EMERALD HEALTH THERAPEUTICS, INC.
(Formerly T-Bird Pharma Inc.)

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2016

Dated: November 25, 2016

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.'s (the "Company"), (formerly T-Bird Pharma, Inc.). Forward-looking statements include, but are not limited to: whether the number of the Company's registered patients will increase; whether the Company's sales will increase and whether the business of the Company will eventually be profitable; how and if the Company will benefit from its recent transaction with Emerald Health Sciences Inc. ("Sciences"), a control person of the Company, and what opportunities that transaction will provide; the terms of the loan from Sciences and whether Sciences will continue to provide loans to the Company and the terms of such loans; whether the Company's subsidiary, Emerald Health Botanicals Inc. ("Botanicals") will be able to maintain the licence to produce and sell medical marihuana and cannabis oil issued to it under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"); whether the Company will continue to purchase additional strains of dried medical marijuana from other Licenced Producers; the expectation of the impact of the ACMPR; whether Botanicals will launch a high CBD oil product and introduce new oils produced by way of supercritical CO2 extraction in the first half of 2017; the continued increase of the client base and revenue as a result of the introduction of cannabis oils; whether the expansion at the current facility will allow the Company to increase its production capacity of dried product and oils; how the Company's research and development project related to strains of medical cannabis will be used and how it will be funded; whether common shares of the Company will be issued upon the conversion of debt owed to Sciences and the number of common shares of the Company that will be issued; and the effect that each risk factor will have on the Company.

These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, market price, continued availability of capital financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in the forward-looking statements. Investors are also directed to consider other risks and uncertainties discussed in the Company's required financial statements and filings.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These forward-looking statements involve risks and uncertainties relating to, among other things, the Company's reliance on the Licence, regulatory risks relating to the Company's compliance with the ACMPR, changes in laws, regulations and guidelines relating to medical marihuana and the possible legalization of marihuana by the Federal government, the limited operating history of the Company, the Company's reliance on a single production facility, its reliance on management, difficulties in securing additional financing, unfavourable publicity or consumer perception of the medical marihuana industry and restrictions of the TSX Venture Exchange on the Company's business. Additional factors that could cause actual results to differ materially include, but are not limited to, the risk factors described herein. See "Risks and Uncertainties".

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 November 25, 2016 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 financial statements and accompanying notes of the Company for the three and nine months ended September 30, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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.emerald.care and on the Canadian Securities Administrator's website at www.sedar.com.

Overview

Emerald Health Therapeutics Inc. (the "Company"), (formerly T-Bird Pharma, Inc.) 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, B.C. Canada. The Company's 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 license (the "License") issued to Botanicals under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"), formerly the Marihuana for Medical Purposes Regulations ("MMPR"). In November 2015, Botanicals received a Supplemental License from Health Canada authorizing Botanicals to produce cannabis oils (the "Supplemental License") and in July 2016, Botanicals received a Supplemental Sales License to sell these products. In November 2016, Botanicals received a renewed licence from Health Canada under the ACMPR which supersedes and replaces the previous Licence, the Supplemental Licence and the Supplemental Sales Licence. The new 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

During the first four months of 2016, Botanicals primarily focussed on developing the operating procedures required to manufacture cannabis oils in order to apply to Health Canada for a Supplemental Licence allowing for the sale of the oils. The application for the sales licence was submitted in April 2016 and in July 2016 Botanicals received approval to sell cannabis oils. Once this approval was received, production began on three initial products that were available for sale starting in September 2016.

The three products currently in production include: Tetrahydrocannabinolic acid ("THCA") oil, Tetrahydrocannabinol ("THC") oil, as well as two different strengths of oils containing both THC and cannabidiol ("CBD"). The cannabis oils are whole plant extracts that deliver the benefits of cannabinoids orally. Botanicals expects to launch a fourth product, a high CBD oil, and introduce new oils produced by supercritical fluid extraction in the first half of 2017.

In August 2016, Health Canada announced new regulations called the Access to Cannabis for Medical Purposes Regulations (ACMPR). The ACMPR will replace the Marihuana for Medical Purposes Regulations (MMPR) as the regulations governing Canada's medical cannabis program, and came into force on August 24, 2016. In November 2016, the Company received a new licence (the "Current Licence") from Health Canada under the ACMPR which is valid until May 2018. The Current Licence supersedes and replaces the Licence, the Supplemental Licence and the Supplemental Sales Licence. Under the Current Licence, the Company may produce dried marihuana and cannabis oils and sell or provide dried marihuana, cannabis oils, marihuana plants and marihuana seeds in accordance with the ACMPR and the terms set out therein.

In addition to developing the new cannabis oil products, the Company also launched a new website and a new logo in June 2016 and has re-branded its products by way of new packaging and increased social media presence and community engagement on Instagram and Facebook. The e-commerce ordering system was also updated improving the efficiency of client ordering and inventory management.

During the current year, Botanicals produced several high quality dried marihuana products that sold out very quickly. However, due to limited 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. The Company is actively pursuing expansion options that would allow for increased production.

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 the last quarter of 2016 and in 2017. Botanicals also recognizes that the medical profession plays a significant 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 the best education and services to these professionals.

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 (NRC-IRAP), 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 will also undertake clinical research to study the effects of the products on client health.

With legalization of marihuana 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 take advantage of the legalization of marihuana. As such, Botanicals is actively looking at options to expand its production capabilities including acquiring from another applicant, its pre-approval application and moving such application forward through the Health Canada approval process, or leasing or purchasing a facility that provides for scalable production options.

Transactions with Sciences

In 2015, the Company, together with certain of its shareholders, completed a transaction with Emerald Health Sciences Inc. (formerly Medna Biosciences 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 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.

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 Common Shares were approved by the TSXV and issued 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 is comprised of one common share and one common share purchase warrant, each warrant entitles 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 Common Shares were approved by the TSXV and issued 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 Common Shares were approved by the TSXV and issued 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. Sciences concurrently 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 Common Share. An aggregate of 2,424,237 Common Shares purchased by Sciences from Mr. Raffa are subject to the Surplus Security Escrow Agreement.

In October 2016, the Company announced a proposed private placement of up to 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. Each warrant entitles the holder thereof to acquire an additional Common Share at a price of $0.85 per Common Share for a period of five years from the closing date. The private placement was completed on November 16, 2016. Upon completion of the private placement, Sciences held approximately 67.5% of the Common Shares (on an undiluted basis) and 71.2% of the Common Shares (on a partially-diluted basis giving effect only to the exercise of Common Share purchase warrants held by Sciences).

Disclosure of Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares of which 62,866,134 were issued and outstanding as of September 30, 2016. Since September 30, 2016, the Company issued 4,411,764 common shares upon completion of the private placement with Sciences and 303,500 shares upon exercise of stock options. As of November 25, 2016, there were 67,581,398 common shares issued and outstanding.

During the quarter ended September 30, 2016, the Company granted 2,350,000 stock options to directors and employees. Each Option is exercisable into one Common Share of the Company for a period of five years. The exercise prices at the time of the grants were $0.335 and $0.72 per Common Share.

There were 6,225,000 stock options outstanding as of September 30, 2016. As of November 25, 2016 there were 5,921,500 stock options outstanding as a result of stock option exercises subsequent to September 30, 2016.

Summary of Quarterly Results

	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)

	2015			2014
	September 30	**June 30**	**March 31**	**December 31**
Revenue	7,389	-	-	-
Expenses	634,013	589,333	607,306	612,555
Share-based payments	90,406	876,420	171,824	136,972
Net Loss	(717,030)	(1,465,753)	(779,130)	(749,527)
Net Loss per share (basic and diluted)	(0.02)	(0.03)	(0.02)	(0.02)

Results of Operations

The Company's net loss for the three-month period ended September 30, 2016 was $1,009,841 (loss of $0.02 per share), compared to a net loss of $717,030 (loss of $0.02 per share) for the same period ended September 30, 2015. For the nine-month period ended September 30, 2016, the Company's net loss was $2,060,077 (loss of $0.04 per share) compared to a loss of $2,961,913 (loss of $0.06 per share) 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 quarter ended September 30, 2016 was $48,933 compared to $7,389 for the same period in the prior year. Year to date revenue was $129,070. The Company commenced sales of dried medical marihuana in the third quarter of 2015 so had minimal revenue in the first nine months of 2015. The Company expects revenue to continue to increase in 2016 and 2017 with the expanded product line of dried medical cannabis and cannabis oils. Approval was received to sell oils in July 2016 and sales commenced in September 2016.

Cost of goods sold

Cost of goods sold currently consist 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, 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. For the three and nine-months ended September 30, 2016, the Company recognized $35,261 and $107,248 respectively of cost of goods sold (2015 - $5,635).

(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. The Company incurred $139,497 of production costs in the quarter ended September 30, 2016 (2015 - $136,946) including an adjustment of $6,170 to write down inventory from cost to net realizable value. Production costs for the nine-months ended September 30, 2016, were $395,422 (2015 - $204,443) including an adjustment of $32,729 to write down inventory from cost to net realizable value. Before receiving the initial sales licence in May 2015, these costs were classified as pre-distribution growing costs.

For the three and nine months ended September 30, 2015, pre-distribution growing costs were $NIL and $194,047 respectively.

(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, 2016 was a loss of $6,555 (2015 - $4,057) and for the nine-month period ended September 30, 2016 a gain of $101,921 (2015 - $25,009). There were no changes in fair value in biological assets recognized prior to receiving the full license under the MMPR in May 2015.

Total cost of goods sold was $181,313 for the quarter ended September 30, 2016 (2015 - $146,638). Cost of goods sold increased in the current period compared to the same period in the prior year due to higher sales in the current year. Gross profit for the quarter ended September 30, 2016 was negative $132,380 (2015 – negative $139,249). As the production volumes to date have been small due to limitations on space available, the costs of goods sold have been greater than revenue.

Other expenses

General and Administrative - General and administrative expenses were $255,797 for the quarter ended September 30, 2016, compared to $353,450 for the quarter ended September 30, 2015. General and administrative costs for the current quarter includes salaries and benefits of $104,300, consulting and professional services fees of $72,550, office and insurance expenses of $48,873, travel and entertainment of $12,255 and interest expense of $17,817 related to the interest on the loan from Sciences. General and administrative expenses for the third quarter of the prior year were higher than the current quarter primarily due to inclusion of rent and consulting fees in the prior year of $108,690 related to a leased building that was considered as a second production facility but was not utilized.

General and administrative expenses were $724,443 for the nine-month period ended September 30, 2016, compared to $1,231,844 for the same period ended September 30, 2015. General and administrative expenses for the prior year were higher than the current year to date primarily due to inclusion of rent and consulting fees of $363,894 related to the 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 and investor relations costs of $51,000 that were not incurred in the current period.

Sales and marketing – Sales and marketing expenses were $50,718 for the three-month period ended September 30, 2016, compared to $61,139 for the same period in the prior year. For the nine-month period ended September 30, 2016 sales and marketing costs were $193,398 compared to $115,841 for the prior year. These 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 periods were lower.

Research and development – Research and development expenses, net of government contributions, were $70,971 for the quarter ended September 30, 2016, compared to $59,593 for the quarter ended September 30, 2015. Year to date research and development expenses were $244,231 compared to $68,192 for the same period in the previous year. 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 $44,700 in government contributions toward the NRC-IRAP project.

Share-based compensation – Share based compensation was $467,878 for the quarter ended September 30, 2016 compared to $90,406 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. Share-based compensation was higher in the quarter ended September 30, 2016 as the Company granted options to directors and employees, some with immediate vesting, resulting in a share based compensation expense of $432,000.

Net loss for the three-month period ended September 30, 2016 was $1,009,841 compared to a net loss of $717,030 for the three-month period ended September 30, 2015. The basic and diluted loss per common share for the current quarter was $0.02 compared to $0.02 for the quarter ended September 30, 2015. Net loss for the nine-month period ended September 30, 2016 was $2,060,077 compared to a net loss of $2,961,913 for the nine-month period ended September 30, 2015. The basic and diluted loss per common share was $.04 for the nine-month period ended September 30, 2106 compared to $0.06 for the same period in 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:

	For the three months ended September 30, 2016 ($)	**For the three months ended September 30, 2015 ($)**	**For the nine months ended September 30, 2016 ($)**	**For the nine months ended September 30, 2015 ($)**
Expensed research and development costs	74,672	89,921	288,899	121,460
General and administrative expenses	255,797	353,450	724,443	1,231,844
Purchase of plant and equipment	12,847	33,388	239,983	125,984

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, 2016, the Company had positive working capital of $660,677, which includes the demand loans of $315,185 owing to Sciences. Sciences has agreed to provide funds as needed for the Company to continue to meet its ongoing financial obligations. In addition, the Company completed a private placement with Sciences in November 2016 that provided gross proceeds of $3.0 million. 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 three and nine-month periods ended September 30, 2016:

Net cash provided by (used in):	**For the three months ended September 30, 2016**	**For the three months ended September 30, 2015**	**For the nine months ended September 30, 2016**	**For the nine months ended September 30, 2015**
Operating activities	(520,646)	(632,988)	(1,398,317)	(1,854,767)
Investing activities	(28,740)	(31,388)	(214,102)	(125,984)
Financing activities	1,413,909	333,408	2,406,036	333,486
Increase (decrease) in cash	$ 864,523	$ (330,968)	$ 793,617	$ (1,647,265)

Total net cash increased by $864,523 for the three-month period ended September 30, 2016, compared with net cash used of $330,968 for the same period in 2015. Operating activities used cash of $520,646 for the current quarter compared to cash used of $632,988 for the same period ended September 30, 2015. The decrease in cash outflow in the three and nine-month periods ended September 30, 2106 compared to the prior year was due to a decrease in the net loss.

Cash used in investing activities in the three-month period ended September 30, 2016 was $28,740, compared to cash used of $31,388 for the same period in the prior year. For the nine-month period ended September 30, 2016 the Company used $214,102 compared to $125,984 for the same period in the prior year. The cash was primarily used to purchase lab, production and computer equipment as well as a new e-commerce system and website.

Cash generated from financing activities in the three and nine months ended September 30, 2016 of $1,413,909 and $2,406,036 respectively, was primarily comprised of proceeds of $835,926 from a completed private placement with Sciences and cash advances from Sciences.

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 September 30, 2016, management of the Company has determined that while no impairment indicators of its assets were present, 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

The balances due to related parties, with the exception of the demand loans owing to Sciences, are unsecured, non-interest bearing and have no specific terms of repayment.

Year to date as of November 2016, the Company had completed several transactions with Sciences, including:

- In May 2016, conversion of $1,392,796 in debt into 8,097,651 Common Shares at a price of $0.172 per Common Share;
- In September 2016, completion of a private placement for 4,077,687 units of the Company at a price of $0.205 per unit, for gross proceeds of $835,926, with each unit comprised of one Common Share and one Common Share purchase warrant, with each warrant entitling the holder to acquire an additional Common Share for a period of 24 months at an exercise price of $0.27;
- In September 2016, conversion of $921,465 in debt into 4,494,955 Common Shares at a price of $0.205 per Common Share;
- In October 2016, Sciences concluded the purchase of 4,407,708 Common Shares from Mr. Raffa, an outgoing director; and
- In November 2016, completion of a private placement for 4,411,764 units of the Company at a price of $0.68 per unit, for gross proceeds of $3,000,000, with each unit comprised of one Common Share and one Common Share purchase warrant, with each warrant entitling the holder to acquire an additional Common Share for a period of five years at an exercise price of $0.85.

Upon completion of the private placement in November, Sciences held 67.5% of the Common Shares (on an undiluted basis) and 71.2% of the Common Shares (on a partially-diluted basis giving effect only to the exercise of Common Share purchase warrants held by Sciences).

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 2015 Audited Consolidated Financial Statements are the accounting policies and estimates that are critical to the understanding of the business operations and results of operations.

Accounting Policies and Changes in Accounting Standards not yet Effective

Changes to accounting policies and new policies added in the current year are included in Note 3 to the Interim Consolidated Financial Statements for the three and nine months ended September 30, 2016. Refer to Note 4 of the financial statements 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 premises for $4,750 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. The Company also entered purchase agreements with other Licenced Producers to supplement inventory.

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

				Due by year ending		
	Total	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
Production facility	$ 152,000	$14,250	$57,000	$57,000	$23,750	-
Purchase agreement	466,860	34,000	368,860	,,,,64,000	-	-
	$ 618,860	$ 48,250	$425,860	$121,000	$23,750	-

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 of the Company 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 Licence

Botanicals' ability to grow, store and sell medical marijuana in Canada will be dependent on the Licence from Health Canada. Failure to comply with the requirements of the Licence or any failure to maintain this Licence would have a material adverse impact on the business, financial condition and operating results of Botanicals and the Resulting Issuer. The Licence was renewed on November 8, 2016 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 Licence. However, should Health Canada not extend or renew the Licence or should it renew the Licence on different terms, the business, financial condition and results of the operation of Botanicals and the Company would be materially adversely affected.

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 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 marihuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. While, to the knowledge of Botanicals' management, Botanicals is currently in 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.

The constant evolution of laws and regulations affecting the marihuana industry could detrimentally affect the Company's operations. Federal medical marihuana laws and regulations and local and provincial laws and regulations that address aspects of the medical marihuana industry are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan.

In addition, if the Federal Government were to enact laws and regulations that legalize marihuana or repeal or amend laws relating to the medical marihuana industry, it may decrease the size of, or eliminate entirely, the market for the Company's products and potentially materially and adversely affect the Company's business, its results of operations and financial condition.

Allard Decision

On February 24, 2016, the Federal Court released its decision in the case of Allard et al v. Canada. In 2014, the federal government enacted the MMPR in place of the Marihuana Medical Access Regulations ("MMAR"). Under the MMPR, only Health Canada licensed individuals or corporations are allowed to produce, sell and distribute dried marijuana to patients across the country. The plaintiffs in the Allard case argued that the MMPR violates their Charter rights to grow their own medical marijuana. The court ruled in favor of the plaintiffs and the government was given six months to amend the MMPR.

In August 2016, Health Canada announced new regulations called the Access to Cannabis for Medical Purposes Regulations (ACMPR). The ACMPR will replace the Marihuana for Medical Purposes Regulations (MMPR) as the regulations governing Canada's medical cannabis program, and will come into force on August 24, 2016. The new regulations provide patients with three options to access medical marihuana:

1. Through a Licenced Producer;
2. Produce a limited amount of cannabis for their own medical purposes; or
3. Designate someone to produce it for them.

The impact of this decision could potentially decrease the size of the market for the Company's business, and potentially materially and adversely affect the Company's business, its results of operations and financial condition. However, it is not expected that the changes in MMPR regulations would have an effect on the Company's 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 first facility in British Columbia and Botanicals will continue to be focused on this facility for the foreseeable future. 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. Failure of the heating and cooling systems or electrical delivery systems can have a material and adverse effect on the Company's business, financial condition and prospects.

Botanicals is currently planning an expansion into a second production facility which will require licensing by Health Canada and significant investment of capital. Neither the licensing nor the availability of capital are assured.

Reliance on Management

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

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:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- plant design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;

- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- 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 that may arise.

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 the anticipated growth strategy, the Company will require some 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, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Resulting Issuer to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Competition

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

Because of the early stage of the industry in which the Company 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 will 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 courier 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. Additionally, if one of Botanicals’ significant brands were subject to recall, the image of that brand and Botanicals and the Company could be harmed. 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 resulting issuer. 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 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 may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, 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 Company's 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 Company's 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. 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. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our 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 election of directors and the determination of significant corporate actions. As well, Sciences could delay or prevent a change in control of the Company that could otherwise be beneficial to the Company's 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 persons holding substantial numbers of common shares may at times conflict, and this conflict might be resolved against the Company's interests. The concentration of control by a small number of persons may practically preclude an unsolicited bid for the Company's common shares, and this may adversely impact the value and trading price of the common shares.

Future Sales by Significant Shareholders

Following release of common shares from the resale restrictions imposed by the terms of escrow agreements, entered into as part of the escrow transfer, should the shareholders holding substantial numbers of common shares determine to act in concert and sell such shares, the market price of the common shares may fall. This could result from the pressure on the market caused by such sales, or from concern that the sales signify problems in the Company's operations, or from some combination of the two. Mitigating this risk to some extent, though in no way eliminating it, is the fact that approximately 58.9% of the common shares are subject to surplus escrow agreements and releasable in tranches of 5% upon the date of completion of the private placement financing, September 4, 2014 ("Closing"), 5% six months from the date of Closing, 10% 12 months from the date of Closing, 10% 18 months from the date of Closing, 15% 24 months from the date of Closing, 15% 30 months from the date of Closing and 40% 36 months from the date of Closing.

Restriction on Sales Activities

The 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 Botanicals' ability to conduct sales and marketing activities and could have a material adverse effect on Botanicals' 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. 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. All of the Company's directors and officers, as well as Deloitte LLP, the Company's auditor, reside principally in Canada and the United States. 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. Some violations of securities laws and breach 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.

<u>Holding Company</u>

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 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.