



**THE SUPREME CANNABIS COMPANY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**

For the three and nine months ended March 31, 2018

Date: May 18, 2018

## THE SUPREME CANNABIS COMPANY, INC.

### Management's Discussion and Analysis

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with The Supreme Cannabis Company, Inc. (the "**Company**" or "**Supreme**") condensed interim consolidated financial statements and notes for the three and nine months ended March 31, 2018 (the "**Financial Statements**"). The Financial Statements, together with this MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of Supreme as well as forward-looking statements relating to future performance. The financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are in Canadian dollars unless otherwise noted.

This MD&A contains disclosure of material changes occurring up to and including May 18, 2018.

### Forward-Looking Statements

This MD&A contains certain information that may constitute "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking statements**") which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can, in some cases, be identified by the use of forward-looking terminology such as "expect," "likely", "may," "will," "should," "intend," "anticipate," "potential," "proposed," "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- performance of the Company's business and operations;
- intention and plans to grow the business and operations of the Company;
- licensing risks and expectations with respect to renewal and/or extension of the Company's licenses;
- regulatory risks and any commentary with respect to the legalization of medical or recreational marijuana and the timing related thereto;
- change in laws, regulations and guidelines;
- expectations with respect to the cannabis market and market risks;
- expansion and production capacity of the Company's facility and the timing related thereto;
- risks inherent in an agricultural business;
- history of net losses; and
- competition.

Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the medical cannabis industry and the general expectations of Supreme concerning the medical cannabis industry and concerning Supreme are based on estimates prepared by Supreme using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which Supreme believes to be reasonable. While Supreme is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves

risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this MD&A under "*Overview of Supreme's Medical Cannabis Business*" as well as statements regarding the Company's objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. See below under "Risks and Uncertainties" for further details. The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. You should not place undue reliance on forward-looking statements contained in this MD&A. Supreme undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

### **Overview of Supreme's Cannabis Business**

Supreme is a federally incorporated Canadian company with its common shares publicly traded on the TSX Venture Exchange ("**TSX.V**") under the symbol "FIRE". Supreme is focused on developing cannabis-focused businesses in the emerging global cannabis market. Management believes cannabis represents one of the world's most exciting emerging industries. Cannabis is consumed globally but in most countries consumption, production and sale is still illegal. Recently, international jurisdictions have been re-evaluating their respective cannabis policies and legislation as part of a growing trend towards the legalization of medical cannabis and, in some cases, recreational cannabis.

Supreme's first and primary asset is 7ACRES. 7ACRES is a federally incorporated corporation wholly owned by Supreme. On March 11, 2016, 7ACRES became a Licensed Producer. 7ACRES operates a 342,000 sq. ft. cultivation facility (the "**Facility**") located in Kincardine, Ontario. The Facility is an innovative cultivation platform combining the best aspects of indoor and greenhouse cultivation with a goal to produce premium cannabis flowers for direct consumption. The Facility is designed to provide a platform to produce high quality cannabis at scale, positioning the Company to compete in the premium segment for dried cannabis flowers. Management believes the premium product segment represents a superior opportunity to compete on quality and generate strong contribution margins per gram versus competing in the lower quality product segment of the market. Management believes high quality cannabis is essential for success and is necessary to combat competition from the black market and low-cost producers.

### **Regulatory Background**

Canada first legalized cannabis for medical purposes in 2001 with the creation of the *Marihuana Medical Access Regulations* (the "**MMAR**"). In 2013, the MMAR was replaced by the *Marihuana for Medical Purposes Regulations* (the "**MMPR**"). The MMPR created a federally legal and regulated framework for commercial cultivation, distribution and sale of medical cannabis by licensed entities ("**Licensed Producers**"). In 2016, the MMPR was replaced by the *Access to Cannabis for Medical Purposes Regulations* (the "**ACMPR**"), which maintained the class of Licensed Producers as the sole-cultivators of federally legal and regulated commercial cannabis in Canada.

The Canadian Federal Government tabled legislation ("**Bill C-45**") on April 13, 2017, an Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts (the "**Cannabis Act**"), which aims to legalize regulated recreational cannabis in Canada. Bill C-45 passed second reading in the Senate on March 22, 2018 and is currently before the following committees until May 28, 2018: social affairs, aboriginal affairs, security and defense, and foreign affairs. Final approval of Bill C-45 is anticipated in and around June 8, 2018 and Government officials are targeting on or before September 2018 as the timing of implementation for the Cannabis

Act. Federal legislation, once created, will enable provinces to distribute and retail Cannabis. Each Canadian province and territory is preparing for the sale and distribution of regulated recreational cannabis. To date, the provinces of Ontario, New Brunswick, Quebec and PEI have announced that their provincial liquor control agencies will oversee the distribution and retail of non-medicinal cannabis. The provinces of Manitoba, Saskatchewan, Alberta and British Columbia have announced that the provincial liquor control agency will be responsible for distribution and oversight of private retail of non-medicinal cannabis. The selection of Licensed Producers to supply cannabis for recreational retail sales by provincial governments or their cannabis control agencies, will be based on many factors, including product quality, cannabis inventory and production capacity, product variety, product branding, price and sales support.

In 2014, a limited number of countries in the world, in addition to Canada, had established federally legal cannabis access regimes. Since 2014, the actions of governments around the world have signaled a significant change in attitudes towards cannabis. To date, national governments in at least 20 additional countries including Argentina, Austria, Australia, Brazil, Denmark, Chile, Columbia, Germany, Greece, Israel, Italy, Jamaica, Kingdom of Lesotho, Mexico, Netherlands, Norway, Poland, Puerto Rico, South Africa, Switzerland and Turkey have formally legalized medicinal cannabis access to either foster research into cannabis based medical treatments or towards increasing legal access to medical cannabis for their local citizens.

## Corporate Strategy

Supreme intends to position 7ACRES as Canada's leading brand for premium cannabis flower and leverage its perceived quality advantage by working with multiple re-sellers to capture the premium market segment. Consequently, management is focused on developing and maintaining 7ACRES' position as a leading brand of premium cannabis flowers at scale. Sales of cannabis are completed via Business To Business ("**B2B**") transactions with legal and licensed Canadian retailers, which is currently restricted to only Licensed Producers in Canada. The B2B model is designed to allow 7ACRES to grow its revenue through high value bulk sales while maintaining its focus on cultivation, without the expense of patient acquisition and retention or retail order fulfillment and logistics.

The brand development strategy for 7ACRES is based on a clear mission, vision and values. 7ACRES mission is to grow great cannabis at a commercial scale. 7ACRES operationalizes its mission through its vision of becoming Canada's leading brand for premium cannabis flower. The mission and vision of 7ACRES are supported by key values of respect, passion, innovation, community and leadership. These principles allow 7ACRES to be focused on building the infrastructure, management systems and operational team to execute on producing exceptional cannabis flower. The principles also allow 7ACRES to focus solely on flower. Management believes this focus will increase success in brand development, recreational listings and revenue growth.

7ACRES brand positioning is based on the unique qualities of its cannabis flower and proprietary growing methodology resulting in a "ladder of benefits" for consumers: genetics selected to maximize aroma and visual appeal, cultivation methodologies that prioritize quality over yield, and post-harvest drying and curing practices designed with the intention to maximize consumer enjoyment.

To support product distribution, Supreme has built a regulated sales and marketing team that includes professionals from the beverage alcohol, tobacco and cannabis industries. Supreme's sales and marketing efforts with respect to the 7ACRES brand include a commitment to a quality consumer experience, collaborative demand planning with retail partners and investments in on-going corporate social responsibility and trade education.

Supreme's priority is to initially focus on making its 7ACRES brand available for sale first in "one buyer" markets where provincial agencies control both wholesale buying and retail distributions, and subsequently, in "multi-buyer" markets where provincial legislation allows for the creation of private retail.

In addition, Supreme is exploring investments outside of 7ACRES to create strategic partnerships or develop additional productive assets and new brands for the prospective Canadian adult-use market and existing medical markets in Canada and internationally.

In the period ended March 31, 2018, Supreme completed an investment in Medigrow Lesotho (PTY) Limited ("**Medigrow**"), a licensed producer of cannabis in the Kingdom of Lesotho. Supreme anticipates Medigrow to become a leading supplier of GMP-Certified medical cannabis oil produced in Lesotho. Pursuant to its investment in Medigrow, more fully described below in *Highlights for the three and nine months ended March 31, 2018*, Supreme and Medigrow formed a strategic alliance providing Supreme with long-term access to Medigrow's cannabis oil for distribution into Canada and other international markets. Supreme believes the cannabis oil produced by Medigrow will be globally cost competitive and will form the basis of Supreme's emerging international medical cannabis strategy.

In addition to Canada and Lesotho, Supreme regularly considers opportunities in emerging cannabis markets, only where medical and/or recreational cannabis is federally legal.

Supreme does not, directly or indirectly, have any business operations in jurisdictions where cannabis is not federally legal, such as the United States of America.

### **Highlights for three and nine months ended March 31, 2018**

#### *Supreme changes name to The Supreme Cannabis Company, Inc.*

On December 18, 2017, following the approval by the shareholders of the Company at the annual and special meeting of the shareholders, the Company changed its name to The Supreme Cannabis Company, Inc. The name change is intended to indicate Supreme's position as a cannabis-focused consumer packaged goods company, with aspirations and assets in both the medical and emerging recreational channels.

#### *7ACRES Obtains permission to sell dried cannabis*

On June 28, 2017, 7ACRES was granted permission to sell dried cannabis, after the completion of a review by Health Canada. The sales approval provided 7ACRES with the regulatory approvals needed to sell all of the dried cannabis flowers and dried cannabis trim produced since it became a Licensed Producer on March 11, 2016.

#### *7ACRES Completes inaugural B2B transactions*

In September 2017, Supreme completed \$1,519,877 in bulk sales transactions to two licensed producers: Aurora Cannabis Inc. and Emerald Health Therapeutics, Inc. (together, the "**Initial Retail Partners**"). Supreme chose the Initial Retail Partners based on their commitment to excellence, strong track record of quality assurance, and to provide broad exposure of the 7ACRES branded cannabis flowers to over 20,000 Canadian patients. The Initial Retail Partners recognized Supreme as a producer of high quality and higher-end dried cannabis flowers, important third party validation for Supreme's premium focused cultivation strategy.

#### *7ACRES Adds additional retail partners and realizes quarterly increase in revenues*

During the three and nine months ended March 31, 2018, Supreme added multiple retail partners including International Herbs Medical Marijuana Ltd. d/b/a/ Zenabis, Terrascend Corp. d/b/a Solace Health, Puresinse Inc., and Potanicals Green Growers, Inc. Strong bulk sales transactions continued during the three months ended March 31, 2018 resulting in revenues of \$2,023,184, a 24% increase from the previous quarter.

### *Supreme secures multiple supply agreements*

On January 25, 2018, Supreme, through its wholly-owned subsidiary 7ACRES, entered into a definitive supply agreement (the "Agreement") with Cannmart, Inc. ("**Cannmart**") a wholly-owned subsidiary of Namaste Technologies Inc. (CSE: N) (FRA: M5BQ) (OTCMKTS: NXTTF), whereby Cannmart has committed to purchase 1,000 kilograms of premium quality medical cannabis from 7ACRES in 2018, on a take or pay basis. The maximum aggregate value of the definitive supply agreement is estimated to be \$6,000,000 representing validation of Supreme's premium strategy.

On February 26, 2018, Supreme, through its wholly-owned subsidiary 7ACRES, entered into a definitive supply agreement (the "**Supply Agreement**") with BlissCo Cannabis Corp. ("**BlissCo**"). 7ACRES will supply BlissCo with a minimum of 1,000 kilograms of premium quality dried cannabis on a take-or-pay basis over a twelve-month period starting July 1, 2018. The maximum aggregate value of the Supply Agreement is estimated to be \$6,000,000 representing a further validation of Supreme's premium-focused, branded wholesale B2B model.

### *Supreme completes strategic investments*

On February 26, 2018, Supreme completed a \$3,000,000 strategic equity investment in BlissCo, a Licensed Producer located in Vancouver, British Columbia traded on the Canadian Securities Exchange under the symbol BLIS. The investment is comprised of 10,000,000 common shares of BlissCo and 10,000,000 common share purchase warrants. The common share purchase warrants are exercisable until February 23, 2020 at \$0.60 per common share.

On March 20, 2018, Supreme completed an approximate \$10,000,000 strategic equity investment in Medigrow. Upon completion of the investment, Supreme held an approximate 10% ownership interest in Medigrow. Concurrent with the strategic equity investment, Supreme and Medigrow have agreed to enter into a long-term global distribution strategic alliance for medical cannabis oil (as defined in the ACMPR). The cannabis oil will be produced by Medigrow in Lesotho. Subject to all government and international regulatory approvals, the oil will be exported to Canada and other international markets.

### *Strengthening of Management Team*

In January 2018, Ms. Sony Gokhale, BBA, LLB, was appointed as the Company's General Counsel. Ms. Gokhale was most recently a senior member of the Commercial and Technology group at Osler, Hoskin & Harcourt, LLP in Toronto, Ontario. Ms. Gokhale's practice included advising on general corporate and commercial matters with a focus on assisting regulated and non-regulated companies with the launch of new products and services in the Canadian and international markets. Additionally, Ms. Gokhale has provided ongoing advice to leading Canadian and international companies on strategic commercial contracting issues.

In February 2018, Mr. Chander Batra, MBA, MSc, was appointed as the Company's Chief Information Officer. Mr. Batra was most recently global head of Information Services at Apotex Pharmachem Inc. where he was responsible for the strategic alignment of business and IT, IT transformation, technology strategy and global program management for delivering enterprise resource planning and other enterprise applications. Previously Mr. Batra led McCain Foods Ltd.'s global IT systems development, providing solutions for ecommerce, supply chain optimization, enterprise resource planning revitalization and business intelligence.

### *7ACRES Completes Construction of three 10,000 sq. ft. flowering rooms and receives Health Canada cultivation approval*

In the period, 7ACRES completed construction of three new flowering rooms. Each room represents 10,000 sq. ft. of gross flowering area and the next step in the development of the 7ACRES cultivation platform. The new flowering

rooms were designed to improve the quality and consistency of the 7ACRES cannabis flowers based on operational data collected since 7ACRES became a licensed producer in March 2016. Additional investments were made in air and water quality systems to reduce the risk of crop loss and/or crop contamination and improve the working life of the facility. The Company anticipates the additional flowering rooms will boost its annual production capacity to 5,000 kilograms of dried cannabis flowers. On October 23<sup>rd</sup>, 2017, the Company received the necessary approvals from Health Canada to commence cultivation at the recently completed 30,000 sq. ft. flowering rooms. Cultivation of premium cannabis flower began in November 2017 in the new state-of-the-art flowering rooms.

Supreme anticipates construction of all the 7ACRES flowering rooms to be complete by the end of calendar 2018.

#### *7ACRES Purchases adjacent land for Ultra-Premium cannabis facility*

In December 2017, Supreme purchased an approximately six acre property adjacent to the 7ACRES facility in Kincardine, Ontario. Supreme expects to build an indoor cultivation facility ("**Lot 16**") to produce high quality, "California-Style" cannabis for the premium product segment on such property.

Supreme anticipates that Lot 16, once fully operational and subject to licensing by Health Canada, will produce 10,000 kilograms per year of premium "California-Style" indoor cannabis. Supreme intends on using lighting, HVAC and irrigation infrastructure ideally suited to cultivating premium cannabis. Lot 16 is expected to utilize Supreme's proprietary post-harvest processes to produce dried cannabis flower that is slow-dried, artisanal cured and finished by hand. Supreme intends to market the Lot 16 dried cannabis flower as an ultra-premium consumer product and pursue favorable pricing economics with current and future retail partners.

Currently management has not determined the optimal timeline or level of investment for the Lot 16 project.

#### *Settlement of debt*

On January 22, 2018 Supreme completed the conversion of an aggregate principal amount of \$14,665,000 outstanding 10% unsecured convertible debentures due 2019 to 11,280,758 common shares of the Company substantially reducing its debt load.

#### **Subsequent Events**

In April 2018, Mr. Craig Young, BBA, was appointed as Director of Sales. Mr. Young joins Supreme with over 15 years of experience in the beverage alcohol industry. He has held senior roles with both the New Brunswick Liquor Corporation and The Nova Scotia Liquor Corporation. For the past ten years, he was a senior manager for the world's largest publicly traded wine company leading sales efforts across Canada. Mr. Young's appointment significantly strengthens Supreme's expertise and focus on sales to provincial agencies.

In May 2018, Mr. Colin Moore, was appointed to the board of directors of Supreme. Mr. Moore is the former President of Starbucks Coffee Canada and previously held senior management and marketing positions at PepsiCo, KFC and Yum! Brands in the United States and Canada. Under Mr. Moore's leadership at Starbucks, the Canadian business grew from 315 stores to 1,180 retail locations and over \$1 Billion in annual revenue. He also led new brand and business initiatives such as the launch of Starbuck's "Blonde" roast coffee and was instrumental in selling consumers on the "Starbucks experience". Mr. Moore's broad experience in branded consumer facing industries will add a valuable perspective to Supreme's board of directors and its launch of 7ACRES as Canada's leading premium cannabis flower brand for the adult use market. Mr. Moore was granted 300,000 options under the ESOP at an exercise price of \$1.80 exercisable into one common share of the company, subject to certain vesting conditions and the terms and conditions of the ESOP.

## **About 7ACRES, the Facility and 7ACRES Unique Cultivation Methodology**

7ACRES is a Canadian Licensed Producer, focused on cultivating premium dried cannabis flowers on a commercial scale. 7ACRES is a leading Canadian B2B Licensed Producer, a cannabis business model it pioneered in 2016. Currently, 7ACRES operates 40,000 sq. ft. of operational capacity which is expected to have an average output of approximately 5,000 kilograms of dried cannabis per annum in the current fiscal year. The Company does not have any Canadian operations independent of 7ACRES.

The 7ACRES Facility is located in Kincardine, Ontario. It is expected that the Facility, once complete, will span more than 342,000 sq. ft. Management expects the Facility will be able to produce 50,000 kilograms of premium dried cannabis flowers per year once it is able to operate at full capacity. The Facility has been developed to produce premium dried cannabis, at scale. Management believes the Facility is unique in Canada for combining what management believes to be the best aspects of indoor and greenhouse cannabis cultivation. The Facility is intended to combine the science, standardization and quality of indoor cultivation with the benefits of full-spectrum sunlight. The Company expects that the facility will be fully completed in early 2019.

## **Results of Operations for the three and nine months ended March 31, 2018 and 2017**

During the three and nine months ended March 31, 2018, the Company incurred a net comprehensive loss of \$3,367,730 (March 31, 2017: \$3,777,437) and \$7,581,491 (March 31, 2017: \$19,084,288), respectively. The decrease in net comprehensive loss was primarily a result of revenue generated after the Company received sales approval on June 28, 2017, the recognition of a gain on fair value of biological assets, and lower share-based payments, offset by increase in productions costs and operating expenses.

### *Revenue*

During the three and nine months ended March 31, 2018 the Company generated revenues of \$2,069,032 (March 31, 2017: nil) and \$5,309,671 (March 31, 2017: nil), respectively. On June 28, 2017 the Company, through its wholly-owned subsidiary 7ACRES, was granted permission to sell under the ACMPR regime. As a result, commercial sales and execution of the Company's B2B business model have commenced.

The medical cannabis sold during the three and nine months ended March 31, 2018 was subject to rigorous quality assurance tests by the Company and the Company's Retail Partners. All quality assurance test results met or exceeded the requirements set by the Company's Retail Partners. The increase of \$388,391 or 23% in revenues for the three months ended March 31, 2018 as compared to the three months ended December 31, 2017 are due to additional retail partners added in the period. The average selling price per gram of cannabis flower, comprised of premium flower and extract-grade flower, has decreased by 15% during the current period as compared to the three months ended December 31, 2017. The selling price of premium flower has increased by 14% during the period as compared to the three months ended December 31, 2017. The decrease in the average selling price per gram is due to the product mix resulting in more extract-grade flower being sold during the period as compared to the three months ended December 31, 2017.

### *Changes in fair value of biological assets*

In accordance with IFRS, the Company is required to record its biological assets at fair value less cost to sell. At each reporting period, each harvest is adjusted to full fair value less costs to sell based on the actual yield in grams for completed harvests and estimated yield for harvests in progress. Medical cannabis which has been harvested is transferred to inventory at the full fair value less costs to sell. Additional costs incurred after harvest related to processing and other finishing costs are capitalized to inventory until such time that the medical cannabis is ready for sale and recorded as finished inventory.



During the three and nine months ended March 31, 2018, the Company recognized a gain of \$3,281,251 (March 31, 2017: nil) and \$6,286,306 (March 31, 2017: nil), respectively, related to the fair value adjustments of biological assets.

The biological assets as at March 31, 2018, of \$1,826,086 (June 30, 2017: \$459,519) are comprised of 8,622 (June 30, 2017: 2,070) cannabis plants that are estimated to be 55% (June 30, 2017: 43%) complete to harvest. Once harvested, the cannabis plants produced (i.e. medical cannabis) are transferred to inventory. During the nine months ended March 31, 2018, the Company transferred approximately 1,372 kilograms (June 30, 2017: nil) of medical cannabis to inventory.

#### *Cost of finished inventory sold*

Cost of finished inventory sold is the fair value less cost to sell recognized during the biological transformation process related to medical cannabis sold during the period.

During the three and nine months ended March 31, 2018, the Company recognized cost of finished inventory sold of \$1,808,514 (March 31, 2017: nil) and \$2,749,795 (March 31, 2017: nil), respectively, as a result of cannabis sold during the period. During the nine months ended March 31, 2018, a portion of cannabis sold was not recognized as inventory when harvested as a result of the Company's previous accounting policy to expense costs related to cannabis inventory and not recognize the related biological assets as the Company did not have permission to sell cannabis. Under the current policy, which was implemented by the Company after obtaining permission to sell cannabis, the Company would have recognized approximately \$2,157,162 of additional cost of finished inventory sold related to revenue generated during the nine months ended March 31, 2018.

#### *Production costs*

Production costs consist of direct and overhead costs attributable to labour, materials, utilities, supplies, amortization and other expenses required to produce medical cannabis.

During the three and nine months ended March 31, 2018, the Company recognized production costs of \$1,695,135 (March 31, 2017: nil) and \$4,265,876 (March 31, 2017: nil), respectively, consisting of direct and overhead costs attributable to production. For the nine months ended March 31, 2018, production costs include \$1,814,596 of production labour, \$1,609,093 of facility expenses and \$480,182 of amortization expense. Also, included in production costs for the nine months ended March 31, 2018 are \$362,005 of post-harvest cost that were initially capitalized to inventory and subsequently expensed to production costs as cannabis inventory is sold.

#### *Gross profit*

Gross profit, including the impact of fair value changes of biological assets for the three and nine months ended March 31, 2018 was \$1,846,634 (March 31, 2017: nil) and \$4,580,306 (March 31, 2017: nil), respectively. The increase in gross profit is due to the Company being granted permission to sell on June 28, 2017, consequently, the first sales occurred during the nine months ended March 31, 2018. The increase of gross profit by \$949,086 for the three months ended March 31, 2018 as compared to the three months ended December 31, 2017 is due to the increase in fair value changes on growth of biological assets and the increase of revenue related to cannabis sold during the three months ended March 31, 2018.

## *Operating expenses*

During the three and nine months ended March 31, 2018, total operating expenses increased to \$4,611,729 (March 31, 2017: \$1,563,010) and decreased to \$10,752,186 (March 31, 2017: \$16,204,537), respectively. The operating expenses contributing to the overall movement for the period are due to the following:

- For the three months and nine months ended March 31, 2018, the Company's share-based payments expense amounted to \$1,110,460 (March 31, 2017: nil) and \$3,913,845 (March 31, 2017: \$12,208,564). Share based payments were made in correspondence with the Employee Stock Option Plan ("ESOP") and represent incentives to employees and directors for the positive achievements over the past fiscal year and the strengthening of the management team. The ESOP grants are used by management to obtain and retain key executives, employees and directors. The decrease in share-based payment expense for the nine months ended March 31, 2018 as compared to March 31, 2017 is due to a decrease in the total amount of incentive options issued to employees during the period and the increase in the vesting period of incentive options issued resulting in a decrease of the share-based payments expense recognized during the period.
- For the three and nine months ended March 31, 2018, the Company's total wages and benefits expense increased to \$1,611,370 (March 31, 2017: \$871,732) and \$3,278,033 (March 31, 2017: \$1,987,021), respectively. Wages and benefits expense are net of \$1,814,596 (March 31, 2017: nil) of wages and benefits expenses that have been recorded as production costs during the nine months ended March 31, 2018. The total increase in wages and benefits expense for the nine months ended March 31, 2018, including amounts recorded as production costs, are due primarily to the additions to the management team and the increased staffing requirements at 7ACRES as a result of the increased cannabis cultivation efforts at the Company's Facility.
- For the three and nine months ended March 31, 2018, the Company's total rent and facilities expense increased to \$723,460 (March 31, 2017: \$318,917) and \$1,054,533 (March 31, 2017: \$753,880), respectively. Rent and facilities expense are net of \$1,609,093 (March 31, 2017: nil) of rent and facilities expenses that have been recorded as production costs during the nine months ended March 31, 2018. The total increase in rent and facilities expense for the nine months ended March 31, 2018, including amounts recorded as production costs, is due to the increase in the number of employees requiring more office space and the expansion of the Company's Facility requiring more utilities, security and other related occupancy costs.
- For the three and nine months ended March 31, 2018, the Company's total professional fees expense increased to \$433,698 (March 31, 2017: \$65,268) and \$784,621 (March 31, 2017: \$332,526), respectively. Professional fees expenses increased due to additional legal costs related to reviews of potential domestic and international business relationships as well as TSX.V listing fees and recent investments made in new business partners.
- For the three and nine months ended March 31, 2018, the Company's total sales, marketing and business development expense increased to \$379,311 (March 31, 2017: \$93,828) and \$794,977 (March 31, 2017: \$357,464), respectively. The marketing expense increased due to sales, marketing and business development related travel expenses and additional brand development expenses in preparation for the legalization of recreational cannabis in Canada.
- For the three and nine months ended March 31, 2018, the Company's total general and administrative expense increased to \$273,435 (March 31, 2017: \$92,830) and \$752,274 (March 31, 2017: \$238,779), respectively. The general and administrative expense increased due to the additional information technology, training and other general expenses as a result of the increased number of employees and the expansion of the Facility.

### *Construction of the 7ACRES Facility*

For the three and nine months ended March 31, 2018, the Company's total capitalized expenditure related to the Facility increased to \$18,259,680 (March 31, 2017: \$2,114,380) and \$46,595,273 (March 31, 2017: \$5,003,022). For the nine months ended March 31, 2018, the capitalized expenditures include \$3,743,779 (March 31, 2017: \$467,593) of borrowing costs directly attributable to the construction of the Facility. The increase in capitalized expenditure is a result of accelerated construction efforts aimed at the rapid expansion of the Facility including the three newly licensed growing rooms.

The weighted average number of common shares, basic and diluted, outstanding for the three and nine months ended March 31, 2018 is 245,669,261 (March 31, 2017: 120,388,934) and 213,823,139 (March 31, 2017: 162,735,648), respectively.

### **Selected Annual Information**

	<b>Year Ended June 30, 2017 (Audited) \$</b>	<b>Year Ended June 30, 2016 (Audited) \$</b>	<b>Year Ended June 30, 2015 (Audited) \$</b>
Revenue	Nil	Nil	Nil
Net loss before taxes	18,332,089	4,386,787	5,792,430
Net loss after taxes	15,267,175	4,386,787	5,792,430
Net comprehensive loss after taxes	14,422,540	4,386,787	5,792,430
Basic and diluted loss per share	0.09	0.05	0.08
Total assets	95,903,338	24,284,266	18,434,863
Total long-term liabilities	31,705,456	536,700	809,555
Dividends declared per share	Nil	Nil	Nil

During the years ended June 30, 2015, 2016 and 2017, the Company did not generate revenues as its license to sell cannabis was granted on June 28, 2017. The decrease in net loss after tax from the year ended June 30, 2015 to June 30, 2016 is mainly due to a decrease in share based payments and consulting fees offset by an increase in wages. The increase in net loss after tax from the year ended June 30, 2016 to June 30, 2017 is mainly due to an increase in share based payments and other operating expenses offset by deferred tax recovery.

Total assets increased each year ended June 30, 2015, 2016 and 2017. The increase in assets is mainly due to the increase of cash and property, plant and equipment as the Company raised funds and began the construction of the Facility.

The decrease in long term liabilities from the year ended June 30, 2015 to June 30, 2016 is mainly due to the conversion of convertible debt to common shares of the Company. The increase in long term liabilities from the year ended June 30, 2016 to June 30, 2017 is due to the issuance of convertible debentures in December 2016.

## Interim MD&A – Quarterly Highlights

The following table sets out selected quarterly information for the last 8 completed fiscal quarters of the Company:

	Mar 31 2018	Dec 31 2017	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016
Net Sales/ Revenue	\$2,069,032	\$1,680,641	\$1,599,998	Nil	Nil	Nil	Nil	Nil
Net Income (Loss) after tax	\$(3,367,730)	\$(2,034,615)	\$(2,179,146)	\$3,817,113	\$(3,777,437)	\$(12,104,805)	\$(3,202,046)	\$(1,300,457)
Basic and diluted Earnings (Loss) per share	\$(0.01)	\$(0.01)	\$(0.01)	\$0.04	\$(0.03)	\$(0.08)	\$(0.02)	\$(0.02)

The quarterly variations in operating results have been discussed above in *Results of Operations for the three and nine months ended March 31, 2018 and 2017*. The Company's results of operations are not exposed to seasonal variations.

## Liquidity

As at March 31, 2018, the Company has working capital surplus of \$75,911,920 (June 30, 2017: \$54,195,849).

Cash used in operating activities during the nine months ended March 31, 2018 is \$2,820,067 (March 31, 2017: \$3,306,343). The cash outflows from operating activities mainly relates to non-cash expenses and gains of \$2,125,625, cash inflows from working capital changes of \$2,635,799 and a loss for the period of \$7,581,491.

Cash used in investing activities during the nine months ended March 31, 2018 is \$57,143,849 (March 31, 2017: \$7,303,023). The increase in cash used for investing activities is mainly related to investments made to the Facility to increase capacity, develop proprietary designs and increase ultimate efficiency and investments made in BlissCo and Medigrow. Some of the Company's investments are not traded on active markets which may negatively impact the liquidity of these investments.

Cash provided from financing activities during the nine months ended March 31, 2018 is \$80,779,274 (March 31, 2017: \$74,160,153). The cash inflows from financing activities are due to proceeds from the private placement of 8% Convertible Debentures and warrant and option exercises.

## Capital Resources and Liquidity Risk

The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion. As at March 31, 2018 the Company had a cash balance of \$78,496,912 and current liabilities of \$12,778,276. The Company's current resources are sufficient to settle its current liabilities. Management believes the current resources available will provide for a substantial expansion of the Facility, barring any unforeseen delays or complications. All of the Company's liabilities are due within 12 months, except for a

portion of its convertible debt, which is due November 14, 2019. Subsequent to March 31, 2018, \$100,000 of the convertible debt was converted into 62,500 common shares.

The Company believes, that after the substantial completion of the Facility, positive operating cash flows will be generated. Should additional capital requirements or the replacement of debt be necessary, the Company expects it could satisfy these requirements through debt restructurings, capital raises or asset sales. However, the outcome of these matters cannot be predicted with certainty at this time.

## **Related Party Transactions**

As at March 31, 2018, a total of \$1,085,000 of convertible debentures were held by related parties. \$1,000,000 was held by Michael La Brier (Chairman), \$50,000 was held by John Fowler (CEO), and \$35,000 was held by Navdeep Dhaliwal (President). The convertible debentures issued to related parties are at arm's length terms and generate 8% interest with payments due December 31, 2018, June 30, 2019 and November 14, 2019. The interest payment due to related parties as at March 31, 2018 is \$33,032.

## **Risks and Uncertainties**

### **Overview**

Commercial medical cannabis production is a new industry in Canada and relies on, among other things, obtaining and maintaining regulatory approvals. As a result, there is a high degree of risk associated with the Company's business. There is a significant risk that the expenditures made by the Company in developing its medical cannabis business, specifically the 7ACRES business, will not result in profitable operations.

There are a number of risk factors that could cause future results to differ materially from those described herein. The following sets out the principal risks faced by the Company. Additional risks and uncertainties, including those that the Company does not know about or that it currently deems immaterial, could also adversely affect the Company's business and results of operations.

**Key Personnel Risks.** The Company's efforts are dependent to a large degree on the skills and experience of certain of its key personnel, including the executive team and the board of directors. The Company does not maintain "key man" insurance policies on these individuals. Should the availability of these persons' skills and experience be in any way reduced or curtailed, due to departure or other reasons, this could have a material adverse outcome on the Company and its securities.

**Low Quality Cannabis Risk.** Supreme currently operates in an early stage market which has a small representation of Canadian cannabis consumers. Should the Company be unable to grow a quality product demanded by the consumers, this could have a material impact on the Company's revenues and average price per gram.

**Licensing Risk.** 7ACRES business is dependent on maintaining its status as a Licensed Producer (as defined in the ACMPR). Although 7ACRES was successful in obtaining the status of a License Producer and seller, there is no guarantee that 7ACRES will retain such status as licensing is beyond the control of Supreme and/or 7ACRES and the sole discretion lies with Health Canada. The Company's current License is valid until the third quarter of fiscal 2019, and licenses may only be granted for a maximum of 3 years thereby requiring frequent and continuing approval by Health Canada. Supreme and 7ACRES must strictly adhere to the regulations and applicable law in order to maintain the License and to secure necessary renewals. There can be no guarantee that Health Canada will extend or renew the License. Failure to comply with the requirements of the License or any failure to maintain its License would have a material adverse impact on the business, financial condition and operating results of the Company.

**Regulatory Risks.** Supreme operates in a new industry which is highly regulated and is in a market which is very competitive and evolving rapidly. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. 7ACRES ability to grow, store and sell medical cannabis in Canada is dependent on the License from Health Canada and the need to maintain the License in good standing. Failure to comply with the requirements of the License or any failure to maintain this License would have a material adverse impact on the business, financial condition and operating results of Supreme.

Supreme 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 in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Supreme'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.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Supreme's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce Supreme's earnings and could make future capital investments or Supreme's operations uneconomic. The industry is also subject to numerous legal challenges which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

Supreme's business as a Licensed Producer under the ACMPR represents a new industry and new market resulting from the ACMPR and its regulated regime. In addition to being subject to general business risks and to risks inherent in the nature of an early stage business, a business involving an agricultural product and a regulated consumer product, Supreme will need to continue to build brand awareness in the industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote the Supreme brand and products as effectively as intended. This new market and industry into which management is entering will have competitive conditions, consumer tastes, patient requirements and unique circumstances, and spending patterns that may differ from existing markets.

**Change in Laws, Regulations and Guidelines.** Supreme's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, sale and disposal of medical cannabis as well as laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of Supreme's management, Supreme is currently in compliance with all such laws, regulations and guidelines, changes to such laws, regulations and guidelines due to matters beyond the control of Supreme may have an adverse effect on Supreme's operations and the financial condition of Supreme.

On March 21, 2014, the Federal Court of Canada issued an interim order affecting the repeal of the MMAR and the application of certain portions of the MMPR which are inconsistent with the MMAR in response to a motion brought by four individuals in *Allard v. Canada*, 2016 FCC 26 ("**Allard**"). Prior to the trial, the Federal Court of Canada ordered injunctive relief (the "**Federal Court Injunction**") in favour of certain individuals licensed to use medical cannabis pursuant to the MMAR. As a result, (i) individuals who held a license to possess cannabis under the MMAR on March 21, 2014 can continue to possess cannabis in accordance with the terms of that license, except that the maximum quantity of dried cannabis authorized for possession shall be the lesser of that which is specified by their license or 150 grams; and (ii) individuals who held a valid license to produce cannabis under the MMAR as of September 30, 2013, or were issued one thereafter may continue to produce medical cannabis in accordance with the terms of that license. Individuals covered by the Federal Court Injunction who wish to change the terms of their license, such as a change in address or designated producer, will be able to do so by registering with Health Canada under the new regulations, the ACMPR.

On June 11, 2015, the Supreme Court of Canada, in a case titled *R v. Smith*, held that the restriction on the use of non-dried forms of cannabis for medical cannabis users violates the right to liberty and security of individuals in a manner that is arbitrary and not in keeping with the principles of fundamental justice. As a result, the Supreme Court of Canada declared Sections 4(1) and 5(2) of the CDSA, which prohibit the possession and trafficking of non-dried forms of cannabis, are of no force and effect to the extent that they prohibit a person with medical authorization from possessing cannabis other than dried cannabis. This ruling means medical cannabis patients authorized to possess and use medical cannabis are not limited to using dried forms of cannabis and may consume forms of cannabis other than just dried cannabis for medical purposes. On July 8, 2015 Health Canada issued certain exemptions under the CDSA, permitting Licensed Producers to produce and sell cannabis oil and fresh cannabis buds and leaves, in addition to dried cannabis (note that this exemption does not permit Licensed Producers to sell plant material that can be used to propagate cannabis).

The Federal Court's decision in *Allard* was delivered on February 24, 2016. In the decision, the Federal Court declared the MMPR invalid as it unconstitutionally violated patients' Charter protected rights to liberty and security. However, the Court suspended the operation of the declaration of invalidity for six months to permit Canada to enact a Charter-compliant regime. The government chose not to appeal the decision to the Federal Court of Appeal. On August 24, 2016, the ACMPR replaced the MMPR. The ACMPR is Canada's response to the Federal Court of Canada's February 2016 decision in *Allard*.

Overall, the ACMPR contain four parts:

- Part 1 is similar to the framework under the MMPR. It sets out a framework for commercial production by Licensed Producers responsible for the production and distribution of quality-controlled fresh or dried marijuana or cannabis oil or starting materials (i.e., marijuana seeds and plants) in secure and sanitary conditions.
- Part 2 is similar to the former MMAR regime. It sets out provisions for individuals to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce it for them.
- Parts 3 and 4 include:
  - Transitional provisions, which mainly relate to the continuation of MMPR activities by Licensed Producers;
  - Consequential amendments to other regulations that referenced the MMPR (i.e., *Narcotic Control Regulations, New Classes of Practitioners Regulations*) to update definitions and broaden the scope of products beyond dried marijuana; and
  - Provisions repealing the MMPR and setting out the coming into force of the ACMPR on August 24, 2016.

As of August 24, 2016, Health Canada commenced accepting applications from individuals who wish to register to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce cannabis for them. Individuals who were previously authorized to possess and produce cannabis under the MMAR remain authorized to do so by virtue of a Federal Court Injunction order.

Under the ACMPR, Health Canada will continue to accept and process applications to become a Licensed Producer that were submitted under the former MMPR. Further, all Licenses and security clearances granted under the MMPR will continue under the ACMPR, which means that Licensed Producers can continue to register and supply clients with cannabis for medical purposes. New applicants can continue to apply for Licenses to produce under the ACMPR.

This evolving legal regime presents a risk to Supreme in that legislators or the court may adopt changes that would have a negative impact on the business, financial condition or results of operations of Supreme. For example, judicial rulings or legislative changes that allow those without existing licenses to possess and/or grow medical cannabis, allow others to opt out of the regulated supply system implemented through the ACMPR by growing their own medical cannabis, or legitimize illegal areas surrounding cannabis dispensaries, could significantly reduce the addressable market for Supreme's products and could materially and adversely affect the business, financial condition and results of operations for Supreme.

While the potential impact of any of such changes is highly uncertain and fact dependent, it is not expected that any such changes would have an effect on Supreme's operations that is materially different than the effect on similar-sized companies in the same business as Supreme.

In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Supreme's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce Supreme's earnings and could make future capital investments or Supreme's operations uneconomic.

**Market Risks.** Supreme's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change, both in short-term and long-term horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome on the Company and its securities.

**Commodity Price Risks.** Cannabis is a developing market and likely subject to volatile and possibly declining prices year over year as a result of increased competition. Because medical cannabis is a newly commercialized and regulated industry, historical price data is either not available or not predictive of future price levels. There may be downward pressure on the average price for medical cannabis and Supreme has arranged its proposed business accordingly. However, there can be no assurance that price volatility will be favorable to Supreme or in line with expectations. Pricing will depend on general factors including, but not limited to, the number of licenses granted by Health Canada and the supply such licensees are able to generate and the number of patients who gain physician approval to purchase medical cannabis. An adverse change in the cannabis prices, or in investors' beliefs about trends in those prices, could have a material adverse outcome on the Company and its securities.

**Financing Risks.** Entering the ACMPR regulated medical cannabis marketplace requires a substantial outlay of capital. There can be no assurance that the capital markets will remain favorable in the future, and/or that the Company will be able to raise the financing needed to continue its business at favorable terms, or at all. Restrictions on the Company's ability to raise financing could have a material adverse outcome on the Company and its securities.

**Expansion of Facility.** Expansion of the Facility is subject to Health Canada regulatory approvals. The delay or denial of such approvals may have a material adverse impact on the business and may result in Supreme not meeting anticipated or future demand when it arises.

**Reliance on a Single Location.** Supreme's current and future production is expected to take place at the Facility in Kincardine, Ontario. Adverse changes or developments affecting the Facility could have a material adverse effect on Supreme's ability to continue producing medical cannabis, its financial condition and prospects.

**Risks Inherent in an Agriculture Business.** Supreme's business involves the growing of medical cannabis, which is an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as pests, plant diseases, crop failure and similar agricultural risks. Although Supreme grows its products indoors under



climate controlled conditions, and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the volume, quality and consistency of its products.

**Brand Perception.** Supreme is targeting making 7ACRES a premium cannabis producer that is recognized as such by retailers and consumers. Any negative changes to 7ACRES' brand as a quality cannabis producer could have a material adverse effect on Supreme's sales, profitability and financial condition.

**Share Price Volatility and Price Fluctuations.** In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market prices of securities of many corporations have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regards to the share price of the medical cannabis companies that are public issuers in Canada.

**Competition.** On October 19, 2015, the Liberal Party of Canada (the "Liberal Party") obtained a majority government in Canada. The Liberal Party has committed to the legalization of recreational cannabis in Canada, and in April 2017 introduced Bill C-45, the Cannabis Act. The Government of Canada has announced an intended implementation date for the Cannabis Act of September 2018. However, as it is still being reviewed and debated, it is possible this regulatory change may not be implemented by such date or at all. The introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that Supreme will face intense competition from other companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing experience than Supreme. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of Supreme.

The government has only issued to date a limited number of licenses, under the MMPR/ACMPR, to produce and sell medical cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. According to Health Canada there were 104 Licensed Producers as of May 11, 2018. If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

**Intellectual Property.** The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products and technology. Policing the unauthorized use of the Company's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, injunctions, temporary restraining orders and/or require the payment of damages.

As well, the Company may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. Such licenses, however, may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

**Environmental and Other Regulatory Requirements.** The current or future operations of the Company, including development activities and production within the Facility, may require permits from various governmental authorities and such operations are and may be subject to laws and regulations governing disposal, growing, storage, transportation, record keeping, sales and similar activities. Companies engaged in the medical cannabis business need to comply with numerous laws, regulations and permits. There can be no assurance that the Company will be able to obtain or maintain all approvals and permits that may be required to develop or operate the Facility on terms which enable operations to be conducted at economically justifiable costs.

Environmental regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. Such regulations also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which may 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.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, potentially 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. Parties engaged in medical cannabis operations may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

**Product Liability.** As a distributor of products designed to be ingested by humans, Supreme 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 sale of Supreme's products involves 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 Supreme's products alone or in combination with other medications or substances could occur. Supreme may be subject to various product liability claims, including, among others, that Supreme's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Supreme could result in increased costs, could adversely affect Supreme's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of Supreme.

**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 labelling disclosure. If any of Supreme's products are recalled due to an alleged product defect or for any other reason, Supreme could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Supreme may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all.

**Results of Future Clinical Research.** Research regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Future research studies and clinical trials may reach negative conclusions regarding the medical benefits, viability, safety,

efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

**Litigation.** The Company may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of its securities and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand.

**Uncertain tax burden.** Tax regimes, including excise taxes and sales taxes, can disproportionately affect the price of our products, or disproportionately affect the relative price of our products versus other cannabis products. Because our products are targeted at the premium cannabis market, tax regimes based on sales price can place us at a competitive disadvantage in certain price-sensitive markets. As a result, our volume and profitability may be adversely affected in these markets.

**History of Net Losses; Accumulated Deficit; Revenue from Operations.** The Company has incurred net losses to date and the Company may continue to incur losses. There is no certainty that the Company will continue to produce revenue or operate profitably in the future. There is also no certainty that the Company will provide a return on investment in the future.

**Breaches of security.** Given the nature of the Company's product and the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

**Uninsurable risks.** The Company may become subject to liability for pollution, fire and explosion, against which it cannot insure or against which it may elect not to insure. Such events could result in substantial damage to property and personal injury. The payment of any such liabilities may have a material, adverse effect on the Company's financial position.

**Financial Performance of Subsidiary.** Supreme is a holding company that conducts its business through 7ACRES which generates substantially all revenues. As a result, our financial performance and ability to meet financial obligations is dependent on the operating results and revenues of 7ACRES, and the distribution of those earnings to Supreme. In the event of a liquidation or bankruptcy of 7ACRES, lenders and trade creditors will generally be entitled to payment of their claims from the assets of 7ACRES before any assets are made available for distribution to Supreme.

## **Financial Instruments & Other Instruments**

The Company's financial instruments consist of cash, receivables, investments, accounts payable and accrued liabilities and convertible debt. The fair values of cash, receivables, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term to maturity. The Company classifies its cash as fair value through profit and loss ("FVTPL"), accounts receivable as loan and receivables, investments as available for sale or FVTPL and accounts payable and accrued liabilities and convertible debt as other financial liabilities. The fair value of cash is based on Level 1 inputs of the IFRS fair value hierarchy.

The FVTPL investment in common shares is considered Level 1 categorization in the IFRS fair value hierarchy as a quoted price in an active market exist. The FVTPL investment in common share purchase warrants that are not

traded on active markets is considered Level 2 categorization in the IFRS fair value hierarchy as fair value is determined by observable inputs such as volatility, discount rates and the underlying stock price for the common shares.

The available for sale investment is considered Level 3 categorization in the IFRS fair value hierarchy as it is a security without a quoted value. If Level 2 inputs are available, such as implied valuations from follow-on financing rounds, third party sale negotiations, or market-based approaches, fair value is considered determinable. In cases where fair value is not reasonably determinable, cost may be the best estimate of fair value.

For the three and nine months ended March 31, 2018, the Company has recognized an unrealized gain from investments of \$1,940,900 (2017: nil) due to the changes in fair value. The unrealized gain was determined using Level 1 and Level 2 inputs.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

### **Investor Relations**

On September 28, 2017, the Company entered into a contract with Bayfield Strategy Inc. to provide comprehensive investor and public relations services.

### **Critical Accounting Estimates**

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statements of financial position date, could result in a material adjustment to the carry amounts of assets or liabilities. In the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

i) Share-based compensation:

The inputs used to assess the fair value of share based payments in the consolidated statements of comprehensive loss and the inputs associated with the initial and subsequent valuation of options in the consolidated statement of equity. Key estimates and assumptions include; the rate of forfeitures of options granted, the expected life of the option, the volatility of the value of the Company's common shares and the risk-free interest rate.

ii) Income taxes:

The inputs used in assessing the recoverability of deferred tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income.

iii) Convertible debt:

The bifurcation of the convertible debt into liability and equity components and the determination of a market rate of interest.

iv) Intangible assets and impairment of long lived assets:

Judgement involved in determining whether an intangible asset's useful life is finite or indefinite.

The inputs used in assessing the potential impairment of indefinite life intangibles, key estimates include; determination of Cash Generating Units, future cash flows and discount rates.

v) Estimated useful life and amortization of property, plant and equipment:

Amortization of property, plant and equipment is dependent upon estimates of useful lives. The Company uses a combination of straight line and declining balance methods of amortization. Assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account key estimates such as economic and market conditions and the useful lives of assets.

vi) Valuation of biological assets:

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to sell. The Company initially values its cannabis plants as biological assets approximately 30 days into the growing stage. Growing time for a full harvest approximates 100 days. The company values biological assets by multiplying the expected yield, in grams, from each harvest by the selling price expected to be achieved by the Company. The value of biological assets is then reduced by the percentage of completion of the harvest and the estimated post-harvest costs. Determination of the fair values of biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

i. Selling prices – selling prices are based on the Company's actual historical average selling price per gram for the preceding nine months

ii. Post-harvest costs – the costs are based on actual costs incurred by processing, packaging and quality assurance activities incurred in the period, including overhead allocations for these activities

iii. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest

iv. Expected yield – the expected yield per plant is based on the Company's actual historical average yield per plant

As at March 31, 2018, the Company expects that a \$1 increase or decrease in the wholesale market price per gram of dried cannabis would increase or decrease the fair value of biological assets by \$570,254 (2017: nil). A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by \$91,304 (2017: nil). Additionally, an

increase or decrease of 10% in the post-harvest costs would increase or decrease the fair value of biological assets by \$87,444 (2017: nil).

vii) Inventory:

Inventories consist of dried cannabis that is complete and available for sale. Supplies and other inventory consists of consumables for use in the transformation of biological assets and other inventory used in production. Work-in-progress includes cannabis, after harvest, in the processing stage.

Cannabis is measured and weighted at throughout its life and at different stages of completion. Due to its biological nature, cannabis can lose weight due to loss of moisture. The Company estimates the amount of weight loss when accounting for the actual finished product available for sale.

### **New Accounting Standards and Interpretations Not Yet Adopted**

Standards issued but not yet effective up to the date of issuance of the Company's Financial Statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company is currently assessing the impact of the standards.

- IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 15, 'Revenue from Contracts and Customers' - effective for annual periods beginning on or after January 1, 2018. The IASB will replace IAS 18, Revenue, IAS 11, Construction contracts, and related interpretations on revenue with IFRS 15. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.
- IFRS 16, 'Leases' - effective for annual periods beginning on or after January 1, 2019, adoption of IFRS 16 will result in substantially all lessee leases being recorded on the balance sheet as an asset with a corresponding liability with both current and long-term portions.

### **Other MD&A Requirements**

As specified by National Instrument 51-102, the Company advises readers of this MD&A that important additional information about the Company, including the Company's annual information form, is available on the SEDAR website – [www.sedar.com](http://www.sedar.com).

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company.

### **Outstanding Share Data**

The authorized capital of the Company consists of an unlimited number of common shares without par value, 10,000,000 Class "A" preference shares with a par value of \$10 each and 10,000,000 Class "B" preference shares with a par value of \$50 each. The Company had 253,816,013 common shares issued and outstanding as at May 18, 2018.

The following table sets out the number of stock options granted and outstanding as at May 18, 2018.

<b>Exercise price</b>	<b>Number of options</b>	<b>Expiry date</b>
\$0.25	50,000	May 5, 2019
\$0.41	800,000	October 14, 2019
\$0.50	1,110,000	January 10, 2021
\$0.75	800,000	April 25, 2021
\$0.75	3,808,783	August 29, 2021
\$1.45	2,935,000	September 25, 2022
\$2.00	7,000,000	December 15, 2026
\$3.05	500,000	January 5, 2023
\$2.05	200,000	March 5, 2023
\$1.80	7,000,000	March 29, 2028
\$1.80	300,000	May 15, 2023
<b>Total</b>	<b>24,503,783</b>	

The following table sets out the number of share purchase warrants issued and outstanding as at May 18, 2018.

<b>Exercise price</b>	<b>Number of Warrants</b>	<b>Expiry date</b>
\$0.50	7,979,557	June 20, 2019
\$0.32	4,979,321	April 23, 2020
\$0.55	2,611,763	July 27, 2018
\$0.50	869,593	July 15, 2019
\$0.50	16,941,686	August 30, 2019
\$1.70	20,980,999	December 13, 2019
\$1.80	12,566,950	November 14, 2020
<b>Total</b>	<b>66,929,869</b>	