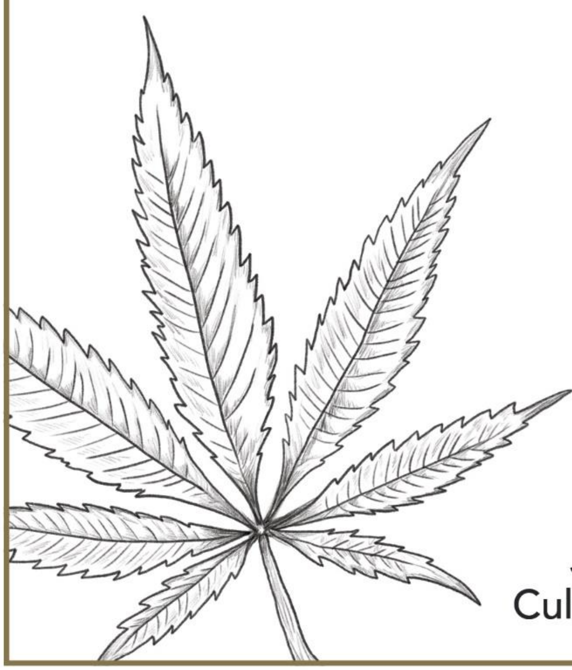
Management Discussion and Analysis

For the year ended
September 30, 2019



James E. Wagner
Cultivation Corporation

MESSAGE FROM THE CEO

Nathan Woodworth

As we close the 2019 fiscal year, I reflect on the progress our industry has seen, and the rapid development with which we have responded at JWC. One year ago, adult-use cannabis was almost legal and JWC was beginning construction on the first phase of our flagship production facility JWC 2. Today, legalisation 2.0 is ushering in a variety of new product forms and drastically expanding the horizons for consumer use. In the time it took Canada to move from the first round of legalisation to the second, we grew our production footprint to nine times its size. And, the promise of the year to come remains just as bright as the progress of the year past.

During Fiscal 2019, we increased our yield per plant dramatically, by over 30%. In August, our production estimate for JWC 2 was revised from 30,000 kg per year to over 35,000 kg per year. Although our yearly average is 247 grams per plant, during 2019 Q3 and Q4 we maintained an average of 260 grams per plant. We continue to develop new technologies and solutions to production issues that will allow us to increase efficiency, decrease cost and drive higher yields of top-quality material.

Increased production means needing to secure additional sales channels. Over the 4th quarter, new relationships with Terrascend Corp. and Heritage Cannabis drove an increase in revenues to match our increase in production. In future quarters, we will increasingly rely on our presence in the adult use market of Canada, and particularly on the Ontario adult use market. As Ontario retail locations develop, JWC will introduce our existing strains of dried flower and continue developing new cultivars. Four new strains were recently added to our medical storefront, with over a dozen more on the way. In addition, we are growing a dozen new strains from seed in order to find the best production cultivars available.

To compliment our wide variety of cultivars, we will be deploying a number of new product forms. We have chosen to focus on traditional value-adding products, such as our unique hash, rosin, and live resin, rather than on expensive-to-produce and relatively untested new formats, such as beverages and edibles. By matching single origin lots of hash and rosin to our unique cultivars, we can now serve our customers better by matching preferred products to preferred consumption method. We believe this valuable market sector will maintain high demand and yet be underserved by many Licensed Producers.

JWC is a family company with deep roots to the local community. For this reason, JWC has chosen to debut general adult consumption in Ontario. We are proud to reside in the Region of Waterloo and look forward to opening our own farmgate retail location, where JWC products can be sold directly to local consumers. Bringing our uniquely curated line of dried flower, in combination with our line of newly developed concentrate products, to this community will be an exciting culmination of years of effort within the cannabis industry.

It will also contribute to the success of JWC. As we continue to refine our techniques of cultivation and increase every metric of excellence within the organization, building relationships with customers will allow us to generate revenue while further developing our craft. As a result, we anticipate being revenue and cashflow positive early in Q2 of 2020.

It will be an exciting year for JWC, a year of growth and achievement, and we look forward to sharing those achievements as they develop!

Introduction

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and related notes of James E. Wagner Cultivation Corporation ("JWC" or the "Company") for the year ended September 30, 2019 which have been prepared in accordance with International Financial Accounting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise noted.

Forward Looking Statements

Certain statements set forth in this document, other than statements of historical fact, may contain certain forward-looking information within the meaning of applicable Canadian securities legislation, and may include future oriented financial information or inferences. Such statements are based on the current expectations and certain assumptions of JWC's management, and the outcome of many of the expectations and assumptions is beyond JWC's control. These statements might be identified by words such as "expect," "look forward to," "anticipate," "intend," "plan," "believe," "seek," "estimate," "will," "project" or words of similar meaning. The Company has prepared this document based on information available to it, including information derived from public sources that has not been independently verified. Such statements contained herein may address but are not limited to, the (i) projected financial performance of JWC, (ii) completion of and the use of proceeds from the raising of capital by JWC, (iii) sources and availability of third-party financing for JWC's ventures, and (iv) completion of JWC's projects that are currently underway, in development or otherwise under consideration. While these forward-looking statements represent management's current judgment as to what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially and should not be viewed as guarantees of future performance. Undue reliance should not be placed on these forward-looking statements. Additional risk factors can be viewed in the "Risk Factors" section of JWC's Annual Information Form ("AIF"). The forward-looking statements contained in this document speak only as of the date of this document, and JWC does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, other than as required under applicable securities legislation.

JWC Timeline

2019

October 2019:
- October 15, 2019: JWC receives approval from Health Canada to produce cannabis in four new flowering rooms – doubling existing cultivation capacity.

May 2019:
- First international shipment of the licensed GrowthSTORM™ System.

March 2019:
- Commence trading on the OTCQX under JWCAF.
- Seven strains move into JWC 2 within 24 hours of acquiring cultivation licence from Health Canada.

February 2019:
- Wellness Farms joins the GrowthSTORM™ family.

2018

December 2018:
- Building permit issued for JWC 2 Phase 2 construction.

November 2018
- Patent applications were filed for the GrowthSTORM™ Dual Droplet™ System.
- JWC cannabis is distributed through Canopy Growth Corporation.
- Occupancy permit issued for JWC 2.

October 2018
- Recreational cannabis is legalized in Canada.

July:
- The City of Kitchener grants a building permit for JWC's second facility – "JWC 2": Phase 1 of 3 JWC implements a cannabis extract program and collaborates with Medipharm Labs Inc. to produce cannabis oils.

June:
- JWC commences trading on the TSX-V under JWCA.

March:
- JWC receives a sales licence amendment and begins selling directly to patients.

2017

January:
- Under ACMPR, JWC receives cultivation license at JWC 1 and utilizes our GrowthSTORM™ technology.

2016

- The Access to Cannabis for Medical Purposes replaces MMPR.
- JWC 1 initial construction is complete.

2014

- JWC applies under the MMPR and moves into its 15,000 square feet pilot facility – "JWC 1".

2012

- The MMAR is replaced by the Marihuana for Medical Purposes Regulations (MMPR) and Licensed Producers emerge.

2008

- Founding member Nathan Woodworth, CEO, granted licence to produce medical cannabis.

2007

- Founding members form a collective under the Marihuana Medical Access Regulations (MMAR).
- R&D of NASA aeroponic cultivation techniques continue.

Selected Financial Information

The selected financial information set out below may not be indicative of the Company's future performance. All amounts are in $CAD unless otherwise noted.

	For the three months ending September 30,		For the twelve months ending September 30,	
	2019	2018	**2019**	2018
Operating Revenues	**$ 1,024,515**	$ 57,612	**$ 2,821,267**	$ 57,612
Other Revenues	**14,638**	116,517	**115,539**	174,013
Operating Expenses	**1,495,276**	2,424,844	**10,077,616**	9,866,095
Loss from Operations	**(2,690,745)**	(2,565,571)	**(8,956,109)**	(9,005,596)
Net Loss	**(3,060,790)**	(2,249,055)	**(9,252,253)**	(10,313,920)
Net Loss per Share	**(0.03)**	(0.03)	**(0.09)**	(0.14)
Weighted Average Shares	**96,281,609**	87,990,346	**96,281,609**	87,990,346

	September 30, 2019	September 30, 2018
Cash and Cash equivalents	**$ 1,266,611**	$ 8,504,790
Short term investments	**-**	6,017,153
Accounts receivable	**1,244,390**	120,255
Inventory	**3,171,016**	1,532,604
Biological assets	**2,855,973**	1,074,829
Non-current assets	**19,057,907**	5,475,701
Accounts payable and Accrued liabilities	**2,824,479**	1,098,212
Other liabilities and Long-term debt	**7,172,475**	3,411,615
Shareholder's Equity	**15,111,888**	19,639,468

Results of Operations

Net loss for the year ended September 30, 2019 was $9,252,253 or $0.10 per share. Cannabis sales for Fiscal 2019 are up 4,797% compared to the Fiscal 2018 cannabis revenue total. Sales include direct to patient sales and a wholesale offtake agreement (summarized in more detail below) with Canopy Growth Corporation ("Canopy Growth") dated August 11, 2017, pursuant to which inclusion in Canopy Growth's Craft Grow store began during the fourth quarter of Fiscal 2018. The Company received its oil sales licence amendment from Health Canada on July 5, 2019. As such, Q4 2019 saw the expansion of sales into the cannabis oil market giving JWC the opportunity to better meet patient needs. During Q3 and Q4 2019, JWC had its largest harvests to date as a result of having received its standard cultivator licence from Health Canada at the end of Q2. Cannabis production will continue to increase as construction phases at JWC's second facility, located at 520 Manitou Drive, Kitchener, ON ("JWC 2") are completed.

Summary of Quarterly Results

The following are selected quarterly results for Company for the previous eight fiscal quarters. All amounts are expressed in thousands of $CAD unless otherwise noted.

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Total Revenue	1,039	751	554	593	171	34	22	5
Loss from operations	(2,691)	(454)	(3,435)	(2,376)	(2,366)	(4,216)	(1,060)	(1,364)
Loss and comprehensive loss	(3,088)	(434)	(3,405)	(2,325)	(2,249)	(4,648)	(1,948)	(1,469)
Basic and diluted loss per share	(0.02)	(0.01)	(0.04)	(0.03)	(0.03)	(0.06)	(0.03)	(0.02)

Operational Analysis - Fiscal 2019 Year to Date

	September 30, 2019	September 30, 2018	$ Increase (Decrease)	% Increase (Decrease)	Operational Analysis
General and Administrative	9,079,832	9,062,133	17,699	(0%)	Amid continued multi-million-dollar facility expansions, JWC maintained general and administrative costs comparable to the prior fiscal year. Prior year comparatives included expenses of approximately $1.8M incurred in connection with listing JWC's shares on the TSX Venture Exchange ("TSXV"). This one-time expense is offset by a larger portion of salary expenses being capitalized against inventory in F19 compared to F18.
Advertising and Promotion	527,891	362,454	165,437	46%	Spending in this category will continue to increase, given JWC's status as a public company. The Company leverages available marketing support to build brand awareness and provide resources to potential investors. During Fiscal 2019, JWC attended multiple cannabis conferences and avidly developed materials that promote brand awareness, capture JWC's ever growing presence in both the national and international cannabis industries and support all initiatives set by management.
Depreciation and Amortization	374,493	243,508	130,985	54%	The Company continues to expand JWC 2, which impacts production furniture and equipment, growth system components and, most significantly, leasehold improvements. These items are capitalized upon purchase and depreciate quarterly.
Stock-based compensation	95,400	198,000	(102,600)	(52%)	In the comparative Fiscal 2018, the completion of JWC's going public transaction resulted in more stock-based compensation opportunities than were offered in Fiscal 2019.
Total Operating Expenses	10,077,616	9,866,095	211,521	2%	The increase in Fiscal 2019 expenses is consistent with the Company's facility expansion initiatives, bringing on additional grow space and increasing employee headcount to support the Company's larger initiatives.

Cost of Goods Sold

Costs of production are accounted for as the inventory of cannabis plants in the pre-harvest stage of production ("Biological Assets"). The value of plants in the pre-harvest stage is carried on the consolidated statement of financial position at fair value less the costs to sell at the specific point in the pre-harvest cycle. Costs of production include all inputs directly contributing to the Biological Assets. Examples of these inputs include utilities, nutrients, testing, any direct materials used, direct labour costs and amortization costs for the equipment and technology used in the pre-harvest period. A corresponding non-cash unrealized fair value change is recognized through the consolidated statement of loss and comprehensive loss, reflecting the changes in fair value of the Biological Assets. All post-harvest inventory sold has been expensed to cost of sales.

The cost of inventories recognized as an expense was $2,184,072 for the year ended September 30, 2019 (September 30, 2018 - $28,873).

Biological Assets

	September 30, 2019	September 30, 2018
Balance, beginning of the period	$ 1,074,829	$ 223,970
Production costs capitalized	4,863,406	1,533,266
Effect of unrealized changes in fair value of biological assets	3,263,795	831,760
Transferred to inventory upon harvest	(6,346,057)	(1,514,167)
Balance, end of period	**2,855,973**	**1,074,829**

The significant assumptions used in determining the fair value of Biological Assets are;

- Market prices in the principal market;
- Expected yields of each type of Biological Asset;
- Percentage of costs incurred at stage of biological transformation compared to the total cost expected to be incurred at the point of harvest including overhead and amortization of capital assets used in the biological transformation process;
- Fair value less cost to sell at point of harvest; and
- Expected rate of plant survival at various stages of biological transformation.

Capital & Liquidity

	September 30, 2019	September 30, 2018
Cash and Cash equivalents	**$ 1,266,611**	$ 8,504,790
Short term investments	-	6,017,153

Short term investments can be exchanged for cash on demand.

JWC is operating in a new market where liquidity is vital to a Company's ability to succeed. JWC has raised capital through both debt and equity and continues to have the ability to raise additional capital through these means. The Trichome Financial Inc. agreement signed on November 6, 2019 is an example of the Company's ability to raise capital when necessary. JWC now has the licensed space to generate positive cash flows. The Company expects sufficient liquidity to allow all commitments to be met, and growth strategies to be achievable.

Investing activities for the year ending September 30, 2019 **$ (8,386,882)**

Investing activities are reflective of ongoing construction at JWC 2 as the Company expands its production capacity. There are 5,550 square feet of cannabis growing space at the initial location, 855 Trillium Drive, Kitchener, ON ("JWC 1"), whereas JWC 2 will have an estimated 280,000 square feet once construction is complete.

Financing activities for the year ending September 30, 2019 **$ 10,620,290**

Financing activities have been in support of ongoing strategic growth initiatives regarding the expansion of JWC 2. Management continues to explore opportunities for future financing, should it be required.

A summary of JWC's private placement financing is noted below:

Date	Common shares	Fair Value Consideration
October 27, 2017	998,469	$ 500,040
December 14, 2017	278,730	$ 149,930
December 28, 2017	1,540,565	$ 1,000,125
April 27, 2018	16,078,447 subscription receipts (and 8,039,223 warrants)	$18,490,214

Refer to the following page for additional private placement information.

Capital & Liquidity (continued)

December 28, 2017 – Private Placement Financing

The contingently-issued shares were previously accounted for as a derivative liability as noted:

If not public by:	Additional share entitlement equal to:
June 1, 2018	10% of common shares held
December 31, 2018	5% of common shares held

April 27, 2018 – Private Placement Financing

Each of the 16,078,447 subscription receipts (the "Subscription Receipts") issued in the April 27, 2018 brokered private placement financing converted automatically on June 7, 2018, into one unit of JWC, with each unit consisting of:

- one common share of the Company (i.e. 16,078,447 common shares); and
- one half of one common share purchase warrant (i.e. 8,039,223 whole warrants), with each whole warrant entitling the holder to purchase one common share of JWC at a price of $1.50 for a period of two years following the closing of the financing.

On closing of the financing, the Company paid the agents compensation in the form of (i) a cash fee of $876,473.36, being equal to six percent (three percent for President's List subscribers) of the gross proceeds of the financing, and (ii) 762,149 broker warrants being equal to six percent of the number of Subscription Receipts sold in connection with the financing. Each compensation option is exercisable for one common share at an exercise price of $1.15 per share for a period of two years, expiring on June 7, 2020.

Stock Options

As of:	Number of stock options	Fair value under Black Scholes model
September 30, 2017	6,739,130	$1,942,900
June 7, 2018	195,305	$ 70,700
August 27, 2018	300,000	$ 198,000
February 26, 2019	150,000	$95,400

Proceeds from the exercise of stock option during the year ended September 30, 2019 were $2,221,267 (year ended September 30, 2018 - $nil)

September 30, 2017 – Stock Options

These stock options were granted to certain executives and employees of JWC. Each stock option was exercisable for one common share at $0.46 for a period of two years. These stock options expired on September 1, 2019. A total of 4,361,065 options were exercised.

July 7, 2018 – Stock Options

These stock options were acquired from AIM1 Ventures Inc. (“AIM1”) as part of the reverse takeover of AIM1 by JWC completed on June 7, 2018 (the “RTO”). The stock options vested immediately and expired on June 7, 2019. All 195,305 stock options were fully exercised prior to their expiry.

August 27, 2018 – Stock Options

There stock options were granted to the external directors on the board of directors of JWC (the “Board of Directors”). Each stock option is exercisable for one common share at $0.78 for a period of five years. These stock options vested immediately and expire on August 27, 2023. As of September 30, 2019, 100,000 stock options have been exercised.

February 26, 2019 – Stock Options

There stock options were granted to the Board of Directors. Each stock option is exercisable for one common share at $0.85 for a period of five years. These stock options vested immediately and expire on February 26, 2024. As of September 30, 2019, 50,000 stock options have been exercised.

Warrants

During the year ended September 30, 2019, the following warrant transactions took place:

Warrants issued to:	Warrants Added	Warrants Vested	Warrants Exercised
Canopy Rivers Corporation	-	-	1,347,826
XiB Consulting Inc.	-	-	2,156,522
AIM1	-	-	80,545
First Canadian Capital	-	225,000	-
Trichome Financial Corp.	291,667	291,667	-
Ball Construction Ltd.	300,000	300,000	-
Capital Market Access, LLC	300,000	-	-
	891,667	816,667	3,584,893

During the year ended September 30, 2018, the following warrant transactions took place;

Warrants issued to:	Warrants Added	Warrants Vested	Warrants Exercised
April 7, 2017 equity raise	-	-	395,452
XiB Consulting Inc.	2,156,522	2,156,122	-
AIM1	88,220	88,220	3,547
Broker warrants issued to the agents in connection with the April 27, 2018 brokered private placement	762,150	762,150	-
Subscribers in the April 27, 2018 brokered private placement	8,039,223	8,039,223	-
First Canadian Capital	300,000	75,000	-
	11,346,115	11,120,715	398,999

Proceeds from the warrants exercised during the year ended September 30, 2019 was $1,571,100 (for the year ended September 30, 2018 - $141,084).

Refer to options and warrants table on following page for additional information.

Share Capital

The following tables show the outstanding securities of the Company as at October 1, 2017, September 30, 2018 and September 30, 2019, with additional details on the outstanding options and warrants.

Warrants, broker warrants, and stock options are exercisable for common shares of JWC.

JWC is authorized to issue an unlimited number of common shares.

	October 1, 2017	Fiscal 2018 Activity	September 30, 2018	Fiscal 2019 Activity	September 30, 2019
Common Stock	65,018,857	22,971,489	87,990,346	8,291,263	96,281,609
Warrants	1,347,826	2,156,522	3,504,348	(2,912,681)	591,667
Broker Warrants	1,458,078	8,790,594	10,248,672	219,455	10,468,127
Stock Options	6,739,130	495,305	7,234,435	(6,934,435)	300,000
Fully Diluted	74,563,891	34,413,910	108,977,801	(1,336,398)	107,641,403

Number of Options/Warrants Originally Granted	Exercise Price per Option/ Warrant	Number of Options/Warrants Still Outstanding	Expiry Date
593,313	$0.35	197,861	April 11, 2020
864,765	$0.46	864,765	August 11, 2020
1,347,826	$0.46	-	August 11, 2019
6,739,130	$0.46	-	September 1, 2019
1,078,261	$0.56	-	June 1, 2019
1,078,261	$0.74	-	June 1, 2019
283,525	$0.48	-	September 7, 2019
762,150	$1.15	762,150	June 7, 2020
8,039,223	$1.50	8,039,223	June 7, 2020
300,000	$1.15	300,000	July 19, 2020
300,000	$0.78	200,000	August 27, 2023
300,000	$1.00	300,000	February 21, 2021
291,667	$0.80	291,667	February 28, 2021
150,000	$0.85	100,000	February 26, 2024
300,000	$1.15	-	August 19, 2022
22,428,121		11,055,666	

Off Balance Sheet Arrangements

The Company has no Off-Balance Sheet arrangements.

Contracts and Agreements

The Company enters into contractual obligations from time to time relating to on-going business activities. As at September 30, 2019, the Company has the following commitments:

Lease on Trillium Drive Facility (JWC 1)

On December 13, 2013, JWC entered into an agreement to lease JWC 1. The term of the lease will expire on July 30, 2021, at which time JWC may exercise an option for the Company to renew the lease for an additional 5 years. On April 1, 2019 the rent increased to $8,073 from $7,762.50 per month.

Lease Manitou Road Facility (JWC 2)

On February 1, 2018, JWC entered into an agreement to lease JWC 2. JWC 2 was formerly an automotive manufacturing plant and the Company is in the process of converting it into an aeroponic growing facility. The lease has a term of 15 years, expiring on January 31, 2033, and has a phased-in rent schedule as follows:

Year of Lease	Rent per Month
1	$ 98,008
2	$ 115,253
3	$ 132,498
4	$ 135,372
5	$ 169,861
6-10	$ 175,610
11-15	$ 201,477

Canopy Growth

Offtake Agreement

The Offtake Agreement between JWC and Canopy Growth dated August 11, 2017, pursuant to which JWC agreed to sell certain cannabis strains to Canopy Growth as may be mutually determined on an annual basis and as produced at JWC 1 (the "Offtake Cannabis"), JWC must deliver a minimum amount of Offtake Cannabis to Canopy Growth or its affiliates on an annual basis. The minimum amount of Offtake Cannabis required is: (A) 150kg of Offtake Cannabis during the first year of the Agreement and (B) 325kg of Offtake Cannabis during each year thereafter, for a total length of up to four years. If the minimum amount of Offtake Cannabis is not delivered, JWC shall pay Canopy Growth $4.00 per gram of the minimum amount that was not delivered in accordance with the agreement. The term of the agreement commenced on January 1, 2018 (the "Commencement Date") and automatically terminates on the second anniversary of the Commencement Date unless renewed by Canopy Growth for an additional two-year term. The parties may further renew the agreement prior to the fourth anniversary of the Commencement Date by mutual written agreement of the parties. If Canopy Growth terminates the agreement early due to an event of default of JWC, including material breach of the agreement, bankruptcy or change of control of JWC, Canopy Rivers Corporation ("Canopy Rivers") shall be entitled to all losses suffered or incurred as a result of such termination and the event giving rise to the termination, including reasonably expected Offtake Cannabis that would have been delivered to Canopy Rivers by JWC if not for the occurrence of the event of default.

Canopy Rivers Corporation ("Canopy Rivers")

On August 11, 2017, the Company executed three agreements with Canopy Rivers, a wholly owned subsidiary of Canopy Growth. These three agreements are described in more detail below:

Investment Agreement and Debenture Agreement

Investment Agreement among JWC, Canopy Rivers and Canopy Growth dated August 11, 2017 (the "Investment Agreement"), pursuant to which JWC issued Canopy Rivers Canopy 5,391,304 common shares of JWC for $2,500,000 ($0.46 per share) and 1,347,826 common share purchase warrants (which Canopy Rivers exercised in August 2019 for proceeds of $620,000). Canopy Rivers also acquired 3,504,347 common shares from existing shareholders for $975,000 ($0.28 per share). Canopy Rivers issued a debenture in favour of JWC, dated August 11, 2017, in the total amount of $2,500,000 (the "Debenture"). The debenture was considered fully paid in principal on March 29, 2018, the date the Company received its sales licence amendment from Health Canada at JWC 1.

The Investment Agreement provides an on-going "right of first offer" and "right of first refusal" for certain types of transactions (primarily of a financing nature) that JWC may enter into in the future. The right of first offer provides that if during the term of the Investment Agreement, JWC intends to sell any cannabis produced to an arm's length third-party other than a retail consumer, including pursuant to an offtake or similar transaction, JWC shall promptly give written notice to Canopy Rivers and offer Canopy Rivers the opportunity to make an offer for the cannabis (the "Cannabis Offtake Right of First Offer"). This Cannabis Offtake Right of First Offer shall include all material terms of the intended transaction and shall remain open and irrevocable until 10 business days after Canopy Rivers' receipt thereof (the "ROFO Cannabis Period"). If Canopy Rivers does not exercise the Cannabis Offtake Right of First Offer within the ROFO Cannabis Period, JWC may complete the sale of cannabis or enter into an offtake or similar transaction on terms and conditions no less favourable to JWC than those set out in the Cannabis Offtake Right of First Offer. If the sale of cannabis is not complete or the offtake or similar transaction is not entered into within 90 days of the ROFO Cannabis Period, or it is proposed that the transactions be completed on terms and conditions less favourable to JWC than the terms and conditions set out in the offer, JWC must deliver a new offer to Canopy Rivers which shall be treated as a new Cannabis Offtake Right of First Offer. The right of first refusal granted under the Investment Agreement provides that if during the term of the agreement, JWC receives a third party financing offer, JWC shall promptly provide Canopy Rivers with notice of all terms and conditions of the third party offer together with an offer of JWC to Canopy Rivers to enter into a financing transaction on the same terms and conditions as the third party offer, including without limitation, as to price. The offer shall remain open and irrevocable until 20 business days after Canopy Rivers' receipt thereof. If Canopy Rivers does not exercise its rights under the offer within 20 business days, JWC may complete the third party offer on terms and conditions no less favourable to JWC than those set out in the right of first offer.

Contracts and Agreements (continued)

In addition, pursuant to the Investor Agreement, Canopy Growth and Canopy Rivers agreed to provide non-exclusive services to JWC, including:

(i) a one-time review of JWC's standard operating procedures and constructive commentary of JWC's operations, procedures and related matters;
(ii) two precautionary inspections of JWC's facility in order to prepare JWC for inspection by Health Canada;
(iii) capital markets consulting services as and when required by JWC from August 11, 2017 to August 11, 2018;
(iv) access to the genetic cultivated variety known as 'Tweed Lot #3' pursuant to the license agreement between Canopy Growth and JWC dated December 1, 2016, provided that JWC shall not be required to pay a royalty on the sales of Tweed Lot #3; all sales of Tweed Lot #3 shall use Tweed branding and JWC will inform Canopy Growth of any modifications or derivative works created from Tweed Lot #3; and
(v) access to genetic cultivated varieties of cannabis in seed form as mutually agreed by and between Canopy Growth and JWC pursuant to a non-exclusive, non-transferrable licence to use the genetics for the purpose of growing and selling cannabis in Canada.

Royalty Agreement

When the Company received its sales licence amendment on March 29, 2018, the previously held debenture principal of $2,500,000 was considered paid in full and initiated the Royalty Agreement between JWC and Canopy Rivers, dated August 11, 2017 (the "Royalty Agreement"), pursuant to which JWC agreed to pay Canopy Rivers $0.375 per gram of cannabis (the "Royalty") produced at JWC 1. The Royalty Agreement does not apply to JWC 2, or any other facility that the Company operates during the term of the Royalty Agreement. The Royalty is payable on a quarterly basis. The minimum aggregate annual royalty payment per year is $487,500. The term of the Royalty Agreement is twenty years. If Canopy Growth terminates the agreement early due to an event of default of JWC, including material breach of the agreement, bankruptcy or change of control of JWC, Canopy Rivers shall be entitled to all losses suffered or incurred as a result of such termination and the event giving rise to the termination, including reasonably expected royalty payments that would have been delivered to Canopy Rivers by JWC if not for the occurrence of the event of default.

Contracts and Agreements (continued)

XiB Consulting Inc

In December 2017, JWC signed an engagement letter with XiB pursuant to which XiB agreed to provide advisory support to JWC during the RTO. In consideration for the services provided by XiB, JWC granted warrants to XiB in two tranches. Each tranche was comprised of 1,078,260 warrants, with each warrant being exercisable for one common share of JWC. The warrants issued in the first tranche were exercisable at a price of $0.65 per share, while the warrants issued in the second tranche were exercisable at a price of $0.74 per share. All 2,156,520 warrants were exercised by XiB during the fourth quarter of Fiscal 2019 for proceeds of $1,390,971.

Alumina Partners

On November 6, 2018, JWC entered into an agreement with Alumina Partners for a draw-down equity facility of up to $18,000,000. The agreement allows JWC, at its discretion, to sell to Alumina Partners units of the Company, on a private placement basis completed in tranches, with a total value of up to $2,000,000 per tranche, over a 24-month period. Each unit will consist of one common share and one warrant of the Company. The purchase price of the units will be agreed to by the parties at the time of drawing down each tranche. Alumina Partners will be eligible to purchase each unit at a discount to the market price of the common shares of JWC traded on the TSXV. The purchase price of the warrants will be set at a 50% premium to the price of the common shares of JWC in the applicable tranche. Each warrant will allow Alumina Partners to acquire one common share for five years from the date of issuance. This agreement was put in place to provide the Company with a potential source of funding for completion of the construction of JWC 2.

Trichome Financial Inc. (“Trichome”)

On February 20, 2019, the Company entered into a loan agreement pursuant to which it borrowed $3,500,000 by way of a single cash advance from Trichome. The proceeds of this loan were to be used to finance approximately $1,400,000 of HVAC equipment, $900,000 for the payment of invoices related to the construction of JWC 2, and the remainder for working capital.

The loan carries an interest rate of 9.25% payable monthly, with no requirement to repay any principal until the maturity date of the loan, being February 19, 2021. JWC paid a set-up fee of $105,000 to Trichome, as well as an original issue discount of 5% which constitutes additional interest paid to Trichome in advance. JWC agreed to pay costs and expenses to Trichome, up to a maximum of $65,000 plus taxes and disbursements. Actual total costs and expenses associated with this agreement was $69,999. In connection with the loan agreement, JWC issued 291,667 common share purchase warrants to Trichome, each warrant being exercisable for one common share of JWC at an exercise price $0.80 per share.

The loan is being carried on the balance sheet at its amortized cost using the effective interest method, where the effective interest rate of the loan is 14.71%.

Contracts and Agreements (continued)

Trichome Financial Inc. (continued)

Subsequent to year end, on November 6, 2019, the Company entered into an amended and restated loan agreement with Trichome to borrow $4,000,000, to be advanced in two tranches. The first tranche, in the amount of $2,850,000 was advanced on November 6, 2019. The second tranche of the loan will be advanced upon satisfaction of certain conditions set out in the agreement. The Company expects to satisfy these conditions in December 2019.

A set-up fee in the amount of $60,000 and a 5% original issue discount were applied to the first tranche. A 5% original issue discount will also be applied to the second tranche at the time it is advanced. Interest on the loan will be due monthly and applied at an annual interest rate of 9.25%. The loan is due and payable in full on November 6, 2021. JWC plans to use the proceeds of the loan to finance the completion of construction at JWC 2, to finance the launch of new products, and for general working capital needs. As security for the loan, JWC has provided Trichome with a perfected, first lien on current and future tangible and intangible assets and equity interests (including a share pledge from all subsidiaries of JWC) of JWC and each of the direct and indirect wholly owned subsidiaries of JWC.

As consideration for providing the first tranche, and pursuant to TSXV Policy 5.1 – Loans, Loan Bonuses, Finder's Fees and Commissions, JWC has issued Trichome 1,696,385 warrants to purchase common shares of JWC ("the "Bonus Warrants"), and 984,208 common shares of JWC (the "Bonus Shares" and together with the Bonus Warrants, the "Loan Bonus"). Each Bonus Warrant is exercisable for one common share of JWC at an exercise price of $0.42. The Bonus Warrants will be exercisable for a period of two years expiring on March 1, 2021, and both the Bonus Warrants and Bonus Shares are subject to a four month hold period in accordance with applicable Canadian securities laws. Subject to the approval of the TSXV, a similar Loan Bonus is anticipated in relation to the second tranche with pricing reflective of the then current market price of common shares of JWC.

The loan will be carried on the balance sheet at its amortized cost using the effective interest method which will be determined once the second tranche of the loan is advanced.

Ball Construction Ltd. ("Ball Construction")

JWC entered into a loan agreement with Ball Construction dated February 21, 2019, and amended as of July 17, 2019 and October 9, 2019, pursuant to which Ball Construction provided JWC with a revolving loan up to a maximum amount of $5,000,000. The loan will be repayable as of the earlier of:

1) expiry of the term of the loan
2) on demand made no earlier than or otherwise subsequent to July 1, 2019.

Interest will accrue on the date of any advances and compound monthly until that date. Interest will be calculated using the HSBC Canada prime lending rate plus 0.5% which, as of September 30, 2019, was a total of 4.45%. The term of the loan is for a period of 18 months commencing on February 20, 2019 and the outstanding principal amount and accrued interest shall be paid in full on or before February 15, 2020.

Contracts and Agreements (continued)

In addition, JWC agreed to provide the Lender with 300,000 warrants to purchase common shares at an exercise price of $1.00 and a maturity of 2 years. The loan is being carried on the balance sheet at its amortized cost. Management has determined that the interest rate of the revolving loan is below market rates. In order to fair market value the loan the effective interest rate of the Trichome loan, 14.71%, has been used, as management believes this represents a market rate. The residual amount of the proceeds of the loan amounts are accounted for as a construction credit under leasehold improvements.

On October 9, 2019 the Company and Ball Construction signed an amending agreement to the Loan agreement originally signed on February 20, 2019 and further amended on July 17, 2019. This amendment adjusted the amount due to be paid on October 15, 2019 from $850,000 to $425,000 and deferred the amounts to be paid on November 15, 2019 and December 15, 2019. The parties further agreed that the deferred payments would be made when the equity raise referred to in the term sheet for the Trichome loan is completed. The Company expects this condition to be satisfied during December 2019. Once the deferred payments are made, the payment schedule as provided in the July 17, 2019 amendment shall resume and be completed.

Capital Markets Access LLC ("CMA")

On August 19, 2019, JWC entered into a consulting agreement with CMA, pursuant to which CMA agreed to provide consulting services to JWC, including corporate communications and investor relations services. The initial term of the agreement is 6 months, upon expiry of which, the agreement will automatically renew for 3-month terms until terminated by either party. In consideration for CMA's services, JWC pays CMA a monthly fee of USD$8,900 and has also granted CMA 300,000 stock options exercisable for 300,000 common shares of JWC at a price of $1.15 per share. The options vest in four equal tranches on November 19, 2019, February 19, 2020, May 19, 2020, and August 19, 2020. The options will expire on August 19, 2022, being three years from the date of the agreement. All 300,000 options issued to CMA are outstanding as of the date hereof.

Risks and Uncertainties

The following is a summary of certain risk factors relating to JWC's business. This section is an overview and should not be considered a comprehensive list. JWC may face risks and uncertainties not included in this section, or not currently known to the Company and its management. All risks, known or unknown, to JWC's business have the potential to materially impact JWC's operations.

General Business Risk and Liability

The nature of JWC's business subjects JWC to claims or complaints from investors or others in the ordinary course of business. The legal risks facing JWC, its directors, officers, employees or agents, in this respect, includes potential liability for violations of securities laws, breaches of fiduciary duty, or misuse of investors' funds. It is possible that violations of securities laws and/or breach of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of JWC's ability to carry on its existing business. It is possible that JWC could incur significant costs in connection with such potential liabilities.

Limited Operating History

JWC entered the cannabis industry in 2013 and is subject to the risks common to entering a new area of investment, including under-capitalization, cash shortages, scarcity of trained and knowledgeable personnel, and scarcity of financial and other resources. There is no assurance that JWC will be successful in achieving an acceptable return on investment for its shareholders and the likelihood of success must be considered given the early stage of operations for JWC.

History of Losses

JWC has incurred losses since its incorporation. JWC may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. It should also be understood, that JWC anticipates experiencing increased operating expenses as it continues to grow its business. If operating revenues do not increase to offset these expected increases in expenses, JWC will not be profitable. There is no assurance that JWC will be successful in achieving an acceptable return on investment for its shareholders.

No History of Dividends

JWC has not paid dividends in the past and does not expect to pay dividends in the near future. JWC plans to reinvest earnings in the Company to finance the expansion of operations, and the development of the business. Any decision to declare dividends, in the future, will be made at the discretion of the Board of Directors and will depend on, among other things, financial results, cash requirements, contractual obligations, domestic and international industry environment and other factors the Board of Directors may consider relevant. As a result, investors may not receive any return on their investment in JWC common shares unless they sell them for a higher price than they paid at the time of purchase.

Dilution

While revenues have been steadily increasing quarter over quarter, JWC does not have enough financial resources to undertake on its own all its planned activities. JWC has financed its operations primarily through the sale of securities or common shares in the Company, as well as the acquisition of debt. Investors should expect this financing will result in dilution to the Company's existing shareholders.

Capital and Liquidity Risk

JWC's ability to invest and enhance shareholder value is dependent on the available liquid capital, the profitability of ongoing operations, and the willingness to utilize debt and issue equity.

If JWC exceeds growth expectations or finds investment opportunities it may require debt or equity financing. There is no assurance JWC will be able to obtain additional financial resources that may be required to take advantage of these opportunities or to compete in markets on favourable commercial terms.

Dependence on Key Personnel

The loss of key members of the executive team and/or the operations teams could cause disruptions to the execution of the JWC's business strategy and the day to day operations of the business until the person or persons could be replaced. JWC may be unable to retain its key employees, or source, train, assimilate or retain other necessary qualified employees, which could impact the Company's growth and execution of its business strategy.

Reliance on Licences

The continuation of JWC's business of growing, storing and distributing cannabis is dependent on the good standing of all licences required to engage in such activities and upon adhering to all regulatory requirements related to such activities. James E. Wagner Cultivation Ltd. was granted a licence to produce, possess, ship, transport, deliver and destroy dried cannabis and cannabis plants, including live clippings and seeds (the "Licence") by Health Canada on January 9, 2017. The Licence is valid until January 9, 2020, at which point, JWC must apply to Health Canada for a renewal. JWC received its standard processing licenses at JWC1 on July 5, 2019 relating to sales of cannabis oils.

Failure to comply with the requirements of the Licence or any failure to maintain the Licence would have a material adverse impact on the business, financial condition and operating results of the Company. Although JWC believes it will meet the requirements for future extensions or renewal of the Licence, there can be no guarantee that Health Canada will extend or renew the Licence or that, if extended or renewed, the Licence will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licence, or should it renew the Licence on different terms, the business, financial condition and results of the operation of the Company could be materially and adversely affected.

Volatile Market Price for Resulting Issuer Shares

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

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

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

Reliance on the Facilities

JWC has two facilities which are licensed to produce cannabis under the *Cannabis Act*. JWC's operations and the conditions of JWC 1 and JWC 2 are subject to hazards inherent in the cannabis industry, including equipment defects, equipment malfunctions, natural disasters, fire, explosions, or other accidents that may cause damage to the facilities. Any adverse change or event affecting JWC 1 or JWC 2 may have a material and adverse effect on the Company's business, results of operations and financial condition. JWC must remain compliant with the covenants of its leases as its licences are tied to a facility, and failure to remain compliant could put the Company's licence(s) at risk.

Expansion of the Facilities

Any expansion of JWC 1 or JWC 2 is subject to various potential problems and uncertainties and may be delayed or adversely affected by several factors beyond the Company's control. These uncertainties, including the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by suppliers, difficulties in integrating new equipment with existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, and insufficient funding or other resource constraints. The actual cost of construction may exceed the amount budgeted for expansion. As the result of construction delays, cost overruns, changes in market circumstances or other factors, the Company may not be able to achieve the intended economic benefits from the expansion of operations at existing facilities, which in turn may affect the Company's business, prospects, financial condition and results of operations.

Holding Company Status

The Company is a holding company and essentially all its operating assets are the capital stock of its subsidiaries. JWC conducts substantially all its business through its subsidiaries, which generate substantially all its revenues, and its investors are therefore subject to the risks attributable to its subsidiaries. The Company's cash flow and its ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of the Company's subsidiaries to pay dividends and other distributions will depend on each subsidiary's operating results, applicable laws and regulations regarding the payment of dividends and distributions, and any contractual restrictions on distributions in debt instruments, among other things. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, debtholders and trade creditors will generally be entitled to the payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

Unfavorable Publicity or Consumer Perception

The success of the cannabis industry may be significantly influenced by the public's perception of cannabis' medicinal applications. Cannabis is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to cannabis will be favourable. The cannabis industry is an early stage business that is constantly evolving with no guarantee of viability. The market for cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of cannabis may have a material adverse effect on the Company’s (and the Company's subsidiaries') operational results, consumer base and financial results.

Third Party Transportation

The Company relies on third party transportation services to deliver product to its customers. The Company is exposed to the inherent risks associated with relying on third party transportation services providers, including logistical problems, delays, loss or theft of product and increased shipping costs. Any delay in transporting the product, breach of security or loss of product, could have a material adverse effect on the Company’s business, financial performance and results of operations. Further, any breach of security and loss of product during transport could affect the Company’s status as a licensed producer.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require continued implementation and improvement of their operational and financial systems and for each to expand, train and manage their respective employee bases. The inability of the Company to deal with growth may have a material adverse effect on business, financial conditions, results of operations and prospects.

Reliance on Management

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

Conflicts of Interest

Certain directors and officers of the Company are also directors and officers of other entities, or are otherwise engaged, and will continue to be engaged, in activities that may put them in conflict with the business strategy of the corporation. Consequently, there is a risk that such officers or directors will be in a position of conflict. Conflicts, if any, will be subject to the procedures and remedies available under the *Business Corporations Act* (Ontario).

Limited Market for Securities

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

Litigation

The Company is subject to litigation throughout regular ongoing business activities. There are no claims for which a material outflow is probable.

Credit, Liquidity, Interest, Currency and Commodity Price Risk

The Board of Directors has overall responsibility for the establishment and oversight of JWC's risk management framework.

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 an obligation. JWC is exposed to credit risk through its cash, which is held in a respected Canadian financial institution, accounts receivable and its government remittances receivable. JWC believes this credit risk is minimal. The Company does not use derivative instruments or hedges to manage risks because JWC's exposure to credit risk, interest rate risk and currency risk is small.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. JWC is exposed to short-term interest rates through the interest earned on cash balances and deposits; however, management does not believe this exposure is significant. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations through the Ball Construction revolving loan which has a variable interest rate (HSBC Canada prime rate + 0.5%).

Cash is stated at amounts compatible with those prevailing in the market, are highly liquid, and are maintained with financial institutions for high liquidity. The Company expects sufficient liquidity to allow all commitments to be met and growth strategies to be achievable.

Intellectual Property

The success of JWC's business depends, in part, on protection of its ideas and technology. JWC has submitted applications for patents on its intellectual property, including the GrowthStorm Dual Droplet system and a proprietary trimmer.

Even as JWC moves to protect its technology with trademarks, patents, copyrights or by other means, JWC is not assured that competitors will not develop similar technology, business methods or that JWC will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions meaningfully impact our ability to successfully grow our business.

Political and Economic Instability

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Changes in medicine and agriculture development or investment policies or shifts in political attitude in certain countries may adversely affect JWC's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

Risks Relating to the Cannabis Industry

Regulatory Risks

The Company operates in a new industry which is highly regulated, highly competitive and rapidly evolving. As such, new risks may occur, and the Company may not be able to predict all such risks or how such risks may impact actual results in comparison to results contained in any forward-looking statements.

The Company's ability to grow, store and sell cannabis in Canada is dependent on its Licence from Health Canada, and maintaining such Licence in good standing. Failure to: (i) comply with the requirements of the Licence; and (ii) maintain this Licence would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or may 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 marketability of any product may be affected by numerous factors that are beyond Company's control and which cannot be predicted, including changes to government regulations. Changes in government levies and taxes could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The cannabis industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

In addition to being subject to general business risks and to risks inherent in an early stage business with an agricultural product in a regulated industry, the Company will need to continue to build brand awareness through significant investment in strategy, production capacity and quality assurance. The Company's brand and products may not be effectively promoted as intended. The cannabis industry is marked by competitive conditions, consumer tastes, patient requirements and unique circumstances, and spending patterns that differ from existing markets.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air, and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental or safety laws and regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's manufacturing operations. Changes in environmental, employee health and safety, or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to current operations 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.

Changes in Laws, Regulations and Guidelines

The Company's operations are subject not only to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also to regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment in the jurisdictions in which they operate. Changes to such laws, regulations and guidelines, including changes related to government taxes and levies, may materially and adversely affect the Company's businesses, financial conditions and results of operations.

Legalization of Recreational Cannabis

On October 17, 2018, the legalization of recreational cannabis use occurred in Canada. However, the importation, exportation, production, testing, packaging, labelling, sending, delivery, transportation, sale, possession or disposal of cannabis or any class of cannabis will remain subject to extensive regulatory oversight. Such extensive controls and regulations may significantly affect the financial condition of market participants and prevent the realization of such market participants of any benefits from an expanded market for recreational cannabis products.

In order to support the costs of running a recreational cannabis regulatory regime, Health Canada has made the industry aware of its intention to put a cost recovery program in place for the following fees: (i) screening licence applications; (ii) conducting security screenings; (iii) reviewing applications to import or export cannabis for scientific or medical purposes; and (iv) an annual regulatory fee of a proposed 2.3% of revenue for non-medical cannabis producers. In addition, the province of Manitoba announced a social responsibility fee of 6% of revenue from adult-use cannabis sales payable by all provincially licensed cannabis retailers.

Restrictions on Sales and Marketing

The cannabis industry is in its early development stage and restrictions on sales and marketing activities imposed by Health Canada, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on JWC's businesses, operating results and financial conditions.

Competition

The market for the cannabis products appears to be sizable. Both Health Canada and the Government of Canada, respectively, have only issued a limited number of licences under the Cannabis Act regime to produce and sell cannabis. However, there are several hundred applicants for licences. The number of licences granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. According to Health Canada, there were 270 licensed producers as of December 9, 2019. If the number of users of 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. The Company expects significant competition from other licensed producers. Some companies applying for production licences may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships.

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 enough 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. If JWC and its subsidiaries are not successful in investing enough resources in these areas, their ability to compete in the market may be adversely affected, which in turn could materially and adversely affect the Company's business, financial conditions and results of operation.

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 the Company.

Risks Inherent in an Agriculture Business

The Company's business involves growing cannabis, which is an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, including pests, plant diseases and similar agricultural risks. Although the Company expects to grow its products in a climate controlled, monitored, indoor location, using a technology that limits exposure of the plants to the usual substrates and climate that lead to agriculture related risks, there is no guarantee that changes in outside weather and climate will not have a material adverse effect on the Company's ability to cultivate cannabis, although management is confident this risk is not as significant as it would be for most other licensed producers because JWC's cannabis is grown in a highly controlled internal environment and is able to reduce exposure to pest or contaminants as a result of growing cannabis aeroponically.

Vulnerability to Rising Energy Costs

The Company's cannabis growing operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably. The Company has entered into an agreement, on December 15, 2017, with an energy retailer which has fixed the rate charged for electricity for five years. This agreement, which expires December 15, 2022, reduces the Company's exposure to rising energy costs, but does not eliminate them.

Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory actions and litigation if its products are alleged to have caused loss or injury. In addition, the manufacture and sale of products involves the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination and unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including that the Company's products caused death, injury, illness, or other loss. A product liability claim or regulatory action against the Company could result in increased costs, adversely affect the Company's reputation with its respective clients and consumers generally, and adversely affect the results of operations and financial conditions of the Company.

There can be no assurance that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance in expensive and may not be available in the future on acceptable terms, or at all. An inability to obtain enough insurance coverage on reasonable terms could prevent or inhibit the commercialization of the Company's products.

Product Recalls

Manufacturers and distributors of products may be subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention and distraction from day to day operations.

Operating Risk and Insurance Coverage

The Company maintains insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company may be exposed. The Company may also be unable to maintain insurance at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon the Company's financial performance and results of operations.

MD&A Preparation

This MD&A was prepared as of December 9, 2019. This MD&A should be read in conjunction with the consolidated financial statements for the year ended September 30, 2019. This MD&A is intended to assist the reader's understanding of James E. Wagner Cultivation Corporation and its operations, business, strategies, performance and outlook from the perspective of management. The documents mentioned above, as well as news releases and other important information, may be viewed through the SEDAR website at www.sedar.com.

Managements Responsibility for Financial Statements

The information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to decide future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. Management maintains a system of internal controls to provide reasonable assurance that the company's assets are safeguarded and to facilitate the preparation of relevant and timely information.