SUPREME PHARMACEUTICALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the nine months ended March 31, 2017

Date: May 30, 2017

SUPREME PHARMACEUTICALS INC.

Management Discussion and Analysis

The following Management Discussion and Analysis ("**MD&A**") should be read in conjunction with Supreme's interim condensed consolidated financial statements and notes for the nine months ended March 31, 2017 (the "**Financial Statements**"). The Financial Statements, together with this MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of Supreme Pharmaceuticals Inc. (the "**Company**" or "**Supreme**") as well as forward-looking statements relating to future performance. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**").

This MD&A, the accompanying financial statements and the balance of the Company's public disclosure (including on SEDAR and on the Company's website and social media outlets) are qualified by and should be read in conjunction with the cautionary language contained herein under the headings "Forward-Looking Statements" and "Risk Factors".

This MD&A contains disclosure of material changes occurring up to and including May 30, 2017.

Forward-Looking Statements

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

- licensing risks;
- regulatory risks;
- change in laws, regulations and guidelines;
- market risks;
- expansion of facility;
- risks inherent in an agricultural business;
- history of net losses; and
- competition.

Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the medical cannabis industry and the general expectations of Supreme concerning the medical cannabis industry and concerning Supreme are based on estimates prepared by Supreme using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which Supreme believe to be reasonable. While Supreme is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third party information.

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

Overview of Supreme's Medical Cannabis Business

Supreme is a federally incorporated Canadian medical cannabis company with its common shares publicly traded on the Canadian Securities Exchange ("**CSE**") under the symbol "SL" and are quoted on the Over-the-Counter Bulletin Board ("**OTCBB**") under the symbol "SPRWF". Supreme's primary asset 8528934 Canada Ltd. o/a 7 ACRES, an Ontario corporation, is wholly owned by Supreme. 7 ACRES is a Licensed Producer (as such term is defined in the *Access to Cannabis for Medical Purposes Regulations* ("**ACMPR**") which replaced the *Marihuana for Medical Purposes Regulations* (the "**MMPR**")). 7 ACRES became a Licensed Producer on March 11, 2016 when it was issued a license to cultivate medical cannabis, pursuant to the MMPR (the "**License**"), at its hybrid greenhouse (the "**Hybrid Greenhouse**") facility in Kincardine, Ontario. 7 ACRES' License was renewed for one year on March 10, 2017.

Supreme has positioned 7 ACRES to be a leading supplier and distributor of medical cannabis and related products to other legal retailers, utilizing a business to business focused sales strategy. Management believes its business model is the first of its type in Canada. The Hybrid Greenhouse combines the positive aspects of indoor cannabis cultivation with the cost savings and sustainability of a greenhouse. In addition, the full spectrum light of the sun provides a quality benefit as compared to cannabis produced solely with artificial lighting and the naturally occurring UV-spectrum light provides anti-microbial properties. Management believes the Hybrid Greenhouse will allow 7 ACRES to produce a high volume of low cost, high quality medical cannabis.

Licensing Status

On March 11, 2016, 7 ACRES received its License from Health Canada to produce, possess, ship, deliver, transport, and destroy marijuana plants, marijuana seeds and dried marijuana. The License was renewed on March 10, 2017 for one year. The License is valid until March 9, 2018. See *Risk Factors – Reliance on License and Change in Laws, Regulations and Guidelines.* As of the date of this MD&A, Supreme has not yet received permission to sell medical cannabis. On March 10, 2017 Supreme disclosed it was in the final stages of the approval process to gain the permission to sell bulk cannabis. Permission to sell cannabis is sometimes referred to as a "License to Sell", although there is only one License and the activity of sales is a permission which is added to a Licensed Producer's License following the completion of certain regulatory activities. The application to gain such permission was submitted in November 2016 and the pre-sales inspection occurred in January 2017. While there is no guarantee the sales approval will be obtained, management is pleased with the progress made to date and confident its quality management system and finished goods will be found to be satisfactory by Health Canada.

Currently the License does not permit 7 ACRES to sell cannabis. Health Canada monitors the quality of the cannabis being produced by all Licensed Producers, and in particular those newly Licensed Producers entering the market. When a producer is first licensed, they are typically issued a "cultivation-only" license. This is a License, which does not include permission for the activity of sale. This graduated approach is for the purpose of verifying that the cannabis meant for registered clients meets all of the quality standards set out under the ACMPR.

Once a Licensed Producer has finished producing the first two lots of dried marijuana, which have been produced, packaged, tested and approved according to the Company's Standard Operating Procedures ("**SOP**") and the requirements of the ACMPR, the Licensed Producer may apply for an inspection to add permission for the activity of sale. Such inspection focuses on the Company's SOPs, compliance with Subdivision D of the ACMPR which set out the "Good Production Practices", production records and procedures related to sales, adverse reactions and recalls. As of the date hereof, 7 ACRES has taken steps to obtain permission for the activity of sale but has not yet received such permission.

The Hybrid Greenhouse

The Hybrid Greenhouse is wholly owned by Supreme and sits on 16 acres of land in the Bruce Energy Centre, near Kincardine, Ontario. Management believes the Hybrid Greenhouse is a unique and innovative facility: combining the positive aspects of indoor marijuana cultivation with the economies of scale and reduced operational costs of greenhouse production into a single large-format facility. In addition, the full spectrum light of the sun provides a quality benefit as compared to cannabis produced solely with artificial lighting and the naturally occurring UV-spectrum light provides anti-microbial properties. Utilizing technology and modular design, Supreme's management believes 7 ACRES will be able to produce high quality cannabis at an attractive cost of production creating a compelling value proposition for prospective buyers. Concentration of production in a single facility reduces management, operational and regulatory overhead compared to the increased overhead of multi-facility operations.

Supreme's goal is to generate substantial revenue from the growth of the 7 ACRES business, while taking steps to reduce the operational risk related thereto. To achieve this goal Supreme has taken the following steps:

- Developed a modular production style which centers around the development and operation of self-contained growing rooms each of approximately 10,000 sq. ft. As the Hybrid Greenhouse is expanded, such rooms will be replicated. This increases the efficacy of capital and operational cost planning, reduces operational risk and allows 7 ACRES to scale production more efficiently. This expansion approach is also consistent with Health Canada's revised licensing guidance issued in May 2017 ;
- Simplified the 7 ACRES business model to focus solely on bulk sales of dried cannabis to other legal retailers, such as ACMPR licensees. This allows Supreme to focus capital on infrastructure improvements for increasing quality and efficiency of the cannabis 7 ACRES produces. In addition, it removes the risk and expense involved with retail patient acquisition and servicing (i.e. physician education, patient enrollment, patient support, retail packaging, ordering logistics and e-commerce infrastructure);
- Completed significant capital raising in calendar 2016 to fund the complete retrofit of the Hybrid Greenhouse. This allows Supreme to complete the project as one project rather than in phases, which increases efficiencies and also reduces the risk involved with the need for additional financing to complete the project. Supreme is currently working to finalize the construction timeline to reflect the strong demand for its products from existing and aspiring Licensed Producers and the proposed legalization of adult-use cannabis in July 2018.

The Hybrid Greenhouse currently has approximately 40,000 sq. ft. of operational production space. By 2019 Supreme anticipates the entire retrofit project will be complete, spanning over 340,000 sq. ft., subject to regulatory approval and market demand.

Results of Operations

As at March 31, 2017, the Company has working capital surplus of $64,586,920 (March 31, 2016: (Deficit $845,870)). During the period, the Company successfully completed a $55,000,000 brokered private placement.

During the nine month period ended March 31, 2017, the Company incurred a net loss and comprehensive loss of $19,084,288 (March 31, 2016: $3,086,331). At March 31, 2017, the Company has an accumulated deficit of $43,158,561 (March 31, 2016: $19,496,133).

For the nine month period ended March 31, 2017, the Company's total share based payments increased to $12,208,564 (March 31, 2016 - $1,484,801). Share based payments were made in correspondence with the Employee Stock Option Plan ("**ESOP**") and represent incentives to employees for the positive achievements over the past fiscal year, and the strengthening of the management team. The ESOP grants are used by management to obtain and retain key employees and consultants.

For the nine month period ended March 31, 2017, the Company's total salaries increased to $1,987,021 (March 31, 2016 - $521,728). The increase in salaries are due primarily to the change of the management team and the increased staffing requirements needed following the grant of the License to approximately 60 employees at 7 ACRES.

For the nine month period ended March 31, 2017, the Company's total consulting fees increased to $39,129 (March 31, 2016 - $27,651). The increase in consultants is due to short-term specialized services required.

For the nine month period ended March 31, 2017, the Company's total professional fees increased to $293,397 (March 31, 2016 - $185,312). The majority of the professional fees represent legal fees related to the acquisition of the license, maintenance of the license, developing the 7 ACRES business and general legal services.

The weighted average number of common shares, basic and diluted, outstanding for the nine month period ended March 31, 2017 is 162,735,648 (March 31, 2016; 97,075,825).

Selected Annual Information

	Year Ended June 30, 2016 (Audited) $	Year Ended June 30, 2015 (Audited) $	Year Ended June 30, 2014 (Audited) $
Net Income (loss) before taxes	(4,386,787)	(5,792,430)	(1,990,646)
Net Income (loss) after taxes	(4,386,787)	(5,792,430)	(1,990,646)
Basic and diluted income (loss) per share	(0.05)	(0.08)	(0.08)
Total assets	24,284,266	18,434,863	14,715,280
Total long-term liabilities	536,700	809,555	3,513,276
Dividends declared per share	Nil	Nil	Nil

Selected Financial Information - Summary of Quarterly Results

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

	Mar 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015
Net Sales/ Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Net Income (Loss)	$(3,777,437)	$(12,104,805)	$(3,202,046)	$(1,300,457)	$(2,029,340)	$(531,764)	$(525,226)	$(1,080,603)
Basic and diluted Earnings (Loss) per share	$(0.03)	$(0.08)	$(0.02)	$(0.02)	$(0.02)	$(0.00)	$(0.00)	$(0.01)

Liquidity

Cash from (used in) operating activities during the nine month period ended March 31, 2017 is ($3,306,343) (March 31, 2016: ($1,560,536)). Cash from (used in) investing activities during the nine month period ended March 31, 2017 is ($7,303,023) (March 31, 2016: ($500,301)). Cash provided (used in) financing activities during the nine month period ended March 31, 2017 is $74,160,153 (March 31, 2016: $4,241,496).

Capital Resources

The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion. As at March 31, 2017 the Company had a cash balance of $67,281,356 and current liabilities of $3,099,132. The Company's current resources are sufficient to settle its current liabilities. Management believes the current resources available should be sufficient to complete the sales licensing process, barring any unforeseen delays or complications**.** All of the Company's liabilities are due within the next twelve months with the exception of the Debentures. Management believes that Debenture holders are likely to exercise conversion rights rather than seeking a cash repayment.

Related Party Transactions

The aggregate value of transactions and outstanding balances relating to key management personnel for the nine months ended March 31, 2017 were as follows:

Related party transactions	**2016**	**2015**
Accrued at March 31		
Share based payments	$ 10,395,242	$ 1,484,801
Salaries and wages	466,920	-
	$ 10,862,162	**$ 1,484,801**

Payable at March 31	**2016**	**2015**
Share issuance liability	$ -	$ 136,500
	$ -	**$ 136,500**

Recent Proposed Legislative Changes

On April 13, 2017, the Canadian government introduced Bill C-45, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts* ("**Bill C-45**"). The stated purpose of Bill C-45 is to provide legal access to cannabis and to control and regulate its production, distribution and sale. The passage of Bill C-45 would allow adults to legally possess and use cannabis for recreational purposes.

The following is intended to be of a summary nature, and the full text of Bill C-45 should be referred to for complete details with respect to the proposed legalization of recreational cannabis in Canada. Based on the information available to date, the Company's management believes Bill C-45 represents a milestone in the development of the Canadian cannabis sector. Bill C-45 also appears to present greater certainty for cannabis cultivators, such as Supreme, as compared to cannabis retailers or product manufacturers. Management sees this as validation of its business model focusing on building core competencies in areas of the cannabis industry with the most certainty, such as cultivation.

The Market for Recreational Cannabis

Bill C-45 would allow all Canadians over the age of 18, subject to any additional age limits imposed by provincial governments, to purchase cannabis by mail and in provincially regulated retail spaces. Individuals would also be permitted to grow up to four plants in their residence. The possession limit of dried cannabis would be set at 30 grams. Bill C-45 does not provide for the regulation of edible cannabis products. Based on the draft text, it is possible the market could be dried-cannabis. It is expected that edible products and other dosage and/or ingestion forms of cannabis would be regulated and legalized at a later date, but this is not a certainty. Management feels this supports its focus on producing high-quality, dried cannabis at scale.

The effect of Bill C-45, should it be passed into law, would be the creation of a market for recreational cannabis in Canada, a first for any G7 Country. Bill C-45 would significantly expand the class of individuals who are legally permitted to purchase and consume cannabis in Canada.

Currently, it is illegal to buy, sell, produce, import or export cannabis unless it is authorized under the CDSA and its regulations, such as the ACMPR. The current program for access to cannabis for medical purposes would continue under following the passage of Bill C-45. Cannabis will remain illegal as Bill C-45 moves through the legislative process.

Production

The production of cannabis in Canada will continue to be highly-regulated and subject to numerous controls and regulations.

Part 3 of Bill C-45 provides for the establishment of the legal framework for licenses and permits that will govern the importation, exportation, production, testing, packaging, labelling, sending, delivery, transportation, sale, possession or disposal of cannabis or any class of cannabis. Section 61 of Bill C-45 provides the government with the power to establish a framework for applications for such licenses and permits.

Part 12 of Bill C-45 provides transitional provisions with respect to applications for licenses submitted under the MMPR and ACMPR. Applications submitted under the ACMPR will continue to be processed under the ACMPR as Bill C-45 moves through the legislative process. Management considers the text of Bill C-45 to be favourable to incumbent Licensed Producers.

Distribution

Under Bill C-45, the provinces and territories would authorize and oversee the distribution and sale of cannabis, subject to minimum federal conditions. In those jurisdictions that have not put in place a regulated retail framework, individuals would be able to purchase cannabis online from a federally licensed producer with secure home delivery through the mail or by courier. As a result, the distribution of cannabis will vary from province to province and territory to territory in Canada, and will be regulated at the provincial or territorial level. This represents uncertainty with respect to the point of sale and how retail-focused Licensed Producers will engage with consumers. Bill C-45 makes explicit that provincial distribution must be supplied by federal licensees.

Advertising and Promotions

Bill C-45 prohibits any promotion, packaging and labelling of cannabis that could be appealing to young persons or encourage its consumption, while allowing consumers to have access to information with which they can make informed decisions about the consumption of cannabis.

In particular, Division 2 of Bill C-45 provides for broad restrictions on the promotion, packaging and labelling, display, and sale and distribution of cannabis and cannabis accessories. The promotion, packaging and labelling, display and sale and distribution of cannabis and cannabis accessories will be strictly controlled to prevent persons under the age of 18 from being exposed to such activities and to prevent the encouragement of consumption of cannabis. As such, the promotion, packaging and labelling, display and sale and distribution of cannabis and cannabis accessories will take place in a highly regulated environment which will restrict persons to brand and market their products in a manner consistent with other industries which are not subject to such controls.

Management believes the draft text of Bill C-45 is advantageous to Supreme due to its B2B business model and focus on quality dried cannabis. With respect to the former, Bill C-45 suggests that marketing between licensees, such as between 7 ACRES and a 7 ACRES distributor, will not be subject to the same strict regulation as compared to marketing aimed at the general public. With respect to the latter, management notes that the majority of cannabis sold in Canada is sold in the illicit market without branding. In a market with limited branded messaging and permissible marketing, management considers product quality to be a key driver of demand, which could be favourable for 7 ACRES dried cannabis.

There can be no assurance Bill C-45 will become law or, if enacted, will be enacted in the form introduced on April 13, 2017. See *Risk Factors – Legalization of Recreational Cannabis*.

Risks and Uncertainties

Overview

Commercial medical cannabis production is a new industry in Canada and relies on obtaining and maintaining regulatory approvals. As a result, there is a high degree of risk. There is a significant risk that the expenditures made by the Company in developing its medical cannabis business, specifically the 7 ACRES business will not result in profitable operations. Ongoing expenditures will be required to complete the licensing process.

The following sets out the principal risks faced by the Company:

Reliance on License

On March 11, 2016, 7 ACRES received its License to operate as a Licensed Producer of medical cannabis under the former MMPR. At this point in time, the License does not permit Supreme to sell medical cannabis. Supreme's ability to grow, store and sell medical cannabis in Canada is dependent on its License. Failure to comply with the requirements of the License or any failure to maintain the License would have a material adverse impact on the business, financial condition and operating results of Supreme.

The License was renewed on March 10, 2017. The License expires March 9, 2018. Although Supreme believes it will continue to meet the requirements of the ACMPR for renewal of the License, there can be no guarantee that Health Canada will extend or renew the License or, if extended or renewed, the License will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the License or should it renew the License on different terms, the business, financial condition and results of the operation of Supreme would be materially adversely affected. Furthermore, should Health Canada not amend the License to allow for sale to the public, the business, financial condition and results of the operation of Supreme would be materially and adversely affected.

Regulatory Risks

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

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

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

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

Change in Laws, Regulations and Guidelines

Supreme's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of Supreme's management, Supreme is currently in compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of Supreme may cause adverse effects to Supreme's operations and the financial condition of Supreme.

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

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

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

Overall, the ACMPR contain four parts:

- Part 1 is similar to the framework under the MMPR. It sets out a framework for commercial production by Licensed Producers responsible for the production and distribution of quality-controlled fresh or dried marijuana or cannabis oil or starting materials (i.e., marijuana seeds and plants) in secure and sanitary conditions.

- Part 2 is similar to the former MMAR regime. It sets out provisions for individuals to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce it for them.

- Parts 3 and 4 include:

    - Transitional provisions, which mainly relate to the continuation of MMPR activities by Licensed Producers;

    - Consequential amendments to other regulations that referenced the MMPR (i.e., *Narcotic Control Regulations*, *New Classes of Practitioners Regulations*) to update definitions and broaden the scope of products beyond dried marijuana; and

    - Provisions repealing the MMPR and setting out the coming into force of the ACMPR on August 24, 2016.

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

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

The risks to the business of Supreme represented by this or similar actions are that they might lead to court rulings or legislative changes that allow those with existing licenses to possess and/or grow medical cannabis, perhaps allow others to opt out of the regulated supply system implemented through the ACMPR by growing their own medical cannabis, or potentially even legitimize illegal areas surrounding cannabis dispensaries. This could significantly reduce the addressable market for Supreme's products and could materially and adversely affect the business, financial condition and results of operations for Supreme.

While the impact of any of such changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on Supreme's operations that is materially different than the effect on similar-sized companies in the same business as Supreme.

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

Legalization of Recreational Cannabis

There can be no assurance that Bill C-45 will be passed into law, or passed into law substantially in the form in which it was introduced. Further, even if Bill C-45 is passed into law, 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.

Financing Risks

Entering the ACMPR regulated medical cannabis marketplace requires substantial outlay of capital. The Company currently generates no operating revenues; therefore, for the foreseeable future, it will be dependent raising capital through a combination of debt and/or equity offerings. There can be no assurance that the capital markets will remain favorable in the future, and/or that the Company will be able to raise the financing needed to continue its business at favorable terms, or at all. Restrictions on the Company’s ability to finance could have a material adverse outcome on the Company and its securities.

Limited Operating History

Supreme entered the medical cannabis business in 2014. Supreme is therefore subject to many of the risks common to early- stage enterprises, including limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Supreme will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Market Risks

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

Volatile Market Price for Common Shares

The market price for the Common 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 Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

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

Reliance on a Single Facility

To date, Supreme’s activities and resources have been primarily focused on the Hybrid Greenhouse in Kincardine, Ontario. Supreme expects to continue the focus on this facility for the foreseeable future. Adverse changes or developments affecting the existing facility could have a material and adverse effect on Supreme’s ability to continue producing medical cannabis, its business, financial condition and prospects.

Expansion of Facility

Expansion of the Hybrid Greenhouse is subject to Health Canada regulatory approvals. While management does not anticipate significant issues receiving any necessary approvals in the future, the delay or denial of such approvals may have a material adverse impact on the business and may result in Supreme not meeting anticipated or future demand when it arises.

Commodity Price Risks

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

Key Personnel Risks.

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

Third Party Transportation

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

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

Reliance of Management

The success of Supreme is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. 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.

Restrictions on Sales Activities

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

History of Net Losses

Supreme has incurred operating losses in recent periods. Supreme may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, Supreme expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If Supreme revenues do not increase to offset these expected increases in costs and operating expenses, Supreme will not be profitable.

Competition

On November 30, 2016, the Task Force published its final report titled: A Framework for the Legalization and Regulation of Cannabis in Canada. In the final report, the Task Force recommended that the federal government of Canada regulate the production of cannabis and its derivatives (e.g. edibles and concentrates) at the federal level, drawing on the good production practices of the current cannabis for medical purposes system. Also, the Task Force recommended that the wholesale distribution of cannabis be regulated by provinces and territories and that retail sales be regulated by the provinces and territories in close collaboration with municipalities. Further, the Task Force recommended allowing personal cultivation of cannabis for non-medical purposes with the following conditions: (i) a limit of four plants per residence; (ii) a maximum height limit of 100 cm on the plants; (iii) a prohibition on dangerous manufacturing processes; (iv) reasonable security measures to prevent theft and youth access; and (v) oversight and approval by local authorities.

On April 13, 2017, the Canadian government introduced Bill C-45. The stated purpose of Bill C-45 is to provide legal access to cannabis and to control and regulate its production, distribution and sale. The passage of Bill C-45 would allow adults to legally possess and use cannabis for recreational purposes.

The introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

The government has only issued to date a limited number of licenses, under the ACMPR, to produce and sell medical cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. 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 45 Licensed Producers as of the date hereof. If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

On May 26, 2017, Health Canada introduced several improvements that aim to streamline the licensing of medical cannabis producers and enable increased production of cannabis. These measures will help ensure that Health Canada's approach to licensing and oversight continues to be aligned with the regulations, the existing evidence of risks to public health and safety, and its approach to other regulated sectors. Health Canada will continue to inspect all facilities before cultivation begins and before a license to sell products to the public is issued. Health Canada will schedule this first inspection after it has determined an application meets the regulatory requirements and it has issued the license to cultivate and once the producer is ready to initiate production in its facility. This approach will help provide successful applicants with a decision on their application as soon as possible while ensuring that all facilities are inspected as cultivation begins.

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

Risks Inherent in an Agriculture Business

Supreme's business involves the growing of medical cannabis, which is an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as pests, plant diseases and similar agricultural risks. Although Supreme grows its products indoors under climate controlled conditions, and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the volume, quality and consistency of its products.

Environmental Regulations and Risks

Supreme's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Supreme's operations.

Government approvals and permits are currently, and may in the future be required in connection with Supreme's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, potentially including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in medical cannabis operations may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Vulnerability to Rising Energy Costs

Supreme's medical cannabis growing operations consume considerable energy, making Supreme vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of Supreme and its ability to operate profitably.

Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, Supreme faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of Supreme products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, 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. Supreme may be subject to various product liability claims, including, among others, that Supreme's products caused injury, illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Supreme could result in increased costs, could adversely affect Supreme's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of

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

Operating Risk and Insurance Coverage

Supreme has insurance to protect its assets, operations and employees. While Supreme 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 Supreme is exposed.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand.

Dividends

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

Limited Market for Securities

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

Uninsurable risks

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

Financial Instruments & Other Instruments

The Company's financial instruments consist of cash, short term investments, reclamation bonds, accounts payable and accrued liabilities and due to related parties, convertible debt and mortgage payable. Cash is classified as fair value through profit or loss and recorded at fair value. Reclamation bonds are classified as held-to-maturity and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, due to related parties and shareholder's loan are classified as other financial liabilities, which are measured at amortized cost. The fair value of cash, reclamation bonds, accounts payable and accrued liabilities, and due to related parties are equal to their carrying value due to their short-term maturity. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The fair value of arms-length financial instruments approximates their carrying value due to the relatively short-term to maturity.

Off-Balance Sheet Arrangements

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

Investor Relations

The Company has not entered into or maintained any investor relations contracts in the period. All investor relation activity is carried out by management.

Critical accounting estimates

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

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

a) The inputs used in accounting for share based payments in the statements of operations and comprehensive loss;

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

c) The amounts recorded related to flow-through share commitments are based on management's assessment of eligible expenditures, which qualify for renouncement under the applicable income tax legislation and are subject to review by the Canadian Revenue Agency ("**CRA**").

d) Bifurcation of the convertible debt.

Significant judgments used in the preparation of these financial statements include, but are not limited to those relating to the assessment of the Company's ability to continue as a going concern and matters related to the acquisition of 7 Acres.

e) Impairment of Intangible Assets

Judgement involved in determining whether an intangible assets useful life is finite or indefinite. The inputs used in assessing the potential impairment of indefinite life intangibles.

New accounting standards and interpretations not yet adopted

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the financial statements to be material.

- IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

- IAS 32 'Offsetting Financial Assets and Liabilities – the IASB amended IAS 32 to clarify certain aspects because of diversity in application of the requirements on offsetting.

Other MD&A Requirements

As specified by National Instrument 51-102, the Company advises readers of this MD&A that important additional information about the Company is available on the SEDAR website – www.sedar.com.

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

Outstanding share data

The authorized capital of the Company consists of an unlimited number of common shares without par value, 10,000,000 Class "A" preference shares and 10,000,000 Class "B" preference shares. The Company had 187,770,401 common shares issued and outstanding as at May 30, 2017. The following table sets out the number of stock options granted as at May 30, 2017:

	Number of options	Exercise price	Expiry date
	50,000	$0.25	May 5, 2019
	1,725,000	$0.41	October 14, 2019
	1,645,000	$0.50	January 10, 2021
	800,000	$0.75	April 25,2021
	3,823,783	$0.75	August 29, 2021
	130,000	$0.77	September 14, 2021
	7,300,000	$2.00	December 15, 2026
Total	**15,473,783**		

The following table sets out the number of share purchase warrants issued and outstanding as at May 30, 2017:

	Number of Warrants	Exercise price	Expiry date
	3,200,000	$0.50	July 2, 2017
	6,061,417	$0.32	April 23, 2020
	374,587	$0.32	July 27, 2017
	2,858,821	$0.55	July 28,2018
	8,557,057	$0.50	June 20, 2019
	1,202,093	$0.50	July 15, 2019
	22,122,160	$0.50	August 30, 2019
	44,467,500	$1.70	December 31, 2022
Total	**88,843,635**		