EMERALD HEALTH THERAPEUTICS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended December 31, 2016

Dated: March 31, 2017

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Forward-Looking Statements

Certain statements contained in this 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; 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' longer term strategy to become a leading provider of quality products for the broader marihuana market; 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 intention of the Company to apply to Health Canada for a licence in respect of its additional office space, to transition its customer service team and administration to the additional office space and to renew the term of its lease on the additional office space; 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; changes in laws, regulations and guidelines relating to medical marihuana and the possible legalization of 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; 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.

The following Management Discussion and Analysis ("MD&A") is prepared as of March 31, 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 audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2016 and December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS). 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, including the Company's Annual Information Form for the year ended December 31, 2016 and the Company's audited consolidated financial statements for the year ended December 31, 2016, is available on its website at www.emeraldhealth.ca and on the Canadian Securities Administrator's website at www.sedar.com.

Disclosure Controls and Procedures

During the year ended December 31, 2016 there has been no significant change in the Company's internal control over financial reporting since the last reporting period.

The management of the Company is responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make.

The management of the Company has filed the Venture Issuer Basic Certificate with the Annual Filings on SEDAR at www.sedar.com. In contrast to the certificate under National Instrument ("NI 52-109") (Certification of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financing reporting, as defined in NI 52-109. Investors should be aware that inherent limitations on the ability of the Company's certifying officers to design and implement on a cost effective basis disclosure controls and procedures and internal controls over financial reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Overview

Emerald Health Therapeutics, Inc. (the "Company") 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 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 May 2018.

Botanicals' goal is to remain a reputable and trusted provider of medical marihuana, and to accelerate the growth of its client base and sales revenue after the launch of its cannabis oil products. To reach these goals, Botanicals must provide a consistent supply of high quality products and maintain its excellence in client services. Through a combination of in house grow and wholesale purchase from other Licensed Producers, Botanicals expects to continue to provide a wide range of strains of dried marihuana and oils.

Recent Developments and Events after the Reporting Period

In 2016, the Company, through Botanicals, focussed on obtaining approval to manufacture and sell cannabis oils and on research and development activities to identify new strains from its diverse pool of cannabis seeds. The application for the sales licence permitting Botanicals to sell cannabis oils was submitted in April 2016 and in July 2016 Botanicals received Health Canada approval to sell cannabis oils. Once this approval was received, production began on three initial products and sales commenced in September 2016.

The oil products currently in production include: Tetrahydrocannabinolic acid oil, Tetrahydrocannabinol ("THC") oil, as well as two different strengths of oils containing both THC and cannabidiol ("CBD"). Botanicals expects to launch a fourth product, a high concentrate CBD oil, in the first half of 2017. The Company's cannabis oils are whole plant extracts that deliver the benefits of cannabinoids orally.

During the year, Botanicals also produced several high quality dried marihuana products that sold out very quickly. However, due to constrained growth space, Botanicals is limited on the volume of product it is able to grow and continues to purchase additional strains of dried medical marihuana from other Licenced Producers to supplement inventory levels for both dried medical marihuana sales and cannabis oil production.

Due to limited growth space in its current facility, the Company is actively pursuing expansion options that would allow for increased production. In order to move forward with expansion, the Company reviewed a variety of financing options to obtain the funds needed to expand. In that respect, the Company filed and obtained a receipt for a base shelf prospectus (the "Prospectus") in each of the provinces of Canada (other than Quebec) on January 25, 2017 that allows the Company (over a 25 month period) to raise up to $50,000,000 in the aggregate through sale of Common Shares, preferred shares, warrants, subscription receipts, debt securities or a combination thereof.

In February 2017, the Company completed a public financing of 10,235,000 units of the Company (each, a "Unit") on a "bought deal" basis pursuant to a supplement to the 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 "Prospectus Offering").

Each Unit consisted of one Common Share and one-half of one common share purchase warrant of the Company. Each full warrant 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 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 Prospectus Offering, the Company also issued to the underwriter of the Prospectus Offering a total of 307,050 compensation options. Each compensation option entitles the holder to acquire a Unit at a price of $1.35 per Unit for a period of 24 months following the closing of the Offering.

The Company intends to use the net proceeds of the Prospectus Offering to accelerate facility expansion and for working capital and general corporate purposes. 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 entered into a non-binding letter of intent in November 2016 with a corporation controlled by Dr. Avtar Dhillon, the Executive Chairman of the Company, to lease at current market rates up to 32 acres of lands in Metro Vancouver, British Columbia for the purposes of expanding its operations and growing capability. The lease is currently under negotiation by independent members of the Company's board of directors. Following execution of the lease, the Company intends to significantly increase its production of cannabis and cannabis oils through a multi-phase expansion plan that leverages its experience in building, growing, and selling cannabis under Health Canada regulations for Licensed Producers. In phase one, the Company proposes to build a modular hybrid greenhouse growing facility with 50,000 square feet of production space using its team of builders, designers, and growers. The Company's proposed expansion plans will require approval from Health Canada. Expansion is planned to continue in a modular fashion, with an additional 50,000 square feet anticipated to be added in 2018.

On March 1, 2017, the Company commenced a lease for office space located near the current production facility. The lease runs for an initial one year term to February 28, 2018 with an option to renew for an additional two-year term. This facility will house the administration functions of the Company and the Company intends to obtain a licence through Health Canada for these premises in order to relocate and increase the size of its client services team. The application is expected to be submitted to Health Canada by March 31, 2017.

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 supported by a contribution from the National Research Council of Canada's Industrial

Research Assistance Program, the Botanicals team has characterized the cannabinoids and terpenes profiles of its plant materials, and has identified several new strains from its diverse pool of cannabis seeds. Strains with exceptionally high CBD levels will allow Botanicals to produce CBD oils in the future with unique compositions of cannabinoids through blending. In additional to continued research and development of strains and products, the team also plans to undertake clinical research to study the effects of its products on client health.

In addition to developing the new cannabis oil products, the Company also launched a new website and a new logo in June 2016 and re-branded its products by way of new packaging and increased on-line and digital market presence. The Company's e-commerce ordering system was also updated improving the efficiency of client ordering and inventory management.

Client acquisition and client service is an ongoing focus for Botanicals. After the introduction of cannabis oils, the client base began to increase quickly and the Company expects the trend to continue and revenue to increase 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.

In August 2016, Health Canada announced the ACMPR. The ACMPR replaced the MMPR as the regulations governing Canada's medical cannabis program and came into force on August 24, 2016. In November 2016, the Company received the Current Licence from Health Canada under the ACMPR which is valid until May 2018. Under the Current Licence, 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 Current Licence and the ACMPR and the terms set out therein.

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.

Transactions with Sciences

In 2015, the Company, together with certain of its shareholders, completed a transaction with Emerald Health Sciences Inc. ("Sciences") whereby Sciences acquired 44% of the Company's issued and outstanding Common Shares from five of its founding shareholders. In August 2015, the Company and Sciences entered into a loan agreement (the "Loan Agreement") and Sciences agreed to loan funds to the Company on a revolving basis, in amounts and at times agreed to by the parties. Amounts loaned to the Company bear interest at 12% per annum (changed from 5% per annum in February 2016) and are repayable on demand. Also in 2015, the Company agreed to pay a fee for services provided by Sciences pursuant to a service contract based on cost. Amounts owing for services are due within 30 days and bear interest at 12% per annum if not paid within that time.

During the year ended December 31, 2016, Sciences advanced $1,552,395 in funds to the Company and charged $39,561 in interest. Sciences also charged $146,970 for services during the year. The advances, interest and a portion of the services fees were repaid in full by way of debt conversions (discussed below) and repayment of the final loan balance in November 2016. As of December 31, 2016, the Company owed $97,696 to Sciences which was repaid in full subsequent to the year end.

In March 2016, the Company and Sciences agreed to convert outstanding debt of $1,392,796 owed by the Company to Sciences as of February 26, 2016, the date Sciences agreed to the conversion of the debt, into 8,097,651 Common Shares at a deemed price of $0.172 per share. Such debt consisted of $1,374,808 for loans from Sciences to the Company and $17,988 outstanding for services provided by Sciences to the Company. The transaction was approved by the TSXV and the Common Shares were issued to Sciences in May 2016.

In August 2016, the Company and Sciences announced a private placement of 4,077,687 units of the Company at a price of $0.205 per unit, for gross proceeds of $835,926. Each unit was comprised of one Common Share and one common share purchase warrant of the Company, with each warrant entitling the holder to acquire an additional Common Share at any time from the date of issue for a period of 24 months at an exercise price equal to $0.27 per common share. The transaction was approved by the TSXV and the securities were issued to Sciences in September 2016.

Also in August 2016, the Company and Sciences agreed to convert additional outstanding debt of $921,465 owed by the Company to Sciences as of August 5, 2016, the date Sciences agreed to the conversion of the debt, into 4,494,955 Common Shares at a deemed price of $0.205 per share. The transaction was approved by the TSXV and the Common Shares were issued to Sciences in September 2016. As of September 30, 2016, the Company had borrowed $315,184, including interest, from Sciences through the Loan Agreement and for services.

In August 2016, Mr. David Raffa resigned as a director of the Company and a new director, Mr. Bob Rai, was appointed.

At the same time, Sciences reached an agreement to purchase 4,407,708 Common Shares from Mr. Raffa. Pursuant to the agreement, Sciences acquired ownership of 2,203,854 Common Shares in September 2016 at a price of $0.29 per share and 2,203,854 Common Shares in October 2016 at a price of $0.31 per share. An aggregate of 2,424,237 Common Shares purchased by Sciences from Mr. Raffa are subject to a surplus security escrow agreement dated September 4, 2014.

In October 2016, the Company announced a private placement of 4,411,764 units of the Company with Sciences at a price of $0.68 per unit. Each unit was comprised of one Common Share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to acquire an additional Common Share at a price of $0.85 per share for a period of five years from the closing date. The transaction was approved by the TSXV and the securities were issued in November 2016.

As of December 31, 2016, Sciences held approximately 67.3% of the Common Shares on an undiluted basis and 71.0% of the Common Shares on a partially-diluted basis giving effect only to the exercise of common share purchase warrants of the Company held by Sciences. Subsequent to the Prospectus Offering in February 2017, Sciences held approximately 58.4% of the Common Shares on an undiluted basis and 62.5% of the Common Shares on a partially-diluted basis giving effect only to the exercise of common share purchase warrants of the Company held by Sciences.

Disclosure of Outstanding Share Data

The Company’s authorized share capital consists of an unlimited number of Common Shares of which 67,794,698 were issued and outstanding as of December 31, 2016. Since December 31, 2016, the Company issued 10,235,000 Common Shares upon completion of the Prospectus Offering and 150,000 Common Shares upon exercise of stock options. As of March 31, 2017, there were 78,179,698 Common Shares issued and outstanding.

During the year ended December 31, 2016, the Company granted an aggregate of 2,725,000 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 range from $0.335 and $1.38 per share.

There were 5,758,200 stock options outstanding as of December 31, 2016. As of March 31, 2017, there were 6,483,200 stock options outstanding as a result of stock option grants subsequent to December 31, 2016.

Selected Annual Financial Information

The following tables provide a brief summary of the Company's financial operations. For more detailed information, refer to the Audited Financial Statements:

	2016 ($)	**2015 ($)**	**2014 ($)**	**2013 ($)**
Revenue	253,321	31,291	-	-
Gross margin	(349,945)	(172,511)	-	-
Operating expenses	1,909,767	2,148,359	1,170,317	14,660
Share-based payments	680,788	1,176,401	728,494	-
RTO costs	-	-	746,294	-
Net loss	(2,940,501)	(3,497,271)	(2,645,105)	(14,660)
Loss per share (basic and diluted)	(0.05)	(0.08)	(0.07)	(0.00)
Total assets	4,176,329	771,679	2,041,534	3,946

Summary of Quarterly Results

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

	2016			
	December 31 ($)	**September 30 ($)**	**June 30 ($)**	**March 31 ($)**
Revenue	124,251	48,933	38,729	41,408
Expenses	867,562	590,896	547,447	507,129
Share-based payments	137,113	467,878	37,618	38,179
Net Loss	(880,424)	(1,009,841)	(546,336)	(503,900)
Net Loss per share (basic and diluted)	(0.01)	(0.02)	(0.01)	(0.01)

	2015			
	December 31 ($)	**September 30 ($)**	**June 30 ($)**	**March 31 ($)**
Revenue	23,902	7,389	-	-
Expenses	521,509	634,013	589,333	607,306
Share-based payments	37,751	90,406	876,420	171,824
Net Loss	(535,358)	(717,030)	(1,465,753)	(779,130)
Net Loss per share (basic and diluted)	(0.01)	(0.02)	(0.03)	(0.02)

Results of Operations

The net loss for the quarter ended December 31, 2016 was $880,423 (loss of $0.01 per share), compared to the net loss of $535,359 (loss of $0.01 per share) for the same quarter in the prior year. The Company's net loss for the year ended December 31, 2016 was $2,940,501 (loss of $0.05 per share), compared to a net loss of $3,459,271 (loss of $0.08 per share) for the year ended December 31, 2015. Factors contributing to the net loss for the current year include the following:

Revenue

Revenue for the quarters ended December 31, 2016 and 2015 was $124,251 and $23,902 respectively. Revenue for the year ended December 31, 2016 was $253,321 compared to $31,291 for the prior year. The Company commenced sales of cannabis oil in September 2016 and with the additional product lines available, the client base started to increase as well. The Company expects revenue to continue to increase in 2017 with the expanded product lines and the introduction of a new cannabis oil product, high concentrate CBD oil, in the first half of 2017.

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 December 31, 2016 and 2015 was $86,545 and $21,679 respectively. For the year ended December 31, 2016, the Company recognized $193,793 of cost of goods sold (2015 - $27,314). The increase in cost of goods sold 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 and stringent quality assurance and quality control costs and related overhead. In addition, all inventory costs in excess of net realizable value are expensed to production costs. In the quarter ended December 31, 2016, the Company incurred production costs of $211,345 versus $157,981 in the quarter ended December 31, 2015. The Company incurred $606,767 of production costs in the year ended December 31, 2016 (2015 - $362,424) including an adjustment of $12,601 to write down inventory from cost to net realizable value. These costs were classified as pre-distribution growing costs before commencing sales. The increases in 2016 are due to the increased production volume required to meet the increase in sales.

(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 December 31, 2016 and 2015 was a gain of $95,372 and $160,927 respectively. The change in biological assets for the year ended December 31, 2016 was a gain of $197,293 (2015 - $185,936). There were no changes in fair value in biological assets recognized prior to receiving the full licence under the MMPR in May 2015.

Total cost of goods sold for the quarters ended December 31, 2016 and 2015 was $202,518 and $18,733 respectively. Total cost of goods sold was $603,266 for the year ended December 31, 2016 (2015 - $203,802). 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 December 31, 2016 and 2015 was negative $78,267 and positive $5,169 respectively. Gross profit for the year ended December 31, 2016 was negative $349,945 (2015 – negative $172,511). 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 – In the quarter ended December 31, 2016, the Company incurred general and administration expenses of $496,331 versus $347,005 in the comparable 2015 prior period. In the quarter ended December 31, 2016, General and administrative costs include salaries and benefits of $104,297 (comparable 2015 prior period - $226,408), consulting and professional services fees of $72,554 (comparable 2015 prior period - $96,540), travel and accommodation of $12,255 (comparable 2015 prior period - $16,894) and interest expense of $17,817 (comparable 2015 prior period - $7,833) related to the interest on the loan from Sciences.

General and administrative expenses were $1,220,775 for the year ended December 31, 2016, compared to $1,578,849 for the year ended December 31, 2015. General and administrative costs include salaries and benefits of $504,422 (2015 - $556,948), consulting and professional services fees of $418,093 (2015 – 354,818), office and insurance expenses of $201,831 (2015 - $590,002), travel and accommodation of $56,751 (2015 - $68,649) and interest expense of $39,678 (2015 - $8,433) related to the interest on the loan from Sciences. General and administrative expenses for the prior year were higher than the current year primarily due to inclusion of rent and consulting fees of $443,699 related to a second leased facility that was considered for production but was not utilized. Also, early 2015 included additional salaries and benefits related to the transition of certain senior management positions for approximately $44,500.

Sales and marketing – In the quarter ended December 31, 2016, the Company incurred sales and marketing expenses of $77,720 versus $50,898 in the comparable 2015 prior period. Sales and marketing costs were $271,118 for the year ended December 31, 2016 compared to $166,739 for the prior year. The current year costs include expenditures for the client services center, the re-branding project and the addition of a part-time marketing director to assist with client communications and social media. As the Company was not selling product yet in the first half of 2015, the expenses in the prior year were lower.

Research and development – In the quarter ended December 31, 2016, the Company incurred research and development expenses of $57,295 versus $94,124 in the comparable 2015 prior period. Research and development expenses, net of government contributions, were $301,526 for the year ended December 31, 2016, compared to $162,316 for the year ended December 31, 2015. Research and development projects in the current year include development and testing of processes to manufacture cannabis oils, testing a variety of growing and production methodologies and continuation of the NRC-IRAP project to characterize medical cannabis strains. The year to date expenses are net of $44,668 (2015 - $62,973) in government contributions toward the NRC-IRAP project.

Share-based compensation – In the quarter ended December 31, 2016, the Company incurred share-based compensation expenses of $137,112 versus $37,751 in the comparable 2015 prior period. Share based compensation was $680,788 for the year ended December 31, 2016 compared to $1,176,401 for the same period in 2015. 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 2,725,000 stock options to directors, employees and a consultant. Certain of these stock options vested immediately resulting in a stock-based compensation expense of 450,479 in the current year, while the balance of the stock options vest over a three year period.

The net loss for the quarter ended December 31, 2016 was $880,423 (loss of $0.01 per share), compared to the prior year quarter net loss of $535,359 (loss of $0.01 per share). Net loss for the year ended December 31, 2016 was $2,940,501 compared to a net loss of $3,497,271 for the year ended December 31, 2015. The basic and diluted loss per common share for the current year was $0.05 compared to $0.08 for the year ended December 31, 2015. 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:

	2016 ($)	**2015 ($)**	**2014 ($)**
Expensed research and development costs	346,194	225,289	40,066
General and administrative expenses	1,220,775	1,578,848	876,580
Purchase of plant and equipment	286,770	270,461	218,951

Liquidity and Capital Resources

The Company continually monitors and manages its cash flow to assess the liquidity necessary to fund operations. As at December 31, 2016, the Company had positive working capital of $3,127,688. In addition, the Company closed its public offering in February 2017 that provided gross proceeds of $13,817,250. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing.

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 during the year ended December 31, 2016:

	December 31, 2016 ($)	**December 31, 2015 ($)**	**December 31, 2014 ($)**
Net cash provided by (used in):			
Operating activities	(2,047,658)	(2,253,053)	(1,254,890)
Investing activities	(243,997)	(312,235)	(218,951)
Financing activities	5,427,024	928,329	3,192,635
Increase (decrease) in cash	3,135,369	(1,636,959)	1,718,794

Total net cash provided was $3,135,369 for the year ended December 31, 2016, compared with net cash used of $1,636,959 for the year ended December 31, 2015. Operating activities used cash of $2,047,658 for the year ended December 31, 2016, compared with cash used of $2,253,053 for the year ended December 31, 2015. The decrease in cash outflow for the year ended December 31, 2016 was due to an increase in revenue and a decrease in the net loss in the current year compared to the prior year.

Cash used in investing activities for the year ended December 31, 2016 was $243,997, compared to cash used of $312,235 in the prior year. For the current year, the cash was used to purchase equipment and intangible assets, including purchase of laboratory equipment, a new website and an e-commerce system.

Cash provided by financing activities for the year ended December 31, 2016 was $5,427,024, compared to cash provided of $928,329 in the prior year. Cash generated from financing activities in the current year included $1,552,395 of cash advances from Sciences and $3,835,926 from net proceeds received on the private placement of shares in September and November, 2016.

Historically, the Company’s source of funding has been loans from shareholders and other related parties and issuance of equity securities for cash, primarily through private placements.

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 December 31, 2016, 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

During the year ended December 31, 2016, the Company completed several transactions with Sciences, which were previously described. In addition, the remuneration awarded to directors and to senior key management including the Executive Chairman, the President and Chief Executive Officer and the Chief Financial Officer, includes the following:

	Year ended December 31, 2016 ($)	Year ended December 31, 2015 ($)
Wage and short-term benefits	369,528	312,383
Share-based payments	536,999	744,197
Total compensation of key management personnel	906,527	1,056,580

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 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 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 leases its production facility for $4,875 per month for an initial term from June 1, 2014 to May 31, 2019 with an option to renew for an additional two, five year terms. Additional premises for office space are leased for $5,190 per month, including common costs, for an initial term from March 1, 2017 to February 28, 2018 with an option to renew for an additional two-year term, which the Company intends to exercise.

The Company also entered into purchase agreements with other Licensed Producers to supplement inventory and a consulting agreement with a six-month term.

The following table shows the commitments of the Company over the next five years and onwards:

	Due by year ending					
	Total	**2017**	**2018**	**2019**	**2020**	
Production facilities	$334,251	$111,113	$123,081	$89,245	$10,812	
Purchase agreements	$486,340	$422,340	$64,000	$-	$-	
Consulting agreement	$36,000	$36,000	$-	$-	$-	
	$856,591	$569,453	$187,081	$89,245	$10,812	

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. 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 renewed on November 8, 2016 and subsequently amended on February 2, 2017 and is valid for an eighteen-month period ending May 7, 2018. Botanicals' 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 Botanicals and 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 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. Botanicals and the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of 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. However, no draft of any legislation to legalize recreational marihuana in Canada (the "Recreational Cannabis Legislation") has been released as of the date of this MD&A and there are significant risks to the business of Botanicals due to potential changes in laws and regulations. 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 to replace the MMPR. 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

To date, Botanicals' activities and resources have been primarily focused on its initial facility in British Columbia and Botanicals expects to continue to carry out its business activities solely in this facility over the next several months. 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 planning an expansion into a second production facility which will require licencing by Health Canada and significant investment of capital. Neither the Health Canada licencing nor the investment of capital are assured.

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 of 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 result from 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 Reputation 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. There is a risk that these additional resources 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;

(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 $50 million of the Company's 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, 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 Offering 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 debt financing from Sciences pursuant to the terms of the Loan Agreement. 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.

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 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 medical 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 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 prevent or inhibit the commercialization of Botanicals' potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to 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

As part of its conditional approval relating to the RTO, the TSXV required that the Company deliver an undertaking confirming that, while listed on the TSXV, the Company will only conduct the business of production, acquisition, sale and distribution of medical marihuana in Canada as permitted under the Current Licence. 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 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 Company's 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.

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 a result, 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, such as 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.

Restriction on Sales Activities

The medical marihuana industry 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 and Jim Heppell, 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 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.