-year period ending November 8, 2019. The Company believes it will meet the requirements of the ACMPR for further extensions or renewals of the Current Licence. However, should Health Canada not extend or renew the Current Licence, or should it renew the Current Licence on different terms, the business, financial condition and results of the operation of the Company would be materially adversely affected.

Supply Risks

Botanicals is limited in its ability to grow, store and sell medical marihuana under the terms of the Current Licence and as a result of its reliance on a single growing facility. As a result, Botanicals purchases additional dried medical marihuana from other Licensed Producers (as such term is defined in the ACMPR) to supplement its own medical marihuana production. If Botanicals is unable to acquire additional medical marihuana sufficient to meet demand on terms and conditions favourable to Botanicals, it could have a material adverse effect on the business, result of operations and financial condition of Botanicals and the Company.

Regulatory Risks

The activities of Botanicals are subject to regulation by governmental authorities, particularly Health Canada. 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 will also require Health Canada and other regulatory approvals in order to proceed with construction of its proposed new growing facilities as part its expansion plans and will be required to apply for and obtain an additional licence under the ACMPR before it begins growing medical marihuana at such facilities. Botanicals and the Company cannot predict the time required to secure all appropriate regulatory approvals for its proposed facilities or products, or the extent of testing and documentation that may be required by Health Canada or other governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of facilities, markets and/or products and could have a material adverse effect on the business, results of operations and financial condition of Botanicals and the Company.

Change in Laws, Regulations and Guidelines

Botanicals' operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of the Company's management, Botanicals is currently in material compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of Botanicals may cause adverse effects to Botanicals operations and the financial condition of Botanicals and the Company.

The potential legalization of recreational marihuana in Canada is currently under consideration by the federal government. On April 13, 2017, the federal government of Canada introduced before parliament Bill C-45 *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* (the "**Cannabis Act**"), the draft legislation setting out the federal regulatory framework for legalization of cannabis for non-medical purposes.

The federal government of Canada has set a target date of July 2018 for the implementation of the Cannabis Act. However, the Cannabis Act must be passed by both houses of Parliament before it can be enacted. It is likely that the draft Cannabis Act will be revised and amended prior to being passed into law. Further, many aspects of the regulatory regime will be determined by regulations that still need to be drafted and published. In addition, many other aspects regarding the distribution, sale and taxation of non-medical cannabis are not within the power of the federal government and will be subject to provincial or municipal jurisdiction. The provincial jurisdictions continue to draft and assess, but have not yet finalized applicable legislation. There are therefore no guarantees as to if, when, or how non-medical cannabis will be legalized and regulated. Until the Cannabis Act is in force, existing laws remain in place and the provisions discussed below are subject to change. The Cannabis Act also provides for licensing of the import or export of cannabis in respect of medical or scientific purposes only.

There is no guarantee that changes to the existing regime would be favourable to current Licensed Producers and may include provisions that have a materially adverse impact on Botanicals including, but not limited to:

(i) restrictions on Botanicals' ability to run its business as it currently operates or the imposition of new restrictions on Licensed Producers, including restrictions on the products that may be produced or made available by Licensed Producers, such as restrictions on strains (including restrictions on potency) and types of products (oil, resin, concentrates, edible products containing cannabis extracts), and additional restrictions on advertising of the Botanicals' products;

(ii) changes to the legislation with the effect of reducing barriers to entry for new entrants to the industry, some of whom may have more financial resources and marketing expertise than Botanicals and the Company;

(iii) changes to the current distribution channels, including the introduction of retail distribution or other new types of licensed distributors, or the imposition of a government monopoly on distribution which would impact Botanicals' ability to sell its products;

(iv) changes to limit the types of customers Botanicals can sell to (for example, age restrictions), to change the manner in which customers are licenced to purchase Botanicals' products, or which limit the amount of product that purchasers may buy, any of which may reduce the number of Botanicals' possible customers or the average amount of purchased product;

(v) the implementation of additional taxes on Botanicals' products, which may reduce the demand of Botanicals' products and reduce the quantity of products sold by Botanicals; and

(vi) changes to the legislation to impose new requirements on Licensed Producers, including changes to the labeling requirements for Botanicals' products or the manner in which the products are required to be tested or approved for sale, which could increase the cost of producing Botanicals' products and could reduce Botanicals' earnings and margins.

While the impact of any of such changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed, it is not expected that any such changes would have an effect on Botanicals' operations that are materially different than the effect on similar-sized companies in the same business as Botanicals and the Company.

Impact of ACMPR

In August 2016, Health Canada announced the adoption of the ACMPR. The ACMPR came into force on August 24, 2016 and has replaced the MMPR as the regulations governing Canada's medical cannabis program. The ACMPR provide patients with three options to access medical marihuana:

(i) through a Licensed Producer;

(ii) produce a limited amount of cannabis for their own medical purposes; or

(iii) designate someone to produce it for them.

The adoption of the ACMPR could potentially decrease the size of the market for Botanicals' business, and potentially materially and adversely affect Botanicals' and the Company's business, its results of operations and financial condition. However, it is not expected that the adoption of the ACMPR will have an effect on Botanicals' operations that are materially different than the effect on similar-sized companies in the industry.

Limited Operating History

Botanicals was incorporated in 2013 and has yet to generate significant revenue. Botanicals and the Company are therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Reliance on a Single Facility

Although the Company plans to construct additional growing facilities, to date, the Company’s activities and resources have been primarily focused on its initial small facility in British Columbia and Botanicals expects to continue to carry out its business activities solely in this facility in the near term. Adverse changes or developments affecting the facility could have a material and adverse effect on the Company’s business, financial condition and prospects.

The facility requires regular maintenance on both the heating and cooling systems and regular power component maintenance on the generator and delivery systems. Any failure of the heating and cooling systems or electrical delivery systems could have a material and adverse effect on Botanicals’ and the Company's business, financial condition and prospects.

Botanicals is currently constructing a second production facility in Metro Vancouver, British Columbia which will require licencing by Health Canada and significant investment of capital. Neither the Health Canada licencing nor the investment of capital are assured.

Risks Relating to Joint Venture

The Company owns a 50% equity interest in Pure Sunfarms, which is accounted for as a joint venture. Although the Company has certain rights pursuant to the shareholders’ agreement governing Pure Sunfarms, the Company does not directly control the management of Pure Sunfarms and it is intended that Pure Sunfarms will have its own management. Success of Pure Sunfarms will depend, in part, on the expertise of such management. The business of Pure Sunfarms is itself subject to the operational and business risks inherent in the large scale production of medical marijuana and to that extent, the business of Pure Sunfarms will be subject to many of the same business risks applicable to the Company and which are set out elsewhere in this MD&A. In particular, the production and sale of medical marijuana at Pure Sunfarm’s facilities in Delta, British Columbia is subject to obtaining all necessary permits and licenses, including a production license under the ACMPR. There can be no assurance that the Company and Pure Sunfarms will be successful in obtaining all such permits and licenses. In the event that all such licenses and permits are not obtained then Pure Sunfarms will not be permitted to produce or sell medical marijuana which would have a material adverse effect on the Company’s business, results of operations and financial performance.

Pursuant to the shareholders’ agreement governing Pure Sunfarms the Company has advanced $10 million into an escrow account and has agreed to advance an additional $8 million in tranches to Pure Sunfarms in respect of the Company’s equity ownership in Pure Sunfarms. Failure to advance such sums when and as due may constitute a default under the shareholders’ agreement and could result in the Company losing some or all of its interest in Pure Sunfarms. Pure Sunfarms may require additional capital subsequent to such $18 million. To the extent Pure Sunfarms is unable to internally fund its operating requirements or expansion plans it may make additional capital calls on its shareholders. Failure by the Company to meet such a capital call would not constitute a default under the shareholders’ agreement but in the event that its joint venture partner, Village Farms, elects to make its capital contributions the Company's interest in Pure Sunfarms may, in certain circumstances, be diluted. If the Company elects to fund a capital call but Village Farms fails to do so then the Company may need to advance additional capital in order to meet Pure Sunfarms' needs. There can be no assurance that the Company or Village Farms will have the necessary capital resources to meet a capital call when and if made by Pure Sunfarms. In the event that Pure Sunfarms cannot raise the necessary funds from its shareholders it may need to raise additional funds through debt or equity financings that may be dilutive to the Company's interest in Pure Sunfarms. If Pure Sunfarms cannot obtain adequate capital to the extent required on favorable terms or at all, it may be required to scale back or halt entirely its operating or expansion plans and its business, financial condition and results of operations could be adversely affected. Disputes may arise between the Company and its joint venture partner, Village Farms, that may adversely affect the success of Pure Sunfarms and which would have a material adverse effect on the Company's business, results of operations and financial performance. Failure by the Company to otherwise comply with its obligations under the shareholders' agreement may result in the Company being in default under the shareholders' agreement and could result in the Company losing some or all of its interest in Pure Sunfarms.

Reliance on Management

The success of Botanicals and the Company is primarily 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 indefinitely. Any loss of the services of any such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Shelf Life of Inventory

Botanicals holds finished goods in inventory and its inventory has a shelf life. Finished goods in Botanicals' inventory include dried marihuana and cannabis oil products. Botanicals follows Health Canada's testing requirements for product release and re-tests its inventory for information purposes. Based on such testing results and management's experience, Botanicals believes that there is no significant change in product composition during a 12-month storage under its current vault conditions. Botanicals' typical turnover rate for inventory varies between 2 weeks and 6 months from final production, however this turnover rate may change and its inventory may reach its expiration date and may not be sold. Even though management of Botanicals on a regular basis reviews the amount of inventory on hand, reviews the remaining shelf life and estimates the time required to manufacture and sell such inventory, write-down of inventory may still be required. Any such write-down of inventory could have a material adverse effect on Botanicals' and the Company's business, financial condition, and results of operations.

Information Systems Security Threats

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

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

Damage to the Company's Reputation

Damage to Botanicals' or the Company's reputation could be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to Botanicals and the Company and their activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputational loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

Third Party Reputational Risk

The parties with which Botanicals does business may perceive that they are exposed to reputational risk as a result of Botanicals' medical marihuana business activities. This may impact Botanicals' ability to retain current partners, such as its banking relationship, or source future partners as required for growth or future expansion in Canada or the United States. Failure to establish or maintain such business relationships could have a material adverse effect on Botanicals and the Company.

Factors which may Prevent Realization of Growth Targets

Botanicals is currently in the early development stage and its growth strategy contemplates outfitting its production facility with additional production resources and constructing a new growing facility. There is a risk that such construction and expansion will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

(i) delays in obtaining, or conditions imposed by, regulatory approvals and licences including approvals from Health Canada;

(ii) plant design errors;

(iii) environmental pollution;

(iv) non-performance by third party contractors;

(v) increases in materials or labour costs;

(vi) production falling below expected levels of output or efficiency;

(vii) breakdown, aging or failure of equipment or processes;

(viii) contractor or operator errors;

(ix) labour disputes, disruptions or declines in productivity;

(x) inability to attract sufficient numbers of qualified workers;

(xi) disruption in the supply of energy and utilities; and

(xii) major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that Botanicals may not have product or sufficient product available for shipment to meet future demand when it arises. Failure to satisfy such future demand may have a material adverse effect on Botanicals' revenue and financial performance and may result in the loss of future customers and market share.

Financial Losses

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Additional Financing

The building and operation of Botanicals' facilities and business are capital intensive. In order to execute its anticipated growth strategy, the Company will require additional equity and/or debt financing to support on-going 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 to the Company 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 the Company's growth and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. The Prospectus allows for, subject to securities regulatory requirements and limitations, the potential offering of up to an aggregate of $150 million (of which the Company may still issue approximately $109.1 million) of Common Shares, preferred shares, warrants, subscription receipts and units, or any combination thereof, from time to time in one or more offerings, and are intended to give the Company the flexibility to take advantage of financing opportunities when, and if, market conditions are favorable to the Company. The specific terms of such future offerings, if any, would be established, subject to the approval of the Board of Directors of the Company, at the time of such offering and will be described in detail in a prospectus supplement filed at the time of any such offering. As of the date of this MD&A, the Company has not sold any securities under a prospectus supplement to the Base Shelf Prospectus, other than the sale of Units pursuant to the Prospectus Offerings and there can be no assurance that any additional securities will be sold under the Base Shelf Prospectus. Any new equity securities issued under the Base Shelf Prospectus or otherwise by the Company 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.

In addition, the Company has in the past received a substantial amount of its debt financing from its majority shareholder, Sciences, pursuant to the terms of a loan agreement, as amended (the "Loan Agreement") entered into between the Company and Sciences. There is no guarantee that Sciences will continue to provide funds when needed by the Company or that the terms of the Loan Agreement will remain the same or acceptable to the Company.

Competition

There is potential that Botanicals and the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and greater 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, financial condition and results of operations of the Company.

Because of the early stage of the industry in which Botanicals operates, the Company expects to face additional competition from new entrants. If the number of users of medical marihuana in Canada increases, the demand for products is expected to increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Risks Inherent in an Agricultural Business

Botanicals' business involves the growing of medical marihuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although Botanicals grows its products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

Botanicals' medical marihuana growing operations consume considerable energy, making Botanicals and the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Transportation Disruptions

Due to the perishable and premium nature of Botanicals' products, Botanicals will depend on fast and efficient delivery services by courier to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of Botanicals and the Company. Rising costs associated with the courier services used by Botanicals to ship its products may also adversely impact the business of Botanicals and the Company and their ability to operate profitably.

Unfavourable Publicity or Consumer Perception

The Company believes the medical marihuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marihuana produced. Consumer perception of Botanicals' products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marihuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marihuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for Botanicals' products and the business, results of operations, financial condition and cash flows of Botanicals and the Company. Botanicals' dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on Botanicals and the Company, the demand for Botanicals' products, and the business, results of operations, financial condition and cash flows of Botanicals and the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marihuana in general, or Botanicals' products specifically, or associating the consumption of medical marihuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, Botanicals faces an inherent risk of exposure to product liability claims, regulatory action and litigation if any of its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of Botanicals' products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of Botanicals' products alone or in combination with other medications or substances could occur. Botanicals and the Company may be subject to various product liability claims, including, among others, that Botanicals' products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Botanicals could result in increased costs, could adversely affect Botanicals' reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and the financial condition of Botanicals and the Company. There can be no assurances that Botanicals will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could result in significant losses in the event of a successful claim and could prevent or inhibit the commercialization of Botanicals' potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to orders for the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of Botanicals' products are recalled due to an alleged product defect or for any other reason, Botanicals could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Botanicals may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Botanicals has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. A recall for any of the foregoing reasons could lead to decreased demand for Botanicals' products and could have a material adverse effect on the results of operations and financial condition of Botanicals and the Company. Additionally, product recalls may lead to increased scrutiny of Botanicals' operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Reliance on Key Inputs

Botanicals' business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of Botanicals and the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, Botanicals might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to Botanicals in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of Botanicals and the Company.

Dependence on Suppliers and Skilled Labour

The ability of Botanicals and the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Botanicals will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by Botanicals' capital expenditure program may be significantly greater than anticipated by Botanicals' management, and may be greater than funds available to Botanicals and the Company, in which circumstance Botanicals may curtail, or extend the time frames for completing its capital expenditure plans. This could have an adverse effect on the financial results of Botanicals and the Company.

Difficulty to Forecast

Botanicals must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marihuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of Botanicals and the Company.

Operating Risk and Insurance Coverage

Botanicals has insurance to protect its assets, operations and employees. While Botanicals believes its insurance coverage addresses all material risks to which it is 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 Botanicals is exposed. In addition, no assurance can be given that such insurance will be adequate to cover Botanicals' liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If Botanicals were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if Botanicals 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 of Botanicals and the Company could be materially adversely affected.

TSXV Restrictions on Business

The Company has delivered an undertaking to the TSXV confirming that, while listed on the TSXV, the Company will only conduct the business of the direct or indirect production, sale, extraction and distribution of medical marihuana and its extracts and derivatives in Canada pursuant to one or more licenses issued by Health Canada. This undertaking could have an adverse effect on Botanicals' ability to export marihuana from Canada and on the Company's ability to expand its business into other areas including the provision of non-medical marihuana in the event that the laws were to change to permit such sales and the Company is still listed on the TSXV and still subject to such undertaking at the time. This undertaking may prevent the Company from expanding into new areas of business when the Company's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of operations of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Litigation

The Company or Botanicals may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company or Botanicals becomes involved be determined against the Company or Botanicals such a decision could adversely affect the Company's resources and its ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and is successful, litigation can redirect significant company resources.

The Market Price of the Common Shares May be Subject to Wide 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 Botanicals and the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for Botanicals and the Company, 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, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

The market price of the Common Shares of the Company and the common shares of other companies that investors may consider to be comparable to the Company have experienced significant price and volume fluctuations recently. In particular, the market price of such shares are impacted by news reports relating to competitive developments, regulatory changes and other related issues in the medical marihuana industry, including the Cannabis Act.

Dividends

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Any dividends paid by the Company would be subject to tax and, potentially, withholdings.

Limited Market for Securities

The Company is listed on the TSXV, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Environmental and Employee Health and Safety Regulations

Botanicals' 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. Botanicals will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Governmental approvals and permits are currently, and may in the future be, required in connection with Botanicals' operations. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on Botanicals' manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Botanicals' operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Botanicals and the Company.

A Substantial Number of Common Shares are Owned by a Single Shareholder

A significant percentage of the Company's outstanding Common Shares are owned by a single shareholder, Sciences. As such, Sciences is in a position to exercise influence over matters requiring shareholder approval, including the determination of significant corporate actions that could otherwise be beneficial to the Company's other shareholders, including the election and removal of directors, amendments to the Company's corporate governing documents and business combinations. The Company's interests and those of Sciences may at times conflict, and this conflict might be resolved against the Company's interests. The concentration of control by a single shareholder may practically preclude an unsolicited take-over bid for the Common Shares, and this may adversely impact the value and trading price of the Common Shares.

Restrictions on Sales Activities

The medical marihuana industry in Canada is in its early development state and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on the Company's business, operating results and/or financial condition.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. Avtar Dhillon, Jim Heppell and Punit Dhillon, each of whom is a director of the Company, are also directors and/or officers of Sciences. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Actions against the Company and its Directors and Officers

The Company and Botanicals are corporations organized under the laws of the Province of British Columbia. Certain of the Company's directors and officers, reside principally in Canada. Because all or a substantial portion of the Company's assets and the assets of these persons are located in Canada, it may not be possible for foreign investors to effect service of process from outside of Canada upon the Company or those persons. Furthermore, it may not be possible to enforce against the Company foreign judgments obtained in courts outside of Canada based upon the civil liability provisions of the securities laws or other laws in those jurisdictions.

General Business Risk and Liability

Given the nature of Company's business, it may from time to time be subject to claims or complaints from investors or others in the normal course of business. The legal risks facing the Company, its directors, officers, employees or agents in this respect include potential liability for violations of securities laws, breach of fiduciary duty and misuse of investors' funds. Violations of securities laws and breaches of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of the Company's right to carry on its existing business. The Company may incur significant costs in connection with such potential liabilities.

Client Acquisition

Botanicals' success depends in part on its ability to attract and retain clients. There are many factors which could impact Botanicals' ability to attract and retain clients, including but not limited to Botanicals' ability to continually produce desirable and effective product, the successful implementation of the Botanicals' client-acquisition plan and the continued growth in the aggregate number of patients selecting medical marihuana as a treatment option. Botanicals' failure to acquire and retain patients as clients would have a material adverse effect on its business, operating results and financial condition.

Holding Company

The Company is a holding company and essentially all of its assets are the capital stock of its subsidiary, Botanicals. As a result, investors in the Company are subject to the risks attributable to Botanicals. As a holding company, the Company conducts substantially all of its active business through Botanicals, which generates substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of Botanicals and the distribution of those earnings to the Company. The ability of Botanicals to pay dividends and other distributions will depend on its operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained and contractual restrictions contained in the instruments governing its debt. In the event of a bankruptcy, liquidation or reorganization of Botanicals, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of Botanicals before the Company.