Supreme.

TSXV:FIRE

SUPREME PHARMACEUTICALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months ended September 30, 2017

Date: November 27, 2017

SUPREME PHARMACEUTICALS INC.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with Supreme's condensed interim consolidated financial statements and notes for the three months ended September 30, 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 financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are in Canadian dollars unless otherwise noted.

This MD&A contains disclosure of material changes occurring up to and including November 27, 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, in some cases, 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 and economic performance may make reference to or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. See "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 Cannabis Business

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

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

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

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

Currently, Supreme's cannabis business is focused on Canada. Supreme is considering opportunities in emerging cannabis markets where medical and/or recreational cannabis is federally legal.

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

Highlights for three months ended September 30, 2017

7ACRES Obtains Permission to Sell Dried Cannabis

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

7ACRES Completes Inaugural B2B Transactions

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

Strengthening of Management Team: September 26, 2017

Supreme strengthened its management team by promoting Mr. Navdeep Dhaliwal from Chief Financial Officer to President. Mr. Dhaliwal will continue his focus on capital markets and strategic expansion. The Company also appointed Mr. Omer Azeez as Vice President, Marketing and Regulatory Affairs and Mr. Dimitre Naoumov as Chief Financial Officer.

Mr. Azeez brings over 18 years of domestic and international marketing experience in highly government-regulated markets from his tenure at Philip Morris International. Mr. Azeez's track record of developing award-winning strategic initiatives targeting consumer and enterprise audiences strengthens Supreme's wholesale distribution strategy.

Mr. Naoumov has spent 9 years at KPMG LLP. Mr. Naoumov was a key member of the Technology, Media and Telecommunications practice based out of Toronto, Canada where he assisted some of Canada's largest and most respected public companies with financial reporting, regulatory compliance and corporate transactions. Mr. Naoumov also has extensive experience helping "small cap" companies during the growth stage with corporate governance, disclosure and accounting best practice.

7ACRES Completed Construction of three 10,000 sq. ft. flowering rooms

In the period, 7ACRES completed construction of three new flowering rooms. Each room represents 10,000 sq. ft. of gross flowering area and the next step in the development of the 7ACRES cultivation platform. The new flowering rooms were designed to improve the quality and consistency of the 7ACRES cannabis flowers based on operational data collected since 7ACRES became a licensed producer in March 2016. Additional investments were made in air and water quality systems to reduce the risk of crop loss and/or crop contamination and improve the working life of the facility. Subject to licensing, which was obtained subsequent to the period as described below, the Company anticipates the additional flowering rooms will boost its annual production capacity to 5,000 KG of dried cannabis flowers per annum.

Subsequent Events

Private placement closed November 14, 2017

On November 14, 2017, the Company closed its previously announced bought deal private placement of 40,250 convertible debenture units (the "**Convertible Debenture Units**") with a syndicate of underwriters, led by Canaccord Genuity Corp., including Beacon Securities Limited, Cormark Securities Inc., Eight Capital, GMP Securities L.P., and PI Financial Corp., for gross proceeds of approximately $40.25 million.

Each Convertible Debenture Unit, at a price of $1,000, is comprised of $1,000 principal amount of 8.0% senior unsecured convertible debentures (the "**Convertible Debentures**") and 313 common share purchase warrants (the "**Warrants**") of the Company. The Convertible Debentures bear interest payable annually in arrears on December 30, 2018 and thereafter semi-annually on the last day of June and December in each year and will mature on November 14, 2019. Each Warrant is exercisable to acquire one Common Share at an exercise price of $1.80 per Common Share until November 14, 2020, subject to customary adjustments.

Approved for increased capacity at 7ACRES

On October 23, 2017, the Company received the necessary approvals from Health Canada to commence cultivation at the recently completed 30,000 sq. ft. flowering rooms. The additional flowering area consists of three modular 10,000 sq. ft. flowering rooms representing the most recent innovation of 7ACRES' cultivation methodology. The additional flowering rooms increased the size of 7ACRES' flowering facility from 10,000 sq. ft. to 40,000 sq. ft. On November 7, 2017, the Company commenced production in the newly constructed flowering rooms.

Additional information relating to Supreme and other regulatory filings can be found on the SEDAR website at www.sedar.com.

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

7ACRES is a Canadian Licensed Producer, focused on cultivating premium dried cannabis flowers on a commercial scale. 7ACRES is a leading Canadian B2B Licensed Producer, a cannabis business model it pioneered in 2016. Currently, 7ACRES operates 40,000 sq. ft. of flowering rooms which is expected to have an average output of approximately 5,000 KG of dried cannabis per annum in the current fiscal year.

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

Results of Operations for the three months ended September 30, 2017 and 2016

During the three months ended September 30, 2017, the Company incurred a net loss and net comprehensive loss of $2,179,146 (September 30, 2016: $3,202,046).

Revenue

During the three months ended September 30, 2017 the Company generated revenues of $1,559,998 (September 30, 2016: nil). On June 28, 2017 the Company, through its wholly-owned subsidiary 7ACRES, was granted permission to sell under the ACMPR regime, consequently commercial sales and execution of the B2B business model have commenced. The medical cannabis sold during the three months ended September 30, 2017 was subject to rigorous quality assurance tests by the Company and the Company's wholesale customers. All quality assurance test results met or exceeded the requirements set by the Company's wholesale customers.

Changes in fair value of biological assets

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

During the three months ended September 30, 2017 the Company recognized a gain of $1,298,697 (September 30, 2016: nil) related to the fair value less costs to sell adjustments of biological assets.

The biological assets as at September 30, 2017 of $628,637 (June 30, 2017: $459,519) are comprised of 2,304 cannabis plants that are estimated to be 50% (June 30, 2017: 43%) complete to harvest. Once harvested the cannabis plants produce (i.e. medical cannabis) is transferred to inventory. During the three months ended September 30, 2017, the Company transferred approximately 270 kilograms (June 30, 2017: nil) of medical cannabis to inventory.

Cost of finished goods sold

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

During the three months ended September 30, 2017 the Company did not recognized cost of finish goods sold as a result of the Company's previous accounting policy to not recognize biological assets at fair value less cost to sell as the Company did not have permission to sell cannabis. Under the current policy, which was implemented by the Company after obtaining permission to sell cannabis, the Company would have recognized approximately $1,518,715 of cost of finished goods sold related to revenue generated during the three months ended September 30, 2017.

Production costs

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

During the three months ended September 30, 2017 the Company recognized production costs of $1,022,571 (September 30, 2016: nil) consisting of direct and overhead costs attributable to production.

Gross profit

Gross profit, including gain on fair value changes of biological assets for the three months ended September 30, 2017 was $1,836,124 (September 30, 2016: nil) the increase in gross profit is due to the Company being granted permission to sell on June 28, 2017. Consequently, the first sales occurred during the quarter ended September 30, 2017.

Operating expenses

During the three months ended September 30, 2017 total operating expenses increased to $4,015,270 (September 30, 2016: $3,202,046). The additional operating expenses were incurred to support the buildup of increased operational capacity in the Facility after the Company was granted permission to sell dry cannabis.

For the three months ended September 30, 2017, the Company's share based payments expense amount to $2,803,385 (September 30, 2016: $1,924,584). 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 executives, employees and consultants.

For the three months ended September 30, 2017, the Company's total wages and benefits expense increased to $718,422 (September 30, 2016: $516,568). Wages and benefits expense are net of $550,751 that have been recorded as production costs during the three months ended September 30, 2017 (September 30, 2017: Nil). The total increase in wages and benefits expense for the three months ended September 30, 2017, including amounts recorded as production costs, are due primarily to the change of the management team and the increased staffing requirements needed as a result of the increased cannabis cultivation efforts at the Company's Facility.

For the three months ended September 30, 2017, the Company's total finance expense (income) amount to $(41,017) (September 30, 2016: $225,187). Finance expense for the three months ended September 30, 2017 are net of borrowing costs capitalized to property, plant and equipment of $1,496,291 (September 30, 2016: $216,593). The total increase of finance expense for the three months ended September 30, 2017, including amounts capitalized to property, plant and equipment is primarily due to accretion and interest expense related to convertible debentures which had a larger average outstanding balance throughout the three months ended September 30, 2017 as compared to the same period in 2016.

For the three months ended September 30, 2017, the Company's total rent and facilities expense decreased to $136,776 (September 30, 2016: $183,983). Rent and facilities expense are net of $355,858 that have been recorded as productions costs during the three months ended September 30, 2017 (September 30, 2016: Nil). The total increase in rent and facilities expense for the three months ended September 30, 2017, including amounts recorded as production costs, is due to the increase in the number of employees requiring more office space and the expansion of the Company's Facility requiring more utilities, security and other related occupancy costs.

For the three ended September 30, 2017, the Company's total general and administrative expense increased to $223,875 (September 30, 2016: $76,676). The general and administrative expense increased due to the additional communication, training and other general expenses as a result of the increased number of employees and the expansion of the Facility.

Construction of the 7ACRES Facility

For the three months ended September 30, 2017, the Company's total capitalized expenditure related to the Facility increased to $10,601,414 (September 30, 2016: $2,100,993). For the three months ended September 30, 2017, the capitalized expenditures include $1,496,291 (September 30, 2016: $216,593) of borrowing costs directly attributable to the constructions of the Facility. The increase in capitalized expenditure is a result of accelerated constructions efforts aimed at the rapid expansion of the Facility.

The weighted average number of common shares, basic and diluted, outstanding for the three months ended September 30, 2017 is 190,844,651 (September 30, 2016: 153,981,608).

Selected Annual Information

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

Interim MD&A – Quarterly Highlights

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

	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016	Mar 31 2016	Dec 31 2015
Net Sales/ Revenue	$1,599,998	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Income (Loss) after tax	$(2,179,146)	$3,817,113	$(3,777,437)	$(12,104,805)	$(3,202,046)	$(1,300,457)	$(2,029,340)	$(531,764)
Basic and diluted Earnings (Loss) per share	$(0.01)	$0.04	$(0.03)	$(0.08)	$(0.02)	$(0.02)	$(0.02)	$(0.01)

Net loss for three months ended decreased to $2,179,146 (September 30, 2016: $3,202,046) due to revenues generated by the company, the recognition of a gain on fair value of biological assets, offset by increase in productions costs and operating expenses.

Liquidity

As at September 30, 2017, the Company has working capital surplus of $46,311,206 (June 30, 2017: $54,668,234).

Cash provided (used) in operating activities during the three months ended September 30, 2017 is $3,341,762 (September 30, 2016: ($789,118)). The cash inflows from operating activities mainly relates to non-cash expenses and gains of $1,643,730 cash inflows from working capital changes of $3,877,178 and a loss for the period of $2,179,146.

Cash used in investing activities during the three months ended September 30, 2017 is $9,960,872 (September 30, 2016: $1,400,993). The increase in cash used for investing activities is mainly related to investments made to the Facility to increase capacity, develop proprietary designs and increase ultimate efficiency.

Cash provided from financing activities during the three months ended September 30, 2017 is $840,563 (September 30, 2016: $14,405,783). The cash inflows from financing activities are due to proceeds from common share warrant and option exercises.

Capital Resources

The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion. As at September 30, 2017 the Company had a cash balance of $51,903,007 and current liabilities of $10,769,657. The Company's current resources are sufficient to settle its current liabilities. Subsequent to September 30, 2017, the Company closed a bought deal private placement of $40,250,000 through the issuance of a convertible debenture maturing two years after closing, the agreement closed on November 14, 2017. Management believes the current resources available will provide for a substantial expansion of the Facility, barring any unforeseen delays or complications**.** All the Company's liabilities are due within 12 months, except for a portion of its convertible debt, which is due December 31, 2019. Subsequent to September 30, 2017, $16,031,000 of the convertible debt was converted 12,331,514 common shares.

Related Party Transactions

The aggregate value of transactions and outstanding balances relating to key management personnel for the three months ended September 30, 2017 were as follows:

Related party transactions

For the three months September 30,	**2017**	**2016**
	$	**$**
Share based payments	2,561,232	1,379,152
Salaries and wages	194,779	132,666
	2,756,011	1,511,818

As at September 30, 2017, directors and executives of the Company held a combined $1,085,000 of convertible debentures.

Risks and Uncertainties

Overview

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

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

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

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

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

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

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

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

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

Change in Laws, Regulations, and Guidelines. Supreme's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, sale and disposal of medical cannabis 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 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 license or 150 grams; and (ii) individuals who held a valid license to produce cannabis under the MMAR as of September 30, 2013, or were issued one thereafter may continue to produce medical cannabis in accordance with the terms of that license. Individuals covered by the 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 a Federal Court injunction order.

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

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.

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.

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 Supreme 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.

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

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

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

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

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

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

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

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

The government has only issued to date a limited number of licenses, under the MMPR/ACMPR, to produce and sell medical cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. 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 76 Licensed Producers as of November 24, 2017. If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

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

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. As well, the Company may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. However, such licenses may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

Environmental and Other Regulatory Requirements. The current or future operations of the Company, including development activities and commencement of production within the Facility, may require permits from various governmental authorities and such operations are and may be subject to laws and regulations governing disposal, growing, record keeping, disposal, sales and similar. Companies engaged in the medical cannabis business need to comply with applicable laws, regulations and permits. There can be no assurance that approvals and permits required to commence production will be obtained on a timely basis, or at all. Additional permits and studies, which may security and growing systems and record keeping are necessary prior to operation of the facilities. There can be no assurance that the Company will be able to obtain or maintain all necessary permits that may be required to commence construction, development or operation of cannabis facilities on terms which enable operations to be conducted at economically justifiable costs.

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

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

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

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

Results of Future Clinical Research. Research regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Future research studies and clinical trials may draw opposing conclusions to those stated in this MD&A or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

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

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

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

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

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

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

Financial Instruments & Other Instruments

The Company's financial instruments consist of cash, receivables, reclamation bonds, investments, accounts payable and accrued liabilities and convertible debt. Cash and investments are classified as fair value through profit or loss or Other Comprehensive 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 receivables, accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost or amortized cost less any impairment losses related to accounts receivable. The fair value of cash, reclamation bonds, accounts payable and accrued liabilities 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

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

Critical accounting estimates

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

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

i) Share-based compensation:

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

ii) Income taxes:

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

iii) Convertible debt:

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

iv) Intangible assets and impairment of long lived assets:

Judgement involved in determining whether an intangible assets useful life is finite or indefinite.

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

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

Amortization of property, plant and equipment is dependent upon estimates of useful lives. Assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account key estimates such as economic and market conditions and the useful lives of assets.

vi) Valuation of biological assets:

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to sell.

Fair value estimates include the following assumptions:

(a) Selling prices were determined by estimating the Company's average selling price during the three months ended September 30, 2017;

(b) The percentage of costs incurred and remaining costs to complete;

(c) The percentage of costs incurred for each stage of plant growth;

(d) The stage of plant growth; and

(e) Expected yields by cannabis plant.

vii) Inventory:

Inventory consist of dried cannabis, supplies, seeds and other consumables and is measured at the lower of cost and net realizable value, which includes fair value measurements on the transformation of biological assets.

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

New accounting standards and interpretations not yet adopted

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

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

- IFRS 15, 'Revenue from Contracts and Customers' - effective for annual periods beginning on or after January 1, 2018. The IASB will replace IAS 18, Revenue, IAS 11, Construction contracts, and related interpretations on revenue with IFRS 15. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.

- IFRS 16, 'Leases' - effective for annual periods beginning on or after January 1, 2019, adoption of IFRS 16 will result in substantially all lessee leases being recorded on the balance sheet as an asset with a corresponding liability with both current and long-term portions.

Other MD&A Requirements

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

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 with a par value of $10 each and 10,000,000 Class "B" preference shares with a par value of $50 each. The Company had 206,543,299 common shares issued and outstanding as at November 27, 2017.

The following table sets out the number of stock options granted and outstanding as at November 27, 2017:

Exercise price	Number of options	Expiry date
$0.25	50,000	May 5, 2019
$0.41	1,275,000	October 14, 2019
$0.50	1,435,000	January 10, 2021
$0.75	800,000	April 25,2021
$0.75	3,823,783	August 29, 2021
$1.45	3,010,000	September 25, 2022
$2.00	7,000,000	December 15, 2026
Total	**17,393,783**	

The following table sets out the number of share purchase warrants issued and outstanding as at November 27, 2017:

Exercise price	Number of Warrants	Expiry date
$0.50	8,104,557	June 20, 2019
$0.32	6,061,417	April 23, 2020
$0.55	2,758,821	July 27, 2018
$0.50	1,202,093	July 15, 2019
$0.50	18,818,648	August 30, 2019
$1.70	43,623,965	December 13, 2019
$1.80	12,598,250	November 14, 2020
Total	**93,167,751**	