

## BIOME GROW INC.

("Biome" or the "Company")  
Nine Months Ended September 30, 2019

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### 1. Date of Report: November 25, 2019

*The following management's discussion and analysis ("MD&A") has been prepared as of November 25, 2019 and should be read in conjunction with the condensed consolidated interim financial statements and accompanying notes for the period ended September 30, 2019, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated.*

*This MD&A includes certain statements that may be deemed "forward-looking statements". Such statements include, but are not limited to, statements regarding the expected performance of the Company's business and operations; the Company's expectations regarding revenues, expenses and anticipated cash needs and the ability to secure such cash needs in a timely manner and on terms acceptable to the Company; the intention to grow the Company's business and operations and the timing associated therewith; the expectation of an increase in product demand in the various selling jurisdictions and the timing associated therewith and the ability of the Company to satisfy such demand. Such statements include, but are not limited to, statements with respect to expectations, projections, or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our expectation with respect to our expansion projects.*

*Often, but not always, forward-looking statements and information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "aims", "anticipates", "will", "projects", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events, results or conditions "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements, by their very nature, are subject to numerous risks and uncertainties, some of which are beyond the Company's control, and are not guarantees of future performance. Forward-looking statements and information are based on the opinions and estimates of management at the date the statements are made, as well as a number of assumptions made by, and information currently available to, the Company concerning, among other things, anticipated market demand for cannabis, the availability of additional capital to finance growth and future research and development, anticipated revenue and cash flow from the sale of cannabis products, the Company's ability to obtain necessary governmental permits and approvals in a timely manner and on commercially reasonable terms, access to and availability of components (including personnel) to develop the Company's operations, all of which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and information.*

*These statements are subject to certain risks, assumptions and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include risks related to the Company's limited operating history, general business, economic, competitive, political and social uncertainties, uncertain and volatile equity and capital markets, lack of available capital, future demand for cannabis,*

*lack of market acceptance or demand for the Company's products, the need for significant additional capital, changes in government legislation, environmental risks and hazards, infrastructure and/or operating costs, labor and employment matters, inability to secure necessary permits and approvals on a timely basis or at all, uncertainties involved in interpreting marketing and sales data, defects in the Company's title to its intellectual property, third party infringement claims, cost increases, exchange rate fluctuations, the Company's dependence on key personnel, as well as those factors discussed in the Company's Listing Statement available for review on SEDAR. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.*

*To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. The Company undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events or circumstances.*

## **2. Nature of Business**

Biome Grow Inc. (the "Company") was incorporated under the laws of the Province of Ontario on November 22, 2016. The head office and principal business location of the Company is 1401-480 University Avenue, Toronto, Ontario.

The Company is in the cannabis industry. On May 19, 2017, the Company acquired a 100% interest in Highland Grow Inc. ("Highland Grow") (formerly THC Dispensaries Canada Inc.). Highland Grow obtained a cultivation licence on December 1, 2017, and its authorization to sell cannabis on December 16, 2018. Highland Grow currently cultivates, produces, and distributes cannabis at its Antigonish, Nova Scotia, facility.

## **3. Overall Performance**

The Company began commercial operations in its current business line effective Q1, 2019. Accordingly, management believes that financial comparisons to the prior year period are less useful than quarter over quarter comparisons. Accordingly, the discussion below focuses on the second and third quarters of 2019 and results for the first nine months of 2019.

The Company's core tenet remains providing quality products in a cost-effective manner. Net losses for the period ended September 30, 2019 and 2018 reflect the steady increase in operational activities consistent with a company on a steep growth curve. From an expense perspective, the growth in cultivation-related costs, the hiring and contracting of more experts and experienced personnel, higher levels of business development, and more corporate activity generally all contributed to the growth in operational expenses sequentially. During the period ended September 30, 2019, the Company focused its efforts and operational spending on the following:

- Hiring of senior growing, and management resources;
- Optimizing and increasing production to meet the anticipated increase in product demand;
- Continued expansion of production facilities;
- Product formulations;
- Financing the Company;
- Growing increased market awareness of the Company and its products and approach;
- International expansion and business opportunities; and
- Corporate activities associated with investor relations and public relations

### Third Quarter Highlights:

- Q3 revenues increased to \$1.44MM from \$1.35MM in Q2 and \$340k in Q1.
- Q3 Gross profit increased to approximately \$620k from \$590k in Q2 as both the cultivation and wholesaling business grew.
- The average price per gram sold in Q3 decreased slightly to \$7.49 from \$7.86, reflecting downward pressure in the domestic recreational market.
- During the same period, the average cost to produce a gram of cannabis fell 12% to \$2.03 from \$2.31 in Q2, reflecting better capacity utilization.
- The Company shipped approximately 192 kg of product in Q3, a 12% increase over the 170 kg delivered in Q2. This was driven by the continued growth of our wholesale business and additional sales to provinces with which the Company secured supply agreements in Q2.
- Management continued to actively focus on capital raising to support the Company's business, marketing initiatives, and general working capital.

### 4. Results of Operations

	Q3, 2019		Q2, 2019		% Chg
Revenue	\$	1,441,733	\$	1,347,019	7.0%
Costs of Sales	\$	821,023	\$	752,977	9.0%
Gross Profit	\$	620,710	\$	594,042	4.5%
EBITDA (1)	(\$	1,154,932)	(\$	749,270)	54.1%
Working Capital	(\$	807,342)	\$	1,324,582	-161.0%
Inventory	\$	1,120,211	\$	1,221,701	-8.3%
Biological Assets	\$	49,688	\$	81,031	-38.7%
Cash cost to produce, per gram (2)	\$	2.03	\$	2.31	-12.1%
Average selling price per gram (3)	\$	7.49	\$	7.86	-4.7%

#### Notes:

The Company's "EBITDA", "Cash cost to produce, per gram" and "Average selling price per gram" are Non-GAAP metrics used by management that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management believes these financial metrics may be useful in assessing its operating performance. The calculations required to reconcile these metrics to IFRS measures are described below:

1. Management defines "EBITDA" as Income (Loss) Before Other Items plus Amortization.  
$$\text{EBITDA} = (\$1,217,192) + \$62,260 = (\$1,154,932)$$
2. Management defines "Cash cost to produce, per gram" as the cost of cultivated product sold divided by the grams of cultivated product produced and sold during the period.  
$$\text{Cash cost to produce, per gram} = \$121,656 / 60,060 = \$2.03.$$
3. Management defines "Average selling price per gram" as Revenue in dollars divided by the total number of grams sold during the period.  
$$\text{Average selling price per gram} = \$1,441,733 / 192,516 = \$7.49.$$

## 5. Summary of Quarterly Results

	Q3, 2019 \$	Q2, 2019 \$	Q1, 2019 \$
Net loss	(1,479,152)	(771,058)	(641,829)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)
Cash	121,595	618,634	738,392
Total assets	15,996,793	15,537,112	15,312,676
Total liabilities	3,697,005	1,833,438	910,444

### Three Months ended September 30, 2019 and June 30, 2019

During the third quarter of 2019, the Company incurred a net loss of \$1,479,152 (June 30, 2019 - \$771,058). As at September 30, 2019, the Company had a negative working capital of \$807,342 (June 30, 2019 - \$1,324,582) and an accumulated deficit of \$12,581,567 (June 30, 2019 - \$11,102,416).

Highlights are as follows:

- The Company generated revenues of \$1,441,733 during the third quarter of 2019 compared to \$1,347,019 in Q2, a sequential improvement of 7%. This revenue was driven by the sale of 192,516 grams of cannabis at an average price of \$7.49 per gram. The average cost per gram from cultivation activities in Q3 was \$2.03 while the average cost per gram in the wholesale business was \$5.28 per gram.
- Advertising and promotion decreased to \$144,099 compared to the prior quarter's expense of \$335,052 mainly due to less marketing and promotional spending during the period. Some fees incurred in Q2 included one-time fees related to advertising and marketing.
- Consulting fees were \$123,953, comparable to \$124,045 in Q2.
- The Company incurred office and miscellaneous expenses of \$126,005 compared to last quarter's \$104,814, as some administrative expenses were shifted from operating divisions to head office.
- Production and facility costs were \$171,109 in Q3. This increase was due to timing issues in the recording of production facility-related expenses.
- The Company incurred professional fees of \$349,286 compared to \$98,329 during the prior quarter as there were more legal expenses related to financing activities and the expansion of the business in Q3 compared to Q2.
- The Company incurred salaries and wages of \$774,248 due to operational activities during the period compared to \$624,767 in Q2. The increase is mostly due to timing differences in the periodic issuance of shares for employee compensation and accrual of vacation pay liabilities.
- Utilities expenses for the period were \$23,868 compared to \$13,680 in the previous quarter.

## Nine Months ended September 30, 2019 and 2018

During the nine-month period ended September 30, 2019, the Company incurred a net loss of \$2,892,039. As at September 30, 2019, the Company had negative working capital of \$807,342 and an accumulated deficit of \$12,581,568.

Highlights of the first nine months of 2019:

- The Company generated revenues of \$3,129,326 during the first nine months of 2019. This revenue was driven by the sale of 414,060 grams of cannabis at an average price of \$7.56 per gram.
- The cost of goods sold for the period was \$1,710,151 with gross profit of \$1,419,175.
- Utilities expenses for the period were \$85,167, comparable to \$89,081 in the previous year.
- Advertising and promotion expenses were \$712,595 in the first nine months of 2019. This was related to initial awareness campaigns and is expected to normalize in the quarters ahead.
- During the period ended September 30, 2019, the Company incurred travel expense in the amount of \$39,883, primarily attributable to site visit expenses compared to the prior year of \$13,553.
- The Company incurred transfer fees in the amount of \$15,232, mainly due to exercise of warrants in the period.
- For the period ended September 30, 2019, consulting fees were \$310,914 compared to \$147,795 in the prior-year period. The increase in was primarily caused by an increase in the Company's operational and corporate activities
- The Company incurred \$1,936,983 of wages and benefits expenses (September 30, 2018 – \$634,579) as the business began sales in January of this year.
- During the period, the Company incurred professional fees in the amount of \$508,929 (September 30, 2018 – \$1,232,925) due to a decrease from third-party consulting services, which were needed to begin operations. Professional fees include independent contractors, legal fees and related expenses.
- Office and miscellaneous expenses increased to \$330,202 from \$45,694, as the business began leasing office space in March of this year.

## **6. Summary of Quarterly Results**

The following is a summary of the Company's financial results for the eight most recently completed quarters. As a reminder, the current business operations began in Q1, 2019, so, in management's opinion, prior periods are not directly comparable.

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 30,	December 31,
	2019	2019	2019	2018	2018	2018	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	1,441,733	1,347,019	340,574	-	-	5,310	-	-
Loss before other items:	(1,217,192)	(811,508)	(1,068,130)	(3,158,182)	(1,669,215)	(687,133)	(382,841)	(615,485)
Net Loss and Comprehensive Loss:	(1,479,152)	(771,058)	(641,829)	(6,128,876)	(1,669,215)	(681,823)	(351,013)	(600,139)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.09)	(0.09)	(0.03)	(0.00)	(0.01)

Significant factors and trends that have impacted the Company's results during the years presented above include the following:

- There was a one-time listing expense of \$3,920,923 incurred in the fourth quarter of 2018;

## 7. Liquidity and Capital Resources

As at September 30, 2019, the Company had total assets of \$15,996,793 and a negative working capital of \$807,342.

As at September 30, 2019, the Company had cash of \$121,595 (June 30, 2019 – \$618,634). As at September 30, 2019, the Company had prepaid expenses of \$203,885, inventory of \$1,120,211 and biological assets of \$49,688.

Cash utilized in operating activities during the nine-month period ended September 30, 2019 was \$1,586,658.

During the nine-month period ended September 30, 2019, the Company's capital expenditures were \$1,485,003, primarily for additional property and equipment to expand operations.

At September 30, 2019, share capital was \$22,881,299, comprising 110,719,845 issued and outstanding common shares and 1 special class C share. There was an increase in the share capital for the period ended September 30, 2019 due to the exercise of warrants and shares issued for services.

During the nine-month period ended September 30, 2019, the Company received cash in the amount of \$83,751 from the exercise of warrants.

As at September 30, 2019, the principal amount of \$1,250,000 in the form of an interest-free loan is unsecured and due on demand.

At present, the Company's operations generate small levels of cash inflows and its financial success after September 30, 2019 is dependent on management's ability to continue to obtain sufficient revenue to sustain operations through its development stage.

The Company may not be able to generate sufficient cash flows from its operations in the foreseeable future to support its working capital needs. As a result, the Company will have to rely on funding through future equity and debt issuances to finance ongoing operations and construction. The ability of the Company to raise capital will depend on market conditions and it may not be possible for the Company to raise capital on acceptable terms or at all.

## 8. Share Capital

The following table summarizes the Company's outstanding share capital:

	As at September 30, 2019	As at June 30, 2019	As at March 31, 2019
Common Shares - Basic	110,719,845	110,569,302	110,281,815
Common Shares – Fully diluted	112,676,146	112,546,031	112,546,031
Special Class C Shares	1	1	1
Options to purchase Common Shares (1)	400,000	400,000	400,000
Common Share Purchase Warrants	1,556,301	1,576,716	1,576,716
Common Shares held in escrow	31,640,003	31,602,503	47,460,004

**Note:**

<sup>(1)</sup> The numerical figures provided do not include the options to acquire Common Shares with an aggregate value of \$200,000 pursuant to the Francis MacMaster Employment Agreement (as further described in the Company's Form 2A Listing Statement dated October 10, 2018).

## 9. Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed. The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

## 10. Transactions with Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management includes directors and key officers of the Company, including the President, Chief Executive Officer and Chief Financial Officer. During the period ended September 30, 2019 and 2018, key management compensation consisted of the following:

	Q3, 2019	Q2, 2019	Q1, 2019
	\$	\$	\$
Professional and consulting fees	29,700	29,700	26,592
Salaries and wages	58,333	58,333	28,833
<b>Total</b>	<b>88,033</b>	<b>88,033</b>	<b>55,425</b>

## 11. Changes in Accounting Policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the interim financial statements of the Company as at September 30, 2019. The interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018, and with the Q3, 2019 interim financial statements.

During the period ended September 30, 2019, the Company has changed its accounting policy with respect to biological assets. Prior to this change, the Company expensed any costs related to production of biological assets in the period incurred. The Company now capitalizes production costs related to biological assets and expenses these costs to realized fair value on inventory sold as the inventory is sold. The Company also revised its presentation in the consolidated statement of loss to separate fair value adjustments for both biological assets and inventory sold in the period. The change in the Company's accounting policy had no significant impact on previous the period's net loss.

During the period ended September 30, 2019, the Company adopted the following new or amended accounting standard. The adoption of the following amended accounting standard did not have a significant impact on the Company's consolidated financial statements.

### *IFRS 16 Leases*

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties of a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

## **12. Financial Instruments and Other Instruments**

As at September 30, 2019, the Company's financial instruments consist of cash, accounts receivable, accounts payable and short-term loans.

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2019, the Company had a cash balance of \$121,595 to settle current liabilities \$3,697,005.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness.

### *Fair value*

The carrying value of cash and accounts receivable approximated their fair value because of the relatively short-term nature of these instruments.

### *Interest rate risk*

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

### *Liquidity risk*

The Company's ability to continue as a going concern is dependent on management's ability to raise required capital. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

Financial assets and liabilities measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of accounts receivables, accounts payable and short-term loans approximates fair value due to the short-term nature of the financial instruments. Cash is measured using level 1 inputs of the fair value hierarchy.

## **13. Subsequent Events**

On November 7, 2019, the Company announced that PEI Cannabis has approved the sale of cannabis products supplied by Biome's wholly owned Nova Scotia-based subsidiary, Highland Grow Inc.

On November 25, the company announced that it had closed a \$3 million non-revolving debt financing. The general terms are quarterly interest-only payments at a rate of 10% during the 24-month term with principal repayment due at maturity. The proceeds, which were sourced by an Atlantic Canadian-based lender will primarily be used to support the company's growth in operations at the Highland Grow facility in Antigonish, Nova Scotia.

As part of this transaction, the company will be issuing warrants exercisable for \$1,500,000 worth of common shares of the Company at an exercise price of \$0.28. These warrants expire four years from the closing date.

#### **14. Risk Factors**

The Company is focused on more select market introduction and development. The failure to generate future sales in the Company's main products could have a significant and adverse effect on the Company.

The Company's success will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not anticipate having key person insurance in effect for management. In addition, there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

The Company has incurred a net loss for the nine-month period ended September 30, 2019 of \$2,892,039 and has an accumulated deficit of \$12,581,567. Management is continuing efforts to attract additional equity and debt capital and implement cost control measures to maintain adequate levels of working capital. Nevertheless, there can be no assurance provided with respect to the successful outcome of these ongoing actions. If the Company is unable to obtain additional financing on reasonable terms, the Company may be required to curtail or reduce its operations to continue as a going concern.

In addition, the Company's limited working capital could affect the Company's ability to seize upon opportunities requiring investment, or to reinvest in its products in a timely manner.

For additional risk information, please refer to the Company's Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **15. Additional Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).