



# **Bringing The Best Of Cannabis To Better The Lives Of People And Animals**

Investor Presentation

December 3, 2018

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# Investment Highlights

Undervalued

Integrated Value  
Chain

Established  
Brands

Valuable Revenue  
Generating Assets

Global Distribution and  
Strategic IP

Greater Customer Universe  
Than Just Cannabis

Strong Product  
Pipeline

A Portfolio Approach – Products For Humans and Animals



**CRESO**  
THERAPEUTICS



**CRESO**  
NUTRACEUTICALS



**CRESO**  
ANIMAL HEALTH



**CRESO**  
LIFESTYLE



**CRESO**  
TOPICALS

A stylized graphic of a plant with several leaves. The left side of the image is a solid green vertical bar. The leaves on the left are filled with a lighter green color, while the leaves on the right are outlined in a dark grey color. The text 'Company Overview' is centered in white on the dark grey background.

# Company Overview

# Corporate Overview

Creso Pharma brings pharmaceutical expertise and methodological rigor to the world of medicinal cannabis and strives for the highest quality in its products

## MISSION:

Bringing the best of cannabis to better the lives of people and animals

Creso Pharma develops cannabis and hemp-derived therapeutic, nutraceutical, and lifestyle products with patient and consumer reach for human and animal health

# Company Overview

## Business Description

- A global medicinal cannabis innovator founded by a team of executives with a mission to bring pharmaceutical rigour to medicinal and recreational cannabis
- Founded in 2016 and ASX listed on 20 October 2016, trading as “CPH”
- Primarily based in Switzerland (R&D and marketing), with wholly owned cultivation facility in Canada and Colombia, along with a joint venture in Israel<sup>1</sup>
- Innovative products for humans and animals commercially available since Nov. 2017
- Path to revenue expedited through strategic IP and reputable distribution partnerships
- First to import medicinal cannabis into Australia<sup>2</sup>
- Global distribution agreements in place
- Intent to list on TSX-V by early 2019

## Financial Snapshot

	AUD	CAD
Share Price <sup>3</sup>	\$0.42	\$0.40
52 Week High/Low <sup>3</sup>	\$1.65/\$0.19	\$1.60/\$0.18
Shares on Issue <sup>3</sup>	116.0	116.0
Market Capitalization <sup>3</sup>	\$48.1	\$46.8
Cash <sup>4</sup>	\$10.2	\$9.9
Enterprise Value <sup>3</sup>	\$36.2	\$35.2
LTM Revenue <sup>5</sup>	\$0.42	\$0.41
LTM EBITDA <sup>5</sup>	(\$18.4)	(\$17.9)
LTM Earnings Per Share <sup>5</sup>	(\$0.19)	(\$0.18)

<sup>1</sup> Cultivation yet to begin, pending license

<sup>2</sup> Press Release (<https://clients3.weblink.com.au/pdf/CPH/01856400.pdf>)

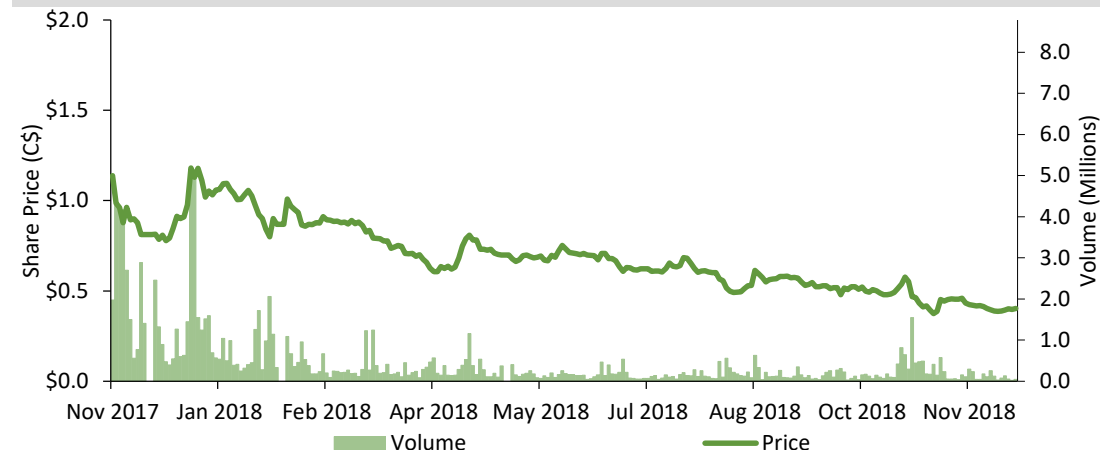
<sup>3</sup> Market data as of November 30, 2018; AUD:CAD 1:0.9716

<sup>4</sup> Company Update and Appendix 4C as at October 31, 2018; AUD:CAD 1:0.9729

<sup>5</sup> Financial statement data as of June 30, 2018; AUD:CAD 1:0.9729

All figures in millions except per share data

## Share Price Chart<sup>3</sup>

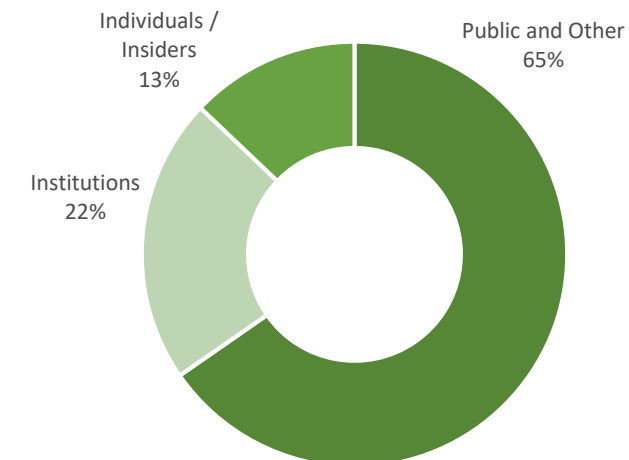


## Ownership Structure<sup>3</sup>

**Top 20 Shareholders** 41.09%

### Top 5 Shareholders

HSBC Custody Nominees (Australia) Ltd	7.22%
Miriam Halperin Wernli	7.11%
International Water Energy Savers Ltd	5.86%
Anglo Australasia Holdings Pty Ltd	4.74%
Pheakes Pty. Ltd.	3.45%



# The Creso Team – Grounded in Business and Science

## Board of Directors

### **Dr. Miri Halperin-Wernli | CEO & Co-Founder**

- 25+ years of strategic and operational leadership in global pharmaceutical and biomedical industries in Switzerland and in the US

### **Boaz Wachtel | Non-Executive, Chairman & Co-Founder**

- Leading medicinal cannabis expert, co-founder and former MD of Phytotech Medical

### **Adam Blumenthal | Non-Executive Director & Co-Founder**

- 10+ years experience in investment banking and corporate finance. Provided capital raising and financing solutions to an extensive number of listed and unlisted companies

### **Dr. James Ellingford | Non-Executive Director**

- Vast experience in the international arena, successfully developing close ties with both financial institutions and Government throughout the world

## Executives

### **Caro Abel**

Director Commercial Operations

### **Chris Gundy**

Chief Financial Officer

### **John Griese**

Chief Operating Officer

### **Amit Edri**

International Business Development

### **Dr. Norman Nashed**

Director, Global Operations

### **Chris Hession**

Director of Strategic Partnerships

### **Bill Fleming**

Managing Director, Mernova

### **Charles Williams**

Quality Assurance, Mernova

### **Dr. Gian Trepp**

Director, Commercial & Marketing

### **Jorge Wernli**

Director, Commercial & Market Access

## Scientific Board

### **Dr. Raquel Peyraube**

Industry Advisor

### **Professor Dr. Felix Gutzwiller**

Industry Advisor

### **Dr. Isaac Kobrin**

Industry Advisor

### **Professor Dr. Walter P. Von Wartburg**

Strategic Advisor

## Scientific Advisors

### **Dr. Stephane Redey**

Industry Advisor

### **Dr. Demian Halperin**

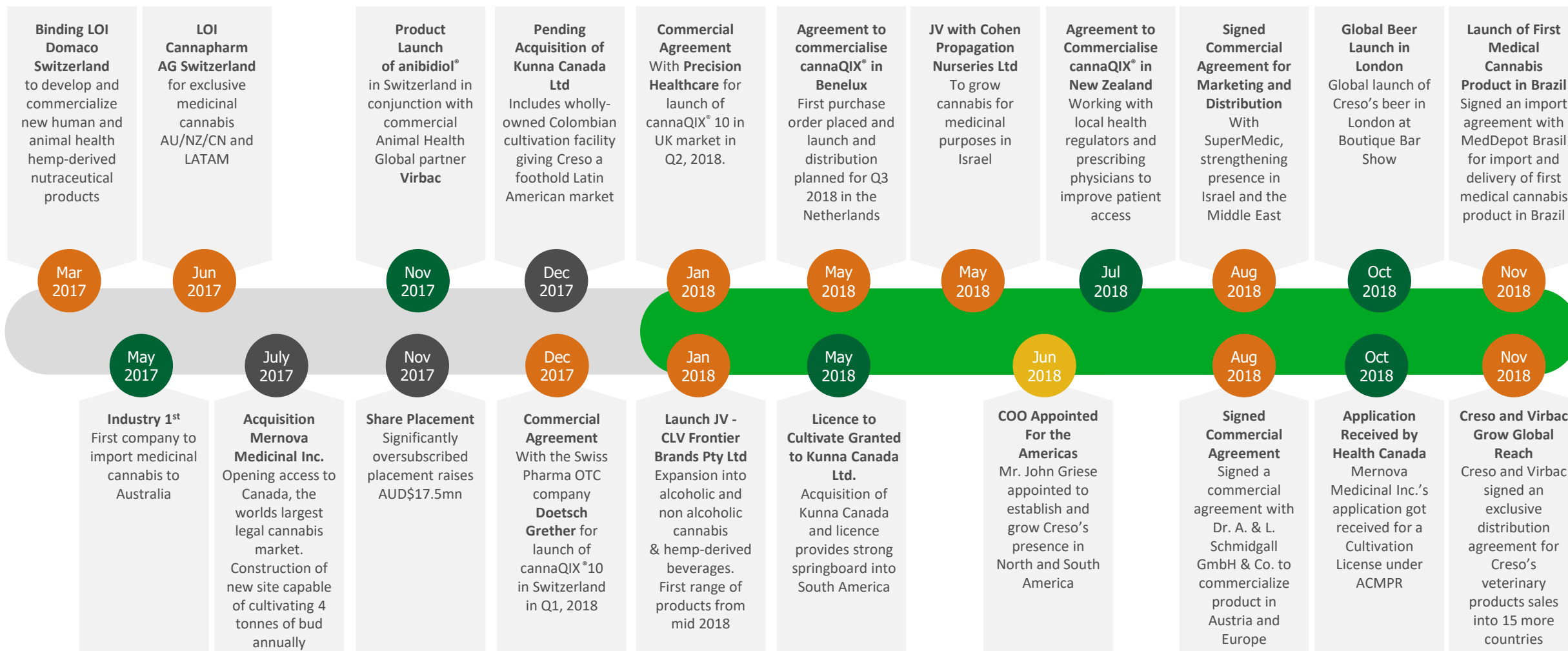
Medical Advisor Human

### **Dr. Fabian Huwiler**

Veterinary Advisor



# Key Achievements



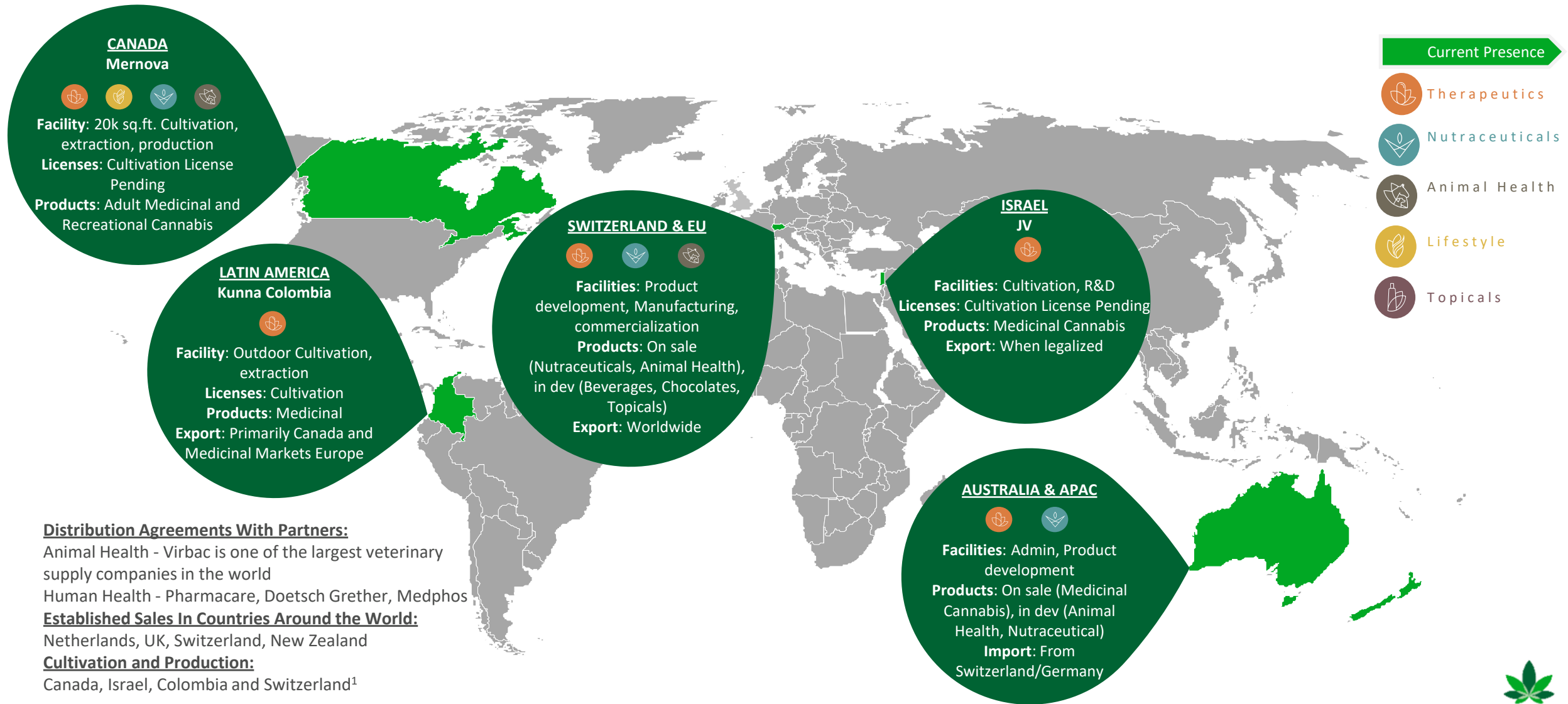
● Products

● Partnerships

● Management

● Acquisitions and Financings

# Geographically Diversified and Vertically Integrated



**Distribution Agreements With Partners:**

Animal Health - Virbac is one of the largest veterinary supply companies in the world  
 Human Health - Pharmicare, Doetsch Grether, Medphos

**Established Sales In Countries Around the World:**

Netherlands, UK, Switzerland, New Zealand

**Cultivation and Production:**

Canada, Israel, Colombia and Switzerland<sup>1</sup>

<sup>1</sup> Cultivation yet to begin, pending license

# Integrated Value Chain

GMP manufactured with certified "Swiss Made" labels



## Cultivation



## cGMP Processing



## Extraction

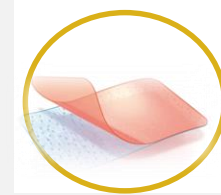


## Manufacturing



## Edibles

### Strips



### Granules



### Lozenges



## Distribution Channel Partners



Switzerland



DOETSCH GRETHER AG Switzerland



UK



Benelux



Australia

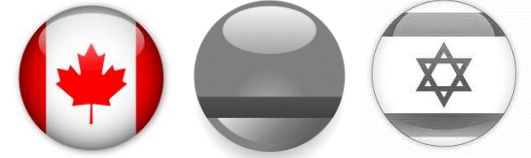


UK

A stylized graphic of a plant with several leaves. The left side of the image is a solid green background, and the right side is a dark gray background. The leaves are outlined in a lighter green on the left and a lighter gray on the right, creating a symmetrical effect across a vertical line. The text "Global Cultivation" is centered in white on the dark gray background.

# Global Cultivation

# Canada – Mernova Medical Inc.



- Only Australian cannabis company building production capacity in Canada
- 24,000 sq. ft. facility will be purpose built to GMP standard, scalable to 200,000 sq. ft.
- Fully funded acquisition; facility construction
- First sales to the Canadian domestic market expected in Q1 2019
- 2019 build out GMP compliant, pharma grade edible production facility to prepare for legalization of edibles
- Will act as global center for cannabis edible R&D



Mernova Facility

# Colombia – Kunna S.A.S



- Wholly owned and debt free Kunna S.A.S. holds a suite of 5 licenses<sup>1</sup>
- In process of registering genetics and acquiring quota – well ahead of peers
- Extraction and cultivation is planned for 2019 delivering revenue in Q3 2019
- Establishes Creso in the strategically important Latin American market, including Argentina, Colombia, Chile, Mexico and Uruguay
- Columbia is expected to export more than 40.5 tonnes of medicinal cannabis oil by 2019

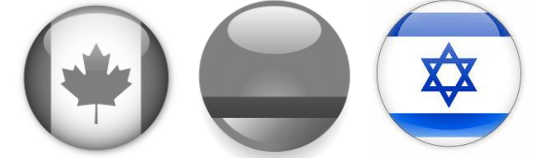


Kunna S.A.S | Current Operation

<sup>1</sup>Transaction pending close

<sup>2</sup><https://www.reuters.com/article/us-colombia-marijuana/colombia-sees-billion-dollar-bonanza-from-legacy-of-marijuana-trade-idUSKBN1I42M9>

# Israel – Cohen Propagation Nurseries Ltd. (JV)



- The JV is converting existing greenhouses into IMC-GAP<sup>1</sup> cultivation facility
- Will provide unique therapeutic genetics developed after years of leading edge Cannabis research
- First of its kind strategic partnership in the cultivation of medicinal cannabis in Israel
- Cohen is one of the most experienced agriculture companies in Israel, established in 1958, with 550 highly trained staff working on 15.7 hectares of greenhouses
- Cohen's products are famous for high quality, sterility and hygiene and are supplied with a special quality certificate from Israel's Ministry of Agriculture Plant Protection and Inspection Services



Cohen Propagation Nurseries Ltd | Gderot Operation

<sup>1</sup>Standard for growing medicinal cannabis in Israel



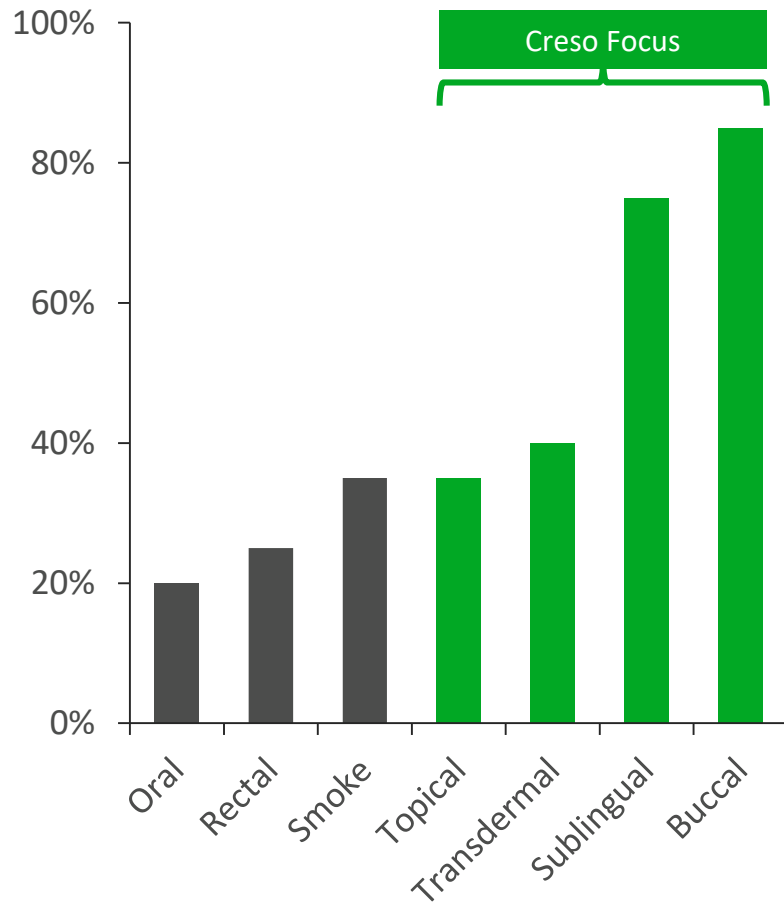
# Products & Product Pipeline



# Products With Innovative Delivery Systems

## Bioavailability<sup>1</sup>

How Effectively Medicine is Absorbed



Infused Beverages  
(Ingested)



Buccal  
(Absorbed in Mouth)



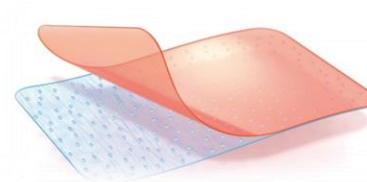
Topical  
(Targeted Muscular Absorption)



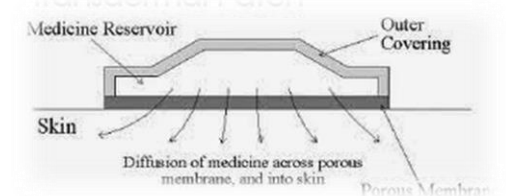
Buccal  
(Absorbed in Mouth)



Sublingual  
(Under the Tongue)

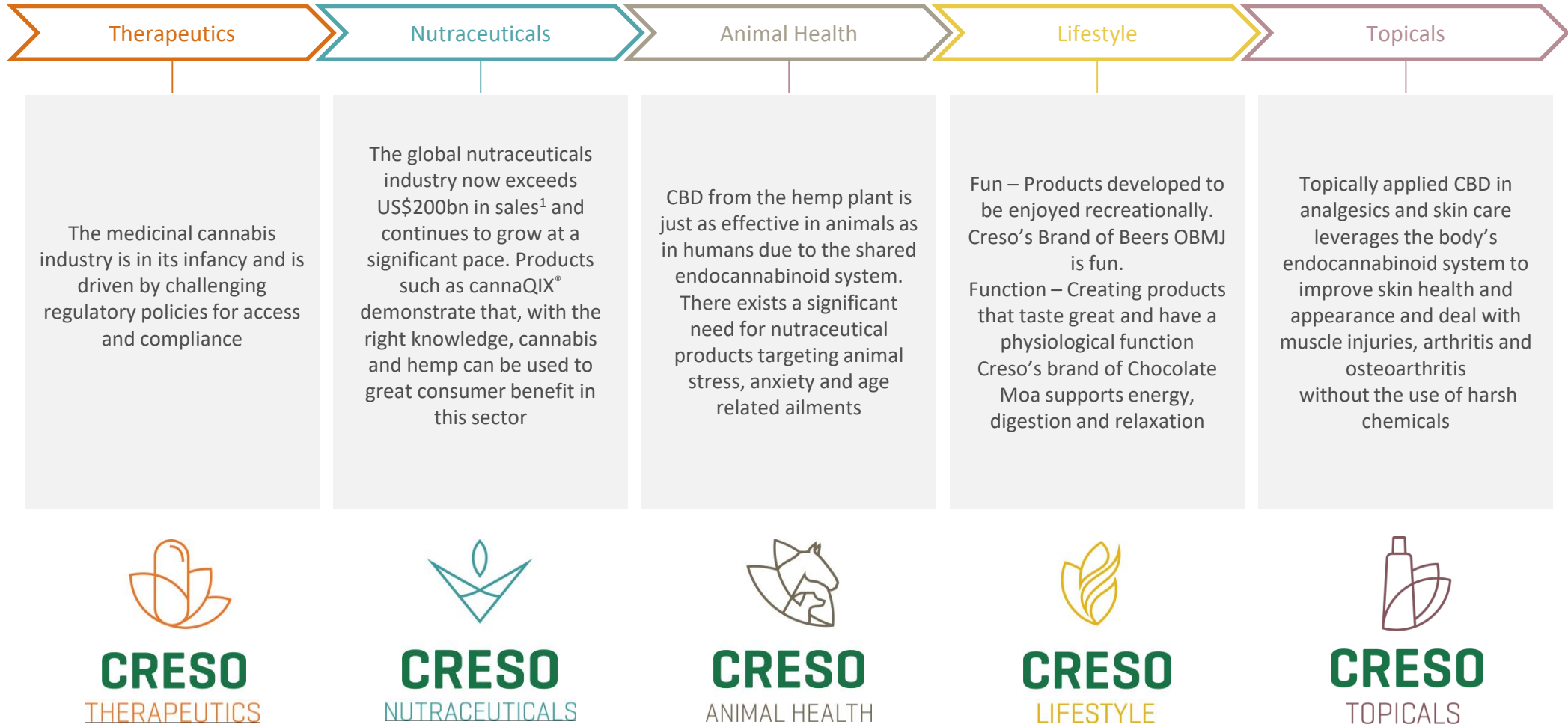


Transdermal  
(Through Skin Time Release)



<sup>1</sup> Creso Pharma, Newmeyer MN, et al Clin. Chem. 2016 (<https://www.ncbi.nlm.nih.gov/pubmed/27899456/>), <https://shopatbloom.com/maryland/cannabis-bioavailability-whats-effective-method/>, <https://medium.com/@ericgeisterfer/the-bioavailability-of-medical-marijuana-6d05b712baa0>

# Products For Humans and Animals – A Portfolio Approach



<sup>1</sup>Source: KPMG report (Nutraceuticals: The Future of Intelligent Food) - <https://home.kpmg.com/content/dam/kpmg/pdf/2015/05/nutraceuticals-the-future-of-intelligent-food.pdf>

# Therapeutics – cannaQIX® 50



**CRESO**  
THERAPEUTICS



Medicinal cannabis worldwide market opportunity \$31 billion<sup>1</sup> dollars by 2021



cannaQIX® 50 is a CBD based, full spectrum hemp extract medicinal cannabis product in an innovative, non-oil based, buccal lozenge formulation with vitamins, minerals and capsicum to assist with managing pain



Launched first in New Zealand in Q3 2018, followed by Australia in 2019 with ongoing discussions in European countries where medicinal cannabis has been legalized



Therapeutics

Nutraceuticals

Animal Health

Lifestyle

Topicals

<sup>1</sup> Brightfield Report (<https://business.financialpost.com/commodities/canadas-medical-marijuana-producers-are-pushing-to-take-over-the-world>)

# Nutraceuticals – cannaQIX® 10



Global supplements market worth \$198.7bn in 2016 and will increase to \$285bn by 2021<sup>1</sup> CAGR of 7.5%<sup>1</sup>



cannaQIX® 10 is a sugar free non-euphoric food supplement in an innovative buccal formulation containing CBD from full spectrum hemp oil

Targets stress reduction and support of mental and nervous functions in humans



cannaQIX® 10 launched in Switzerland, Liechtenstein, UK, and the Netherlands

Advanced discussions in Germany, Czech, Poland and Israel



<sup>1</sup> BCC Research (Nutraceuticals: Global Markets): <https://www.researchandmarkets.com/research/234gw8/nutraceuticals>



# Nutraceuticals – cannaQIX® NITE (Food Supplement)



**CRESO**  
NUTRACEUTICALS



Global supplements market worth \$198.7bn in 2016 and will increase to \$285bn by 2021<sup>1</sup> CAGR of 7.5%<sup>1</sup>



cannaQIX® NITE is targeting sleep improvement and stress reduction and support of mental and nervous functions in humans



cannaQIX® NITE to be launched in Switzerland and Liechtenstein as well as key in European countries in 2019



<sup>1</sup> BCC Research (Nutraceuticals: Global Markets): <https://www.researchandmarkets.com/research/234gw8/nutraceuticals>



# Animal Health – anibidiol®



**CRESO**  
ANIMAL HEALTH



U.S. animal supplements market to reach ~\$97 billion in 2024<sup>1</sup>



anibidiol® is a complementary feed for companion animals with CBD from full spectrum hemp oil extract



Launched in Switzerland and Liechtenstein in November 2017 with Virbac, leader in global animal health

An additional 15 countries added this November



<sup>1</sup> Grandview Research: <https://www.grandviewresearch.com/industry-analysis/pet-food-industry>



# Lifestyle



## Terpene Prime Beers

OLD BOY MARY JANE



Canada cannabis beer market estimated at over \$160 million dollars of the alcoholic beverage sector<sup>1</sup>



CLV Frontiers in Tallinn, Estonia is working on a portfolio of cannabis and hemp-derived alcoholic and non alcoholic beverages containing unique terpene mixes

The terpenes in the beer will carry the characteristic odour, fragrance and taste of cannabis but will not contain THC or CBD or any other cannabinoids



Launch and first commercial sales in Q4 2018 in U.K.



## Swiss Terpene Prime Chocolates

In California 10% of total cannabis sales were edibles, over \$180 million in product<sup>2</sup>



Creso's range of unique, ultra-premium Swiss-made chocolate products containing various cannabis terpenes mixes



Launch discussions ongoing with commercial partners in Canada, Australia and Israel



**CRESO**  
LIFESTYLE

### What is a Terpene?

Cannabis terpenes are fragrant oils that give cannabis its aromatic diversity and signature. These oils are secreted in the flower's sticky resin glands, the same ones that produce THC, CBD, and other cannabinoids.

Therapeutics

Nutraceuticals

Animal Health

Lifestyle

Topicals

<sup>1</sup> Anderson Economic Group, a business consulting firm in New York

<sup>2</sup> Arcview market research

# Topicals – cannaDOL<sup>®</sup> (Analgesics)



Market in Europe for oral and topical analgesics is €3.5 billion. Analgesics sales in 2016 were €603 million in the UK and €203 million in Switzerland<sup>1</sup>

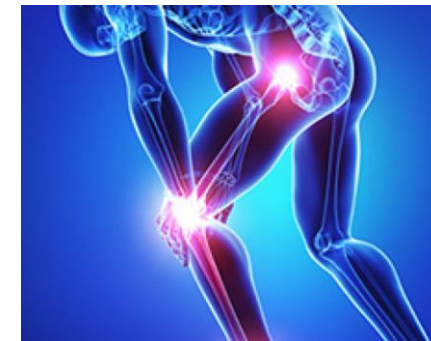


Creso has partnered with Frike Technologies (largest independent Swiss manufacturing group) to develop the cannaDOL<sup>®</sup> range of organic CBD-based functional topicals

These will address the analgesic need in sports-related muscle injuries, arthritis and osteoarthritis. and be registered as appropriate in jurisdictions beginning with Cosmetics in the European Union



The cannaDOL<sup>®</sup> product range will be launched with commercial partners in Q1 2019 in Europe



Therapeutics

Nutraceuticals

Animal Health

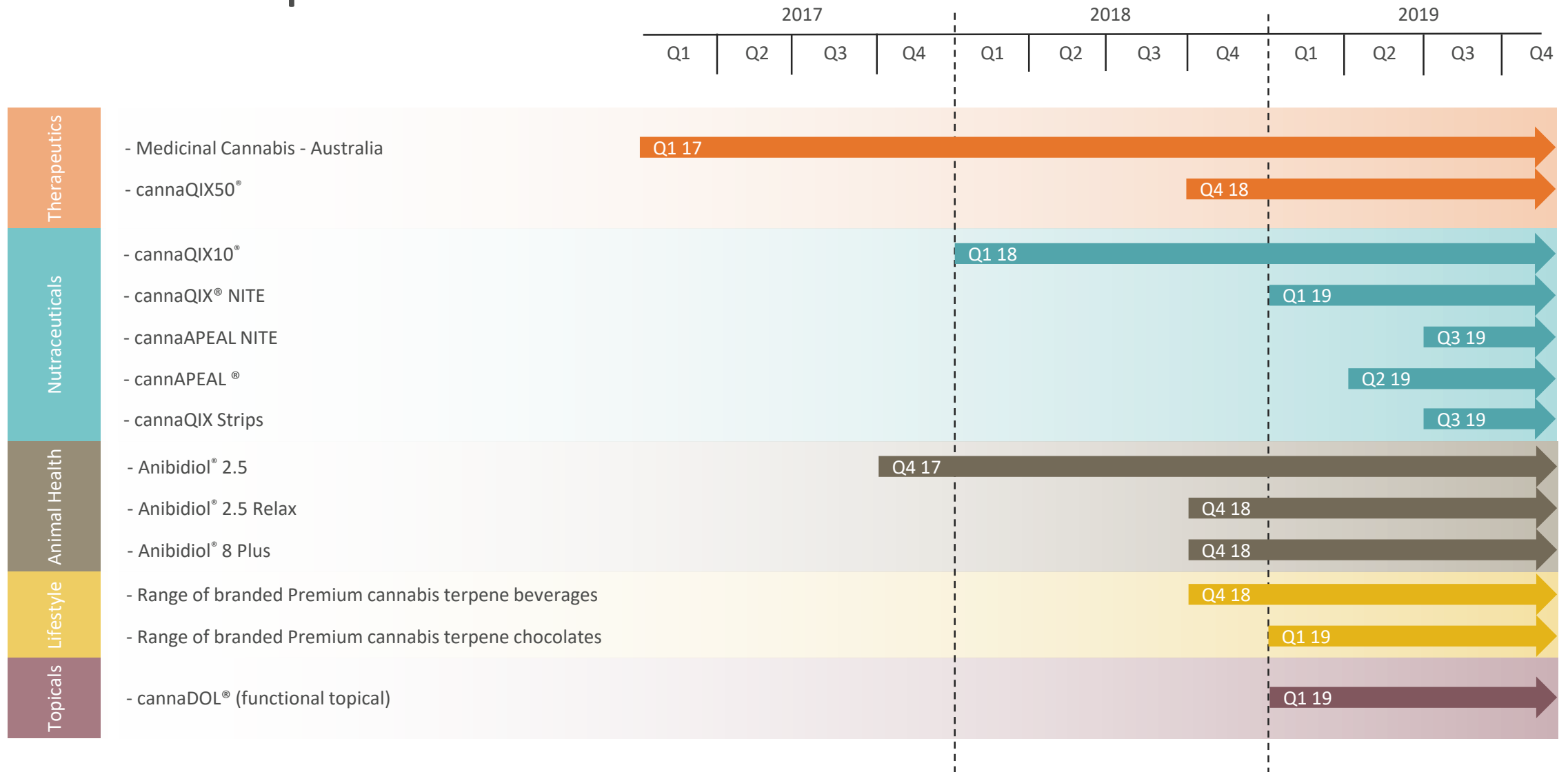
Lifestyle

Topicals

<sup>1</sup> Source: Statista (<https://www.statista.com/statistics/254612/global-skin-care-market-size/>)



# Product Pipeline and Brands

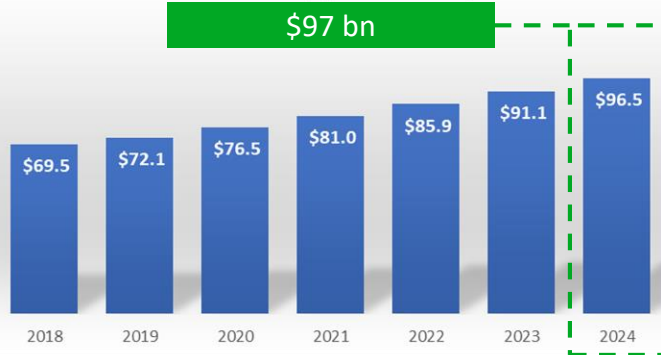


# Capturing Markets Much Larger Than Just Cannabis

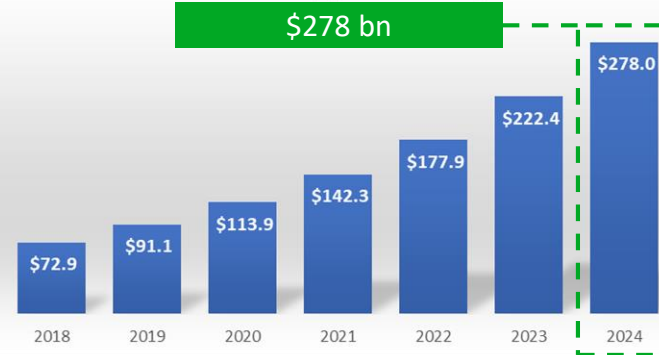
Expected Market Size<sup>1</sup>

Creso Is Not Limited to the Cannabis Network  
In 5 Years Creso's Market Universe Will be \$450B

Animal Supplements \$B



Human Supplements \$B



Cannabis \$B



Creso's Products Cover All The Bases



**CRESO**  
THERAPEUTICS



**CRESO**  
NUTRACEUTICALS



**CRESO**  
ANIMAL HEALTH



**CRESO**  
LIFESTYLE



**CRESO**  
TOPICALS







<sup>1</sup>Grandview Research: <https://www.grandviewresearch.com/industry-analysis/pet-food-industry>, <https://www.grandviewresearch.com/industry-analysis/dietary-supplements-market>, <https://www.grandviewresearch.com/industry-analysis/legal-marijuana-market>



A decorative graphic consisting of several overlapping, stylized leaf or petal shapes. The shapes are arranged in a fan-like pattern, with some pointing upwards and others downwards. The colors are a vibrant green and a muted grey. The green shapes are on the left side of the image, and the grey shapes are on the right side, creating a symmetrical, mirrored effect across a vertical line.

# Distribution

# Distribution Channel Partners

 <p><b>Switzerland</b></p>	<p>8<sup>th</sup> largest animal health company worldwide</p>
 <p><b>Switzerland</b></p>	<p>One of the top 15 pharma/OTC and consumer care companies in Switzerland</p>
 <p><b>UK</b></p>	<p>Specialises in the development of consumer healthcare products. Part of the Precision Marketing Group which sells and distributes consumer healthcare brands to mass retailers and independent pharmacies covering more than 5,000 points of sale</p>
 <p><b>Benelux</b></p>	<p>Based in Netherlands, provides healthcare products to consumers who value quality, innovation and sustainability as well as being effective</p>
 <p><b>Australia</b></p>	<p>Importer and distributor of cannabis in Australia; first to import medicinal cannabis into Australia</p>
 <p><b>UK</b></p>	<p>Baltic Bear Company: UK-based creator of award-winning Viru Premium Estonian beer</p>

- Global reach through distribution partners and global licenses
- To be registered and distributed in Canadian medicinal cannabis products into Switzerland, UK, Italy and France
- Human Health nutraceutical products launched and selling in Switzerland, UK, NL
- Animal Health complementary feed products launched and selling in Switzerland, further expansion into 14 additional countries in progress
  
- Other Partnerships:
  - **Domaco:** High-tech Swiss food and pharma development company
  - **Felchlin Chocolatiers:** Exports premium quality Swiss chocolates to over 40 countries
  - **Frike Technologies:** Largest independent Swiss manufacturing group for dermatology and topical





Creso Products Have Been Commercially Available Since 2017

Demand From Distributors Is Strong

Overlapping Sales In 2018 Indicate Repetitive Purchase

Additional Commercial Agreements In Process

Unique Product Portfolio With Pipeline Innovation

Dried Flower Generating Sales In 2019

Edible Production Ahead Of Canadian Regulation – Edible Leader

A stylized graphic of a plant with several leaves. The left side of the image is a solid green background, and the right side is a dark gray background. The leaves are outlined in a lighter green on the left and a lighter gray on the right, creating a symmetrical effect across a vertical line. The word "Appendix" is centered in white text on the dark gray background.

# Appendix

# Investment Highlights



Fills void in current market with growing need for **trusted products** that meet pharmaceutical standards



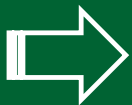
**Revenues** from animal and human product launches in Switzerland and selected EU countries in 2018



Growing market opportunity with a **number of products in pipeline** targeting human and animal nutraceutical markets



**Unique drug delivery IP** and substantial **distribution globally**



**Integrated value chain** with cultivation, processing, extraction, and manufacturing capabilities



**Diversified revenue stream** targeting **human and animal** health markets. More countries are legalizing medicinal cannabis



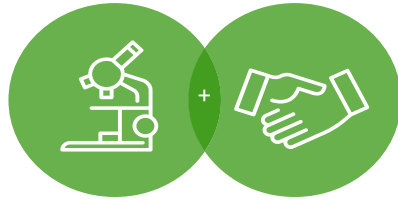
Access to the **global market** at the start of its growth. Increasing scientific evidence on efficacy of cannabis-based treatments



Company well placed to be the **“gold standard”** in cannabis and hemp derived therapeutics, nutraceuticals and lifestyle products

# Creso Business Model

## We Combine



**Cultivation, Extraction & Purification Expertise**

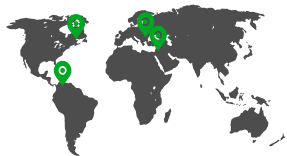
**Partnerships with Commercial Market Leaders**

### Cannabis & Hemp Derivatives:

- Full spectrum extracts
- Active API
- API

### Global Footprint

Switzerland / Canada / Israel / Colombia



### Technology and Manufacturing

- Topical
- Buccal
- Water Solubles
- Other Technologies

### Global Partners

- Domaco
- iNNutri
- Baltic Beer Company
- Felchlin Chocolatiers
- FRIKE Technologies
- Others to be Announced

## We Apply



**Purposeful Innovation**



**Pharmaceutical Rigor**

### This is How We Do It:



Leveraging our cannabis & hemp product & applications expertise



Combining proprietary, in-house ingredients with third party technological know-how



Delivering products which meet and exceed customer expectations



## We Create



**THERAPEUTICS**



**NUTRACEUTICALS**



**ANIMAL HEALTH**



**LIFESTYLE**



**TOPICALS**

## We Deliver

**Creso Branded Products**



**Global Consumer Access**

### Channel Partners

- Virbac, CH
- Doetsch Grether AG, CH
- Precision Healthcare, UK
- Mediphos OTC, Benelux
- Health House International, AUS
- Baltic Beer Company, UK
- Others to be Announced



# Revenue Breakdown - 2017

Less than A year After Formation Commercial Products are Shipped  
for the Human and Animal Categories

	2017			Total
	Q4			
	Oct	Nov	Dec	
(C\$)				
Anibidiol	-	\$2,178	\$88,811	<b>\$90,989</b>
<b>Total</b>	-	<b>\$2,178</b>	<b>\$88,811</b>	<b>\$90,989</b>

- **Nov '17 Commercial Agreement** With the Swiss Pharma OTC company **Doetsch Grether** for launch of cannaQIX<sup>®</sup>10 in Switzerland in Q1, 2018
- **Dec '17 Product Launch** of **anibidiol<sup>®</sup>** in Switzerland in conjunction with commercial Animal Health Global partner **Virbac**

# Revenue Breakdown - 2018

Sales Continue to Climb and Drive Repeat Purchase  
Additional Distribution Agreements Expand Global Reach

	2018				
	Q1	Q2	Q3	Q4 (To Date)	YTD
(C\$)					
CannaQIX	\$185,535	\$427	\$106,261	\$69,553	<b>\$361,777</b>
Anibidiol	-	-	\$67,900	\$122,736	<b>\$190,636</b>
<b>Total</b>	<b>\$185,535</b>	<b>\$427</b>	<b>\$174,161</b>	<b>\$192,289</b>	<b>\$552,413</b>

- Jan '18 Commercial Agreement With Precision Healthcare for launch of cannaQIX® 10 in U.K. market
- May '18 Agreement to commercialise cannaQIX® in Benelux
- July '18 Agreement to commercialise cannaQIX® in New Zealand Sales
- Virbac demand for anibidiol in Switzerland is strong, recent agreement expands distribution to an additional 15 countries
- Aug '18 Commercial agreement with Pharmacare Europe to distribute CannaQIX under the brand Naturapathica in the U.K.

# Upcoming Drivers of Sales

## Greater Global Distribution, Introduction of Dried Flower Sales, and Substantial Innovation Pipeline Fuel Growth

- Full year overlap in existing countries of distribution
  - Significant international agreements currently in play
- New country distribution
  - CannaQIX and Anibidiol expansion near confirmation
- Product line expansion
- Mernova cultivation facility expected to licensed in Q1 2019
  - Several existing LP's negotiating for supply agreement (expected to be finalized in October)
  - NSLC local grown prioritization
  - Premium pricing expected
- Colombia genetics and quota finalized by year end 2018
  - Extraction planned by mid year with low cost material available for acquisition
  - First harvest targets end Q2

# Medicinal Significance of Cannabis and Hemp

## 1. Market Size

- The Cannabis market is growing rapidly
- Medicinal Cannabis worldwide will reach up to \$31 billion<sup>1</sup> dollars in sales over the next four years



## 2. Evidence<sup>2</sup>

- More than 10,000 studies on Cannabis treatments, US National Academy of Sciences and World Health Organization have found evidence for effectiveness of Cannabis and Hemp derivatives in a variety of health conditions



## 3. Compound Rich<sup>3</sup>

- The cannabis plant consists of over 460 compounds
- At least 80 are active compounds (Cannabinoids)
- Creso focuses on full spectrum plant extracts
- Cannabinoids and other compounds have a greater effect when taken together - potentially resulting in a synergetic entourage effect



## 4. Historically Proven

- Long history of medicinal use dating back thousands of years



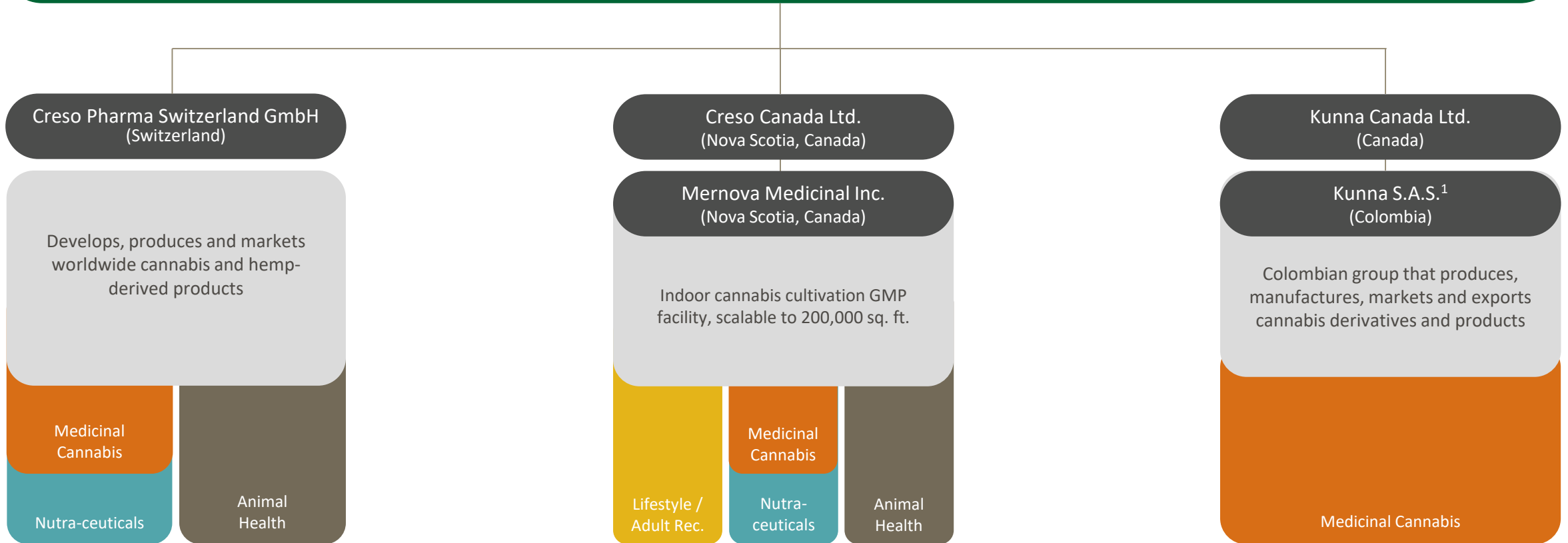
<sup>1</sup> Brightfield Report

<sup>2</sup> National Academies of Sciences, Engineering, and Medicine, 2017, WHO 39th ECDD, 2017

<sup>3</sup> Mechoulam, 1999, Ulrich-Merzenich, 2010, Rosenfeld, 2011, Gallily 2015

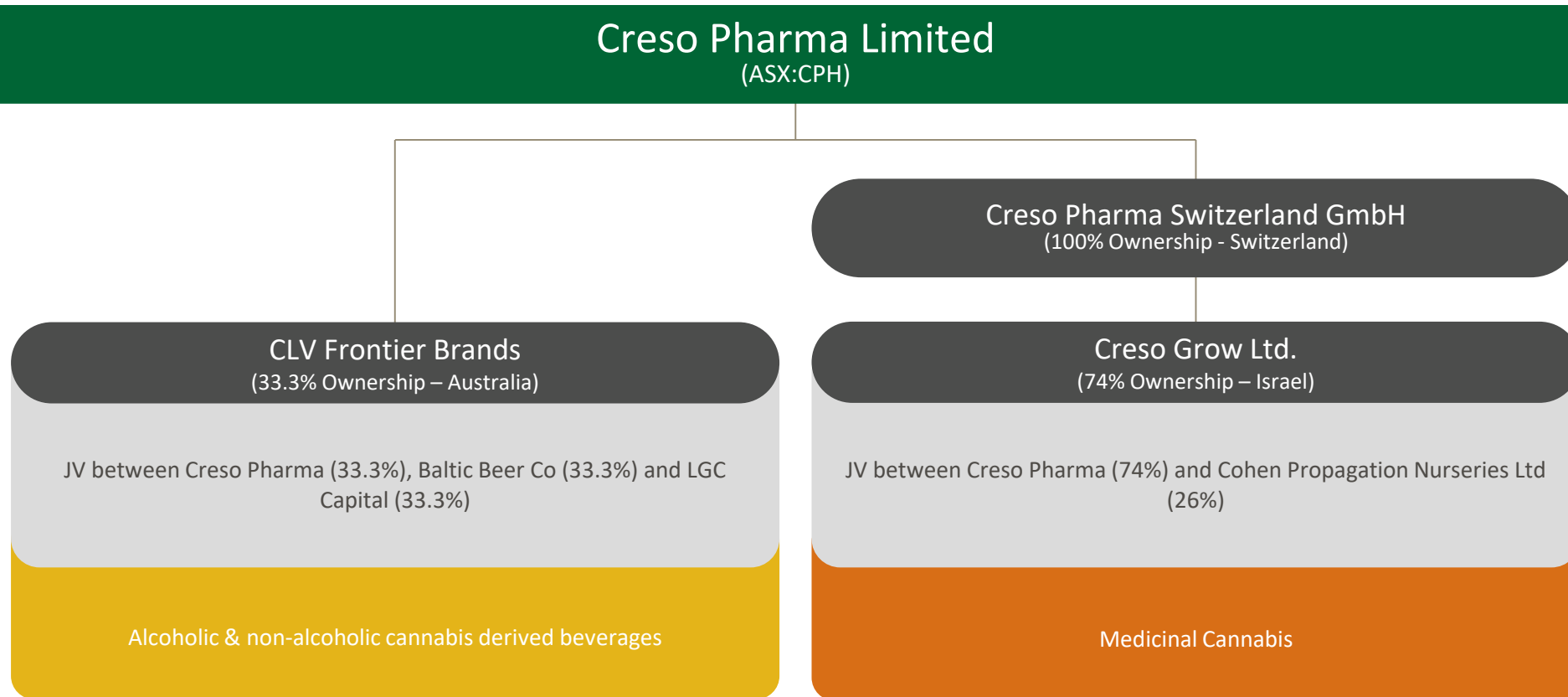
# Corporate Structure (Wholly-Owned Subsidiaries)

## Creso Pharma Limited (Australia) (ASX:CPH)



<sup>1</sup> Subject to completion of transaction

# Corporate Structure (Joint Ventures)





# CRESO

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# Rights of Action

This presentation which may constitute an offering memorandum under applicable securities laws. The purchaser may have, depending on the jurisdiction in which the trade was made, remedies for rescission or damages if this presentation (including any amendment thereto) contains a misrepresentation. A purchaser of the securities of the Company has a statutory right of action in the following offering jurisdictions: Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan, Yukon, Northwest Territories and Nunavut. Such rights must be exercised by the subscriber within the time limits prescribed by the applicable securities legislation. Subscribers should refer to the applicable provisions of the securities legislation of their respective provinces and territories for the complete text of these rights or consult with a legal advisor.

The rights of action described below are in addition to and without derogation from any other right or remedy available at law to the purchaser and are intended to correspond to the rights against an issuer of securities provided in the relevant securities legislation and are subject to the defences contained therein.

As required by applicable securities laws, a purchaser's statutory rights of action in Ontario, Saskatchewan, Nova Scotia and New Brunswick are summarized below. The following summaries are subject to the express provisions of the securities laws of such provinces of Canada and the regulations, rules, policies and blanket orders thereunder.

## Ontario

Ontario Securities Commission Rule 45-501 provides that when an offering memorandum is delivered to an investor to whom securities are distributed in reliance upon certain of the prospectus exemptions in the Securities Act (Ontario) or National Instrument 45-106 – Prospectus Exemptions ("NI 45-106"), respectively, the right of action referred to in Section 130.1 of the Securities Act (Ontario) ("Section 130.1") is applicable unless the prospective purchaser is:

- (a) a Canadian financial institution, meaning either:
  - (i) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act;
  - (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;
- (b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the Bank Act (Canada);
- (c) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or
- (d) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

Section 130.1 provides purchasers who purchase securities offered by an offering memorandum with a statutory right of action against the issuer of securities and any selling securityholder for rescission or damages in the event that the offering memorandum or any amendment to it contains a "misrepresentation", without regard to whether the purchaser relied on the "misrepresentation". "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made.

In the event that this presentation, together with any amendment, is delivered to a prospective purchaser of securities in connection with a trade made in reliance on certain of the prospectus exemptions in the Securities Act (Ontario) or NI 45-106, and this presentation contains a misrepresentation which was a misrepresentation at the time of purchase of the securities, the purchaser will have a statutory right of action against the Company for damages or, while still the owner of the securities, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that:



# Rights of Action (Cont'd)

- (a) no action shall be commenced more than, in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or in the case of any other action, the earlier of
  - (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or
  - (ii) three years after the date of the transaction that gave rise to the cause of action;
- (b) the defendant will not be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon;
- (d) in no case will the amount recoverable exceed the price at which the securities were offered to the purchaser; and
- (e) the statutory right of action for rescission or damages is in addition to and does not derogate from any other rights or remedies the purchaser may have at law.

This summary is subject to the express provisions of the Securities Act (Ontario) and the regulations and rules made under it, and you should refer to the complete text of those provisions.

## Saskatchewan

Section 138 of The Securities Act, 1988 (Saskatchewan), as amended (the "Saskatchewan Act") provides that where an offering memorandum or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by the offering memorandum or any amendment to it is deemed to have relied upon that misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for rescission against the issuer or a selling security holder on whose behalf the distribution is made or has a right of action for damages against:

- (a) the issuer or a selling security holder on whose behalf the distribution is made;
- (b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum; and
- (e) every person who or company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that party;
- (b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;
- (c) no person or company, other than the issuer or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered; and
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

# Rights of Action (Cont'd)

In addition, no person or company, other than the issuer or selling security holder, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or
- (b) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Financial and Consumer Affairs Authority of Saskatchewan.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any other action, other than an action for rescission, the earlier of:
  - (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
  - (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

# Rights of Action (Cont'd)

## New Brunswick

Section 150(1) of Securities Act (New Brunswick) provides that where any information relating to the offering provided to the purchaser of the securities contains a misrepresentation, a purchaser who purchases the securities shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase, and

- (a) the purchaser has a right of action for damages against the issuer and a selling security holder on whose behalf the distribution is made; or
- (b) where the purchaser purchased the securities from a person referred to in paragraph (a), the purchaser may elect to exercise a right of rescission against the person, in which case the purchaser shall have no right of action for damages against the person.

This right of action is not available if the purchaser purchased the securities with knowledge of the misrepresentation, and a defendant is not liable for all or any portion of the damages that the defendant proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied on.

An issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the misrepresentation was not based on information provided by the issuer unless the misrepresentation:

- (a) was based on information that was previously publicly disclosed by the issuer;
- (b) was a misrepresentation at the time of its previous public disclosure; and
- (c) was not subsequently publicly corrected or superseded by the issuer before the completion of the distribution of the securities being distributed.

In no case shall the amount recoverable under these rights of action exceed the price at which the securities were offered.

These rights are in addition to and without derogation from any other right the purchaser may have at law.

## Nova Scotia

Where an offering memorandum or any amendment thereto or any advertising or sales literature (as defined in the Securities Act (Nova Scotia)) contains a misrepresentation, a purchaser to whom the offering memorandum has been delivered and who purchases a security referred to therein shall be deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase and the purchaser has the right of action for damages against the issuer or other seller and, subject to certain additional defences, against directors of the seller and persons who have signed the offering memorandum, but may elect to exercise a right of rescission against the seller, in which case he shall have no right of action for damages against the seller, directors of the seller or persons who have signed the offering memorandum, provided that, among other limitations:

- (a) in an action for rescission or damages, the defendant will not be liable if it proves that the purchaser purchased the security with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the security was offered.

# Rights of Action (Cont'd)

In addition no person or company other than the issuer is liable if the person or company proves that:

- (a) the offering memorandum or the amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of the offering memorandum or the amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, or amendment to the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum, or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting: (i) to be made on the authority of an expert; or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (A) there had been a misrepresentation or (B) the relevant part of the offering memorandum or amendment to the offering memorandum (1) did not fairly represent the report, opinion or statement of the expert or (2) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore, no person or company other than the issuer is liable with respect to any part of the offering memorandum or amendment to the offering memorandum not purporting: (a) to be made on the authority of an expert; or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation.

If a misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, the offering memorandum or amendment to the offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum or amendment to the offering memorandum.

Pursuant to section 146 of the Securities Act (Nova Scotia), no action shall be commenced to enforce the right of action conferred by section 138 thereof unless an action is commenced to enforce that right not later than 120 days after the date on which payment was made for the security or after the date on which the initial payment for the security was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

The right of action for rescission or damages described herein is conferred by section 138 of the Securities Act (Nova Scotia) and is in addition to and without derogation from any right the purchaser may have at law.

For the purposes of the Securities Act (Nova Scotia) "misrepresentation" means:

- (a) an untrue statement of material fact; or
- (b) an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

# Risk Factors

An investment in the Qualified Shares involves a high degree of risk and should be considered speculative. An investment in the Qualified Shares should only be undertaken by those persons who can afford the total loss of their investment. You should carefully consider the risks and uncertainties described below, as well as other information contained in this Prospectus, including the Financial Statements, appearing elsewhere in this Prospectus. The risks and uncertainties below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business. If any of the following risks occur, the Company's business, financial condition and results of operations could be seriously harmed and you could lose all or part of your investment.

## **Competition**

An increase in the companies competing in the cannabis and nutraceutical industries could limit the ability of the Company to expand its operations. Current and new competitors may be better capitalized, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition. In addition, despite Canadian federal legalization of cannabis, illicit or "black-market" operations remain abundant and present substantial competition to the Company. In particular, illicit operations, despite being largely clandestine, are not required to comply with the extensive regulations that the Company must comply with to conduct business, and accordingly may have significantly lower costs of operation.

## **Regulatory Risks**

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian cannabis industry. Similarly, 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. In particular, the Company has applied to Health Canada for a cultivation licence and there is no assurance such licence will be granted by Health Canada, or if granted, when it will be granted. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

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

The Company's operations will be subject to various laws, regulations and guidelines relating to the manufacture, management, packaging, labelling, advertising, sale, transportation, storage and disposal of cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause material adverse effects business, financial condition and results of operations of the Company and its subsidiaries. The Company and its subsidiaries endeavour to comply with all relevant laws, regulations and guidelines.

## **Limited Operating History**

The Company has a very limited history of operations. As such, the Company is subject to many risks common to such 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 the Company's success must be considered in light of its early stage of operations.

## **Uncertainty about the Company's ability to continue as a going concern**

The Company is in the development stage and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offerings in the cannabis industry and grow its revenue. The Company's ability to continue as a going concern is dependent upon its ability in the future to grow its revenue and achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

# Risk Factors (Cont'd)

## ***The Company's actual financial position and results of operations may differ materially from management's expectations***

The Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Our efforts to grow our business may be costlier than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this Prospectus, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If we are unable to achieve and sustain profitability, the market price of our Shares may significantly decrease.

## ***The Company is reliant on obtaining a licence to produce and sell cannabis products***

The Company's ability to grow, store and sell cannabis in Canada, and other jurisdictions of prospective operation, is dependent on the Company securing the appropriate licences with Health Canada and other applicable regulatory authorities. Failure to comply with the requirements of any licence application or failure to obtain the appropriate licences would have a material adverse impact on the future business, financial condition and operating results of the Company. There can be no guarantees that Health Canada will issue the required licences.

If and when the licences are issued, they will have to be periodically renewed by Health Canada and other applicable regulatory authorities. Although the Company believes it will meet applicable regulatory requirements for future renewals of the licence, there can be no guarantee that regulators will renew the licences or, if renewed, that they will be renewed on the same or similar terms or that such licenses will not be revoked. Should the Company fail to comply with the requirements of the licences or not obtain a renewal at all or on the terms desired, or have its licenses revoked, there would be a material adverse effect on the Company's business, financial condition and results of operations.

Government licences are currently, and in the future may be, required in connection with the Company's operations, in addition to other unknown permits and approvals which may be required. To the extent such permits and approvals are required and not obtained, the Company may be prevented from operating and/or expanding its business, which could have a material adverse effect on the Company's business, financial condition and results of operations.

## ***Foreign jurisdictions may impose ownership or control restrictions that could adversely impact the Company's international operations***

Non-resident individuals and non-domiciled foreign legal entities may be subject to restrictions on the acquisition or lease of properties in certain emerging markets. Limitations also apply to legal entities domiciled in such countries which are controlled by foreign investors. Accordingly, the Company's current and future operations may be impaired as a result of such restrictions on the acquisition or use of property, and its ownership or access rights in respect of any property the Company owns or leases in such jurisdictions may be subject to legal challenges, all of which could result in a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

## ***International operations will result in increased operational, regulatory and other risks***

The Company may in the future expand into other geographic areas, which could increase its operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of its operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future international expansion could require the Company to incur a number of up-front expenses, including those associated with obtaining regulatory approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. The Company may not be able to successfully identify suitable acquisition and expansion opportunities or integrate such operations successfully with its existing operations.

## ***The Company may encounter political and other risks in emerging markets***

The Company has operations in various emerging markets and may have operations in additional emerging markets in the future. Such operations expose the Company to the socioeconomic conditions as well as the laws governing the cannabis industry in such countries. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates; military repression; war or civil war; social and labor unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licenses, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, currency controls and governmental regulations that favor or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

# Risk Factors (Cont'd)

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Restrictions related to or changes, if any, in the cannabis industry or investment policies or shifts in political attitude in the countries in which the Company operates may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licenses, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The Company continues to monitor developments and policies in the emerging markets in which it operates and assess the impact thereof on its operations; however, such developments cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

## ***The Company is subject to joint venture risks***

The Company is a participant in joint ventures with third parties. A joint venture involves certain additional risks, including: (i) the possibility that such co-venturers may at any time have economic or business interests or goals that will be inconsistent with the Company's; (ii) the co-venturer may have control over all of the day to day and fundamental decisions relating to a property; (iii) the risk that such co-venturers could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate or repay the co-venturers' share of property debt and/or result in the Company suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions; (iv) the risk that such co-venturers may, through their activities on behalf of or in the name of the ventures or partnerships, expose or subject the Company to liability; and (v) the need to obtain co-venturers' consents with respect to certain major decisions or inability to have any decision making authority, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to certain requirements, such as rights of first refusal, rights of first offer or drag-along rights, and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may inhibit the Company's ability to sell an interest in a property or a joint venture/partnership within the time frame.

## ***Failure to successfully integrate acquired businesses, products and other assets***

The Company has grown through acquisitions and intends to continue to grow through acquisitions. There can be no assurance that the currently contemplated acquisitions, including Kunna, will be completed on the terms currently contemplated or at all. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement. When the Company acquires cannabis businesses, it may obtain the rights to applications for licences as well as licences; however, the procurement of such applications for licences and licences generally will be subject to governmental and regulatory approval. There are no guarantees that the Company will successfully consummate such acquisitions, and even if the Company consummates such acquisitions, the procurement of applications for licences may never result in the grant of a licence by any state or local governmental or regulatory agency and the transfer of any rights to licences may never be approved by the applicable state and/or local governmental or regulatory agency.

## ***There is no assurance that the Company will turn a profit***

There is no assurance as to whether the Company will be profitable or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business. The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

## ***The Company may not be able to effectively manage its growth and operations***

The Company has and intends to grown by acquisition. If the Company implements its business plan and completes acquisitions as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and management information systems, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Shares.

# Risk Factors (Cont'd)

***The size of the Company's target market is difficult to quantify and investors will be reliant on their own estimates on the accuracy of market data***

Because the cannabis industry is in a nascent stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results.

***The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition***

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability.

***The Company may be unable to adequately protect its intellectual property rights***

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names;
- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products;
- the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages;
- the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products similar to or competitive with, or superior to those the Company develops;
- another party may obtain a blocking patent and the Company would need to either obtain a licence or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse. The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.

***The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights***

Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.

***The Company may be subject to product liability claims***

As a manufacturer and distributor of products designed to be ingested by humans, the Company 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 cannabis 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 cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company 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 the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. There can be no assurances that the Company 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 products.



# Risk Factors (Cont'd)

## ***The Company's operations are subject to environmental regulation***

These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Government environmental approvals and permits are currently, and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed business activities or from proceeding with the development of its operations as currently proposed. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

## ***Reliance on management***

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

## ***Reliance on key inputs***

The Company's 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 utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs, or an 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 the Company.

## ***If the Company is unable to attract and retain key personnel, it may not be able to compete effectively***

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's CEO, technical experts and sales personnel. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute our business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all.

## ***Dependence on suppliers and skilled labour***

The ability of 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 the Company 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 the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

## ***Risks inherent in an agricultural business***

The Company's business involves the growing of cannabis, 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 Mernova intends to grow its products indoors under climate controlled conditions, and while all growing conditions are carefully monitored 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***

The Company's cannabis growing operations will consume considerable energy, making 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.

# Risk Factors (Cont'd)

## ***The cultivation of cannabis involves a reliance on third party transportation which could result in supply delays, reliability of delivery and other related risks***

In order for customers of the Company to receive their product, the Company will rely on third party transportation services. This can cause logistical problems with and delays in customers obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance.

Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach could impact the Company's future ability to continue operating under its licences or the prospect of renewing its licences.

## ***Operating risk and insurance coverage***

The Company has insurance to protect its assets, operations and employees. While the Company 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 the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

## ***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 the products produced by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company 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 the Company 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 the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Company and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the operations of the Company by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

## ***The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants***

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

## ***Unfavourable publicity or consumer perception***

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis 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 the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's 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 the Company, the demand for products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis 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 legally, appropriately or as directed.

# Risk Factors (Cont'd)

## ***Customer acquisitions***

The Company's success depends on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to the Company's ability to continually produce desirable and effective product and the successful implementation of the Company's customer-acquisition plan. The Company's failure to acquire and retain customers would have a material adverse effect on the Company's business, operating results and financial condition.

## ***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.

## ***Additional financing***

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through 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 Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. 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.

## ***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 provided that 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 could interfere with their ability to devote time to the Company's business and affairs and that may adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors to the detriment of the Company.

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.

## ***Litigation***

The Company may become party to litigation from time to time 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 Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand.

## ***Marketing constraints***

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

# Risk Factors (Cont'd)

## ***Research and development and product obsolescence***

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete. The Company's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

## ***Information systems security threats***

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's 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. The Company's 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 the Company's reputation and results of operations.

Cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks could result in any person gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, including personally identifiable information, corrupting data, or causing operational disruption. Cyber attacks could also result in important remediation costs, increased cyber security costs, lost revenues due to a disruption of activities, litigation and reputational harm affecting customer and investor confidence, which could materially adversely affect our business and financial results.

The Company 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 Company will not incur such losses in the future which could be in excess of any available insurance, and could materially adversely affect our business and financial results. The Company's 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, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

## ***Reputational risk to third parties***

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

## ***Dividends***

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's Board may deem relevant. As a result, investors may not receive any return on an investment in the Shares unless they sell their Shares for a price greater than that which such investors paid for them.

## ***Holding company***

The Company is a holding company and essentially all of its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate 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 its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

## ***Limited market for securities***

There can be no assurance that an active and liquid market for the Shares will be maintained and an investor may find it difficult to resell any securities of the Company.

# Risk Factors (Cont'd)

## ***Volatile market price for the Shares***

The market price for the Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Shares;
- sales or perceived sales of additional Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Shares may be materially adversely affected.

## ***No guarantee on the use of available funds by the Company***

We cannot specify with certainty the particular uses of the proceeds. Management has broad discretion in the application of our proceeds, including for any of the purposes described in "Use of Proceeds". Accordingly, a purchaser of Shares will have to rely upon the judgment of management with respect to the use of proceeds, with only limited information concerning management's specific intentions. Our management may spend a portion or all of the proceeds in ways that our shareholders might not desire, that might not yield a favourable return and that might not increase the value of a purchaser's investment. The failure by management to apply these funds effectively could harm our business. Pending use of such funds, we might invest the proceeds in a manner that does not produce income or that loses value.

## ***Sales of substantial amounts of the Shares***

Sales of substantial amounts of the Shares, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Shares. A decline in the market prices of the Shares could impair the Company's ability to raise additional capital through the sale of securities should it desire to do so.

## ***Public company expenses and regulatory burden***

From the date of incorporation to the date of this Prospectus, the Company has not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the TSXV. As a Canadian reporting issuer, the Company will be subject to reporting requirements under applicable securities law and TSXV policies. The Company is working with its legal, accounting and financial advisors to identify those areas in which changes should be made to its financial management control systems to manage its obligations as a Canadian public company. Compliance with these requirements, in addition to those requirements to which the Company is subject as an ASX and FSE-listed company, will increase legal and financial compliance costs, making some activities more difficult, time consuming or costly and increase demand on existing systems and resources. As a result, management's attention may be diverted from other business concerns, which could harm the Company's business and results of operations. The Company may need to hire additional employees to comply with these requirements in the future, which would increase its costs and expenses. Management of the Company expects that being a reporting issuer in Canada will make it more expensive to maintain director and officer liability insurance. This factor could also make it more difficult for the Company to retain qualified directors and executive officers.

# Risk Factors (Cont'd)

## ***Analyst coverage***

The trading market for the Shares will, to some extent, depend on the research and reports that securities or industry analysts publish about the Company or its business. The Company will not have any control over these analysts. If one or more of the analysts who covers the Company should downgrade the Shares or change their opinion of the Company's business prospects, the Company's share price would likely decline. If one or more of these analysts ceases coverage of the Company or fails to regularly publish reports on the Company, the Company could lose visibility in the financial markets, which could cause the Company's share price or trading volume to decline.