



**(formerly Belgravia Capital International Inc.)**

# 2019

## Management's Discussion and Analysis

for the year ended December 31, 2019

**Management’s Discussion and Analysis**

**Belgravia Hartford Capital Inc.**

(formerly Belgravia Capital International Inc.)

**Hereinafter called “Belgravia” or the “Company”**

(Containing information up to and including April 22, 2020)

**Description of Management’s Discussion and Analysis**

This Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019 and December 31, 2018. This MD&A was prepared as at April 22, 2020. This MD&A contains forward-looking information and statements, which are based on the conclusions of management. The forward-looking information and statements are only made as of the date of this MD&A.

All financial information is presented in Canadian dollars unless otherwise stated. All references to a year refer to the year-ended on December 31<sup>st</sup> of that year, and all references to a quarter refer to the quarter ended on December 31<sup>st</sup> of that year. The Company is a reporting issuer in Alberta, British Columbia, Ontario, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and the Northwest Territories.

Unless otherwise noted, financial results are reported in accordance with International Financial Reporting Standards (“IFRS”). Further details are included in Note 2 of the consolidated financial statements for the year ended December 31, 2019.

Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.belgraviahartford.ca](http://www.belgraviahartford.ca).

**Company Overview**

Belgravia Hartford Capital Inc. (“Belgravia” or the “Company”) formerly Belgravia Capital International Inc., was incorporated under the Canada Business Corporations Act on November 8, 2002 and has continued into British Columbia from the jurisdiction of Canada on December 20, 2019. Belgravia focused on its three core business divisions: Incubation, Investments, and Royalty & Management Services. All three divisions are high risk and expose the Company’s shareholders to significant risk. Belgravia’s Incubation division will develop new companies in specific sectors. Belgravia Holdings, the Investments division, provides merchant banking services and invests in a portfolio of private and public companies with a focus on licit cannabis, technology, and, on an opportunistic basis, resources. The Royalty and Management Services division has developed a targeted royalty and fee income model and will provide services to support the development of early-stage companies, while taking steps to ensure it receives the water royalties owned by the Company. Belgravia is a corporation governed by the BC Business Corporation’s Act. The shares of the Company are listed on the Canadian Securities Exchange (“CSE”) and the OTC Market under the symbols BLGV and BLGVF respectively. The Company’s registered office is located at #3-3185 Via Centrale, Kelowna, BC V1V 2A7.

The Company may obtain financing through access to public and private equity markets, debt and partnerships or joint ventures.

Belgravia owns 100% of Intercontinental Potash Corp. (“ICP”), a Canadian company previously involved in resource exploration and mine development. On November 30, 2009, the Company completed a reverse-takeover (“RTO”)

with ICP. Legally, Belgravia is the parent of ICP, but for financial reporting purposes, Belgravia is considered to be a continuation of ICP. Belgravia was consolidated commencing on December 1, 2009.

### **Forward-Looking Statements**

This MD&A includes certain statements that may be deemed “forward-looking statements” as defined under applicable securities law. Other than statements of historical facts, statements in this discussion including, but not limited to, statements that address future research and investment plans and expected or anticipated events or developments are forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, market prices, continued availability of capital and financing, general economic, market or business conditions, statements regarding planned investment activities & related returns, trends in the markets for medicinal or recreational use of cannabis and cannabinoids, the timing or assurance of the legalization of recreational cannabis, research and development activities, the potential value of royalties from water and other resources, technological advancement, competition, other statements that are not historical facts, and the risk factors identified herein. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of the Company, including, but not limited to, changes in market trends, capital markets, the completion, results and timing of research undertaken by the Company, risks associated with natural resource assets and investments, commodity prices, industry conditions, dependence upon regulatory, environmental, and governmental approvals, the uncertainty of obtaining additional financing, and risks associated with cannabis use for medicinal or recreational purposes. Other risks that could impact the Company’s performance are described within this MD&A. These factors could also impact the Company’s performance in the future and cause variances from period to period. Although the Company believes the expectations expressed in any forward-looking statement are based on reasonable assumptions, investors are cautioned that any such statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in the forward-looking statements.

### **Management's Responsibility for Financial Statements**

The Company's management is responsible for the presentation and preparation of annual consolidated financial statements and the MD&A. The consolidated financial statements have been prepared in accordance with IFRS. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators.

### **Summary of Quarterly Results**

Selected quarterly financial information of the Company for the quarters ended December 31, 2019 is as follows:

#### **Table of Results for the Quarters to December 31, 2019**

	<b>Dec 31 2019</b>	<b>Sep 30 2019</b>	<b>Jun 30 2019</b>	<b>Mar 31 2019</b>
Total assets	\$ 8,519,224	\$ 10,060,339	\$ 9,208,677	\$ 9,820,985
Property, plant and equipment	\$ 4,333	\$ 5,007	\$ 5,682	\$ 6,356
Working capital	\$ 8,136,958	\$ 9,201,070	\$ 8,435,635	\$ 8,749,805
Shareholders' equity	\$ 8,218,871	\$ 9,595,962	\$ 8,893,614	\$ 9,533,929
Interest income	\$ 246	\$ 2,077	\$ 569	\$ 336
Net income (loss)	\$ (899,781)	\$ 702,348	\$ (640,315)	\$ 1,076,403
Basic income (loss) per share	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.00
Fully diluted income (loss) per share	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.00

Selected quarterly financial information of the Company for the quarters ended December 31, 2018 is as follows:

**Table of Results for the Quarters to December 31, 2018**

	<b>Dec 31 2018</b>	<b>Sep 30 2018</b>	<b>Jun 30 2018</b>	<b>Mar 31 2018</b>
Total assets	\$ 8,655,163	\$ 11,061,056	\$ 11,756,931	\$ 11,899,601
Property, plant and equipment	\$ 7,031	\$ 4,549	\$ 5,019	\$ 1,125
Working capital	\$ 8,073,081	\$ 10,886,925	\$ 11,684,883	\$ 11,673,562
Shareholders' equity	\$ 8,457,526	\$ 10,891,474	\$ 11,689,902	\$ 11,674,687
Interest income	\$ 33,309	\$ 27,033	\$ 2,893	\$ 25,114
Net loss	\$ (2,114,782)	\$ (826,428)	\$ (596,851)	\$ (3,495,591)
Basic loss per share	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Fully diluted loss per share	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.01)

**Results of Operations for the Quarter ended December 31, 2019**

The Company did not generate operating revenue during the quarter ended December 31, 2019 other than management services fees. The Company also earned investment and interest income.

**Office and Administration Expenses**

Administration and related costs amounted to \$74,399 (2018 – \$22,897) for the quarter. This included director fees, annual general meeting, insurance, telephone, postage and courier, dues and subscriptions, stationery, repairs and maintenance, utilities and related costs.

Business development and market development spending for the quarter was \$184,137 (2018 - \$36,364). Business development costs included activities related to the search for partners as well as exploring new investment strategies.

Consulting fees in the quarter were \$84,021 (2018 – \$158,952); this was mostly in respect of strategy, management and capital markets consulting.

Depreciation during the quarter amounted to \$674 (2018 - \$1,318). This relates to depreciation of computer equipment.

Investor relations cost in the quarter was \$133,135 (2018 – \$40,524). This amount is for expenses related to offsite events, conferences and roadshows, meetings with shareholders and potential shareholders, and other investor relations activities.

Professional fees of \$54,874 (2018 – \$20,071) for the quarter were incurred in respect of auditing costs, other accounting costs, and legal costs.

Regulatory fees including transfer agent and filing fees and CSE fees were \$9,635 (2018 - \$11,250). This is for transfer agent and other stock exchange listing fees and securities filings.

Rent and storage in the quarter were \$30,180 (2018 - \$30,180). This is for rental offices in Toronto and Kelowna.

Travel, including related costs, for the quarter amounted to \$22,564 (2018 – \$32,120) and were composed of such costs not specifically related to investor relations and business development.

Wages and benefits for the quarter amounted to \$224,307 (2018 – \$233,450). This amount included the compensation and employment related costs of the President and Chief Executive Officer, Chief Financial Officer, Controller, Vice President, management and administrative staff.

Management services revenue for the quarter was \$59,800 (2018 - \$200,000).

Interest income for the quarter was \$246 (2018 - \$33,309).

### **Selected Annual Information**

Selected audited financial information of the Company for the years ended December 31, 2016, 2017, 2018 and 2019 is as follows:

	<b>December 31 2019</b>	<b>December 31 2018</b>	<b>December 31 2017</b>	<b>December 31 2016</b>
Total assets	\$ 8,519,224	\$ 8,655,163	\$ 4,100,279	\$ 30,996,894
Property, plant and equipment	\$ 4,333	\$ 7,031	\$ 1,266	\$ 26,552,924
Working capital	\$ 8,136,958	\$ 8,073,081	\$ 3,476,189	\$ 790,051
Shareholders' equity (deficiency)	\$ 8,218,871	\$ 8,457,526	\$ 3,477,455	\$ (14,748)
Interest income	\$ 3,228	\$ 88,349	\$ 4,363	\$ 1,929
Net loss	\$ (238,655)	\$ (7,033,652)	\$ (8,406,651)	\$ (61,484,056)
Basic loss per share	\$ (0.00)	\$ (0.02)	\$ (0.04)	\$ (0.33)
Fully diluted loss per share	\$ (0.00)	\$ (0.02)	\$ (0.04)	\$ (0.33)

### **Results of Operations for the Year ended December 31, 2019**

The Company did not generate operating revenue during the year ended December 31, 2019 other than management services fees. The Company also earned investment and interest income.

#### **Office and Administration Expenses**

Administration and related costs amounted to \$321,635 (2018 - \$389,949) for the year. This included meeting costs, director fees, telephone, postage and courier, dues and subscriptions, stationery, repairs and maintenance, office security, utilities and related costs. The decrease is due to decreases in director fees and office expenses.

Business development and market development spending for the year was \$313,508 (2018 - \$157,441). The increase is due to more activities related to the search for partners as well as exploring new investment strategies in 2019.

Consulting fees in the year were \$287,149 (2018 - \$828,757); this was mostly in respect of strategy, management and capital markets consulting. This is for consulting related to capital markets, investing and the new business model. The Company used less consulting services during 2019.

Depreciation during the year amounted to \$2,698 (2018 - \$2,399). This relates to depreciation in respect of computer equipment.

Fundraising activities for the year was \$nil (2018 - \$5,000). This amount is for expenses related to identifying and meeting with potential companies and investors. The company did not pursue financing activities in 2019.

Investor relations cost in the year was \$226,710 (2018 - \$164,162). Investor relations costs include expenses related to offsite events, conferences and roadshows, meetings with shareholders and potential shareholders, and other investor relations activities.

Professional fees of \$164,261 (2018 - \$321,822) for the year were incurred mostly in respect of auditing costs, other accounting costs, and legal costs. The decrease is due to reducing legal costs in 2019.

Regulatory fees including transfer agent and filing fees and CSE & OTC listing fees were \$42,773 (2018 - \$62,209). This is for transfer agent and other stock exchange listing fees and securities filings.

Rent and storage in the year were \$120,720 (2018 - \$101,720). This increase due to rental office in Toronto.

Share-based compensation for the year was \$nil (2018 - \$2,903,527) due to no stock options being granted in 2019.

Travel, including related costs, for the year amounted to \$142,668 (2018 - \$80,072) and were composed of such costs not specifically related to investor relations and business development.

Wages and benefits for the year amounted to \$1,183,511 (2018 - \$1,205,023). This amount included the salaries, bonuses, training and employment related costs of the President and Chief Executive Officer, Chief Financial Officer, Controller, management and administrative staff.

Management services revenue for the year was \$232,670 (2018 - \$815,000).

Interest income for the year was \$3,228 (2018 - \$88,349). The decrease due to excess cash invested in investment portfolio instead of being held at the bank.

### **Investment Portfolio**

The Company invests in a diversified portfolio of private and public companies and money market & bond funds with a focus on healthcare/biotech, technology and, on an opportunistic basis, resources with a goal to provide a risk-appropriate return to its shareholders through capital gains in accordance with the Company's investment guidelines.

During the quarter ended December 31, 2019, the Company recorded an unrealized loss of \$259,707 (2018 – \$815,402) for equity, debt and mutual fund investments and an unrealized loss of \$440,866 (2018 –\$445,260) for warrants.

During the quarter ended December 31, 2019, the Company exercised some investment warrants and recorded a gain of \$165,910 (2018 – \$nil).

During the quarter ended December 31, 2019, the Company sold certain of its investments for proceeds totalling \$44,101 (2018 - \$338,291) and recognized a gain of \$99,401 (2018 – a loss of \$17,428).

As at December 31, 2019, fair value of the investments was \$7,513,855 (2018 - \$5,082,615). This includes value of equity investments of \$6,633,126 (2018 - \$4,256,460), debt instrument of \$325,000 (2018 - \$325,000), and value of warrants of \$555,729 (2018 - \$501,155). The Company has made diversified investments in the common shares of public and private companies in the areas of technology, blockchain, legal cannabis and mineral resources with a total approximate initial investment of \$6 million.

As at April 22, 2019, Belgravia currently holds fourteen investments: ten public and four private companies. The value of the investments in private companies might only be realized if those companies are sold or if they go public to create liquidity.

*Blackrock Gold Corp. (TSX-V:BRC):*

Belgravia owns 12,240,000 shares of Blackrock Gold Corp. (“Blackrock”) representing approximately 18% of the outstanding common shares. Blackrock’s main asset is the Silver Cloud project in Nevada.

*Nexus Gold Corp. (TSX-V:NXS):*

Belgravia owns 8,980,000 shares of Nexus Gold Corp. (“Nexus”) representing approximately 8% of its outstanding shares. Nexus is operating three gold exploration projects in Burkina Faso, West Africa.

*Tartisan Nickel Corp. (CSE:TN):*

Belgravia continues its litigation against Tartisan Nickel Corp. (“Tartisan”), a company in which Belgravia currently holds 3,122,000 common shares, and D. Mark Appleby. In the lawsuit, Belgravia claims for damages in the amount of \$750,000 for negligent misrepresentation and breach of contract.

Belgravia entered into a management services agreement with Tartisan (the “MSA”) to provide services and for which Tartisan was required to pay Belgravia amounts totalling \$150,000. Tartisan has paid only \$50,000 of this amount in breach of the MSA. These services included, but were not limited to, adding one board member, capital markets advisory, digital marketing, and corporate governance.

A statement of defence and counterclaim seeking \$1,050,000 in damages plus costs of the action was received by the Company on July 19, 2018.

Currently, the Company has requested for the examination of the discovery. Based upon the answers received from Tartisan, the Company is confident that Tartisan’s claims are without merit.

*Zonetail Inc.:*

Belgravia owns 2,850,000 shares of Zonetail Inc., representing approximately 4% of the outstanding common shares. On June 20, 2019 Belgravia filed an Application for a Bankruptcy Order against Zonetail Inc. in the Ontario Superior Court of Justice on the basis that Zonetail has ceased to have met its liabilities as they become due including Belgravia's unsecured promissory note. On December 10, 2019, Zonetail commenced an action against Belgravia alleging damages in excess of \$6 million. Belgravia regards these Zonetail claims as completely specious; designed to delay payment of its debt. On December 18, 2019 Belgravia filed a Notice of Intent to Defend in the Ontario Superior Court of Justice (Commercial List).

**Royalty & Management Services Division:**

Year-to-date, Belgravia had been awarded management service contracts with a value of \$369,827, of which \$232,670 (2018 - \$815,000) has been recognized as revenue. These services are in respect to business strategy, capital markets, public disclosure, governance, accounting, finance, and corporate personnel. Belgravia generally offers these advisory services, mentoring, and access to the Belgravia’s network to its investees in order to help these companies succeed and develop, which results in increases to the value of Belgravia’s investment. The Company uses consultants as needed to provide services under these management services agreements.

There is no assurance that the Company will continue to earn management services revenue as each agreement is negotiated on a one-off basis and generally for a period of less than 12 months. These revenues come from high risk companies that may default on payments under the management services agreements.

The Company holds an interest in up to USD\$12.2 million of anticipated water and mineral royalties from its previously-owned Ochoa project. Belgravia is actively pursuing these royalties through the retention of a legal advisor. No royalties have been received to date and there is no assurance that these royalties will ever be received.

### **Financings**

During the year ended December 31, 2019, the Company issued nil common shares.

During the year ended December 31, 2018, the Company issued the following common shares:

- On January 10, 2018, the Company issued 133,990,000 units pursuant to a private placement at \$0.05 per unit for gross proceeds of \$6,699,500. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for \$0.06 per share until May 10, 2019, provided that if, at any time after the date which is four months and one day following the closing date, the volume weighted average price of the common shares is equal to or exceeds \$0.21 for 18 consecutive trading days, the Company may accelerate the expiry date of the warrants, in which event the warrants will expire upon the date (the “Accelerated Expiry Date”) which is 30 days following of a press release by the Company announcing the Accelerated Expiry Date. The Company issued 3,649,200 finder’s warrants to certain eligible arm’s length parties entitling the holder to acquire one Common Share for a period of 12 months at an exercise price equal to \$0.19.
- The Company issued 2,400,000 shares at an average price of \$0.095 for gross proceeds of \$228,000 pursuant to the exercise of stock options.
- The Company issued 30,843,810 shares at \$0.08 for gross proceeds of \$2,467,505 pursuant to the exercise of warrants.
- The Company issued 280,000 shares at \$0.06 for gross proceeds of \$16,800 pursuant to the exercise of broker warrants.
- The Company issued 5,000,000 shares with a value of \$250,000 as consideration to acquire investments.
- On October 19, 2018, the Company adopted a Normal Course Issuer Bid (“NCIB”) whereby the Company may repurchase for cancellation up to 20,567,733 of its issued and outstanding common shares. The NCIB expired October 19, 2019. On October 24, 2018, the Company repurchased and cancelled 9,562,140 of its common shares for \$291,167 cash consideration.

### **Liquidity and Capital Resources at December 31, 2019**

At December 31, 2019, the Company’s working capital was \$8,136,958 (2018 – \$8,073,081). Investments in private and junior public companies that are included in working capital may not be liquid in the short term and present greater risk to Belgravia and its shareholders. The sources of cash in the period included cash from the management services consulting fees, proceeds from the sale of investments, and interest earned on cash in the bank accounts.

The consolidated financial statements for the year ended December 31, 2019 have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. This MD&A does not give effect to any adjustment which would be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in this MD&A.



## **Transactions with Related Parties**

During the year ended December 31, 2019, the Company entered into the following transactions with related parties:

- a) Paid or accrued short-term employee benefits \$704,930 (2018 - \$787,667), of which \$465,000 (2018 - \$581,000) was for Mehdi Azodi, \$239,930 (2018 - \$32,500) was for Paul Kania, and \$nil (2018 - \$174,167) was paid to Kevin Strong, former CFO.
- b) Paid or accrued directors' fees, included in administrative costs, of \$205,000 (2018 - \$291,750), of which \$50,000 (2018 - \$76,750) was for Ernest Angelo, \$50,000 (2018 - \$70,000) was for Knute Lee, \$50,000 (2018- \$70,000) was for Pierre Pettigrew, and \$55,000 (2018 - \$75,000) was for John Stubbs.

Incurred share-based compensation in the form of stock options valued at \$nil (2018 - \$1,952,868), of which \$nil (2018 - \$578,193) was to Mehdi Azodi, \$nil (2018 - \$286,377) was to John Stubbs, \$nil (2018 - \$396,131) was to Pierre Pettigrew, \$nil (2018 - \$250,448) was to Ernest Angelo, \$nil (2018 - \$248,791) was to Knute Lee, and \$nil (2018- \$192,928) was to Kevin Strong.

- c) Included in accounts payable as at December 31, 2019 is \$82,053 (2018- \$nil) due to key management personnel, which includes officers and directors and corporations controlled by officers and directors.

Key management personnel compensation (including senior officers and directors of the Company):

	Year ended	
	December 31, 2019	December 31, 2018
Short-term benefits *	\$ 704,930	\$ 787,667
Directors' fees **	205,000	291,750
Share-based compensation	-	1,952,868
Total remuneration	\$ 909,930	\$ 3,032,285

\* Amounts are included within wages and benefits on the statement of loss and comprehensive loss.

\*\* Amounts are included within administration on the statement of loss and comprehensive loss.

## **Financial Instruments**

International Financial Reporting Standards 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments include cash and cash equivalents, investments, receivables, accounts payable and accrued liabilities.

Cash is measured at fair value using level one as the basis for measurement in the fair value hierarchy. Investments in public companies, mutual funds, money market funds and fixed income funds are measured at level one while investments in warrants and private companies are measured at level three. The warrant liability and embedded derivative are categorized as level three. The carrying value of receivables, accounts payable and accrued liabilities and employment liability approximate fair value because of the short-term nature of these instruments.

## **Other**

### **Outstanding Share data as April 22, 2020:**

- (a) Authorized and issued share capital at April 22, 2020:

Class	Par Value	Authorized	Issued Number
Common	No Par Value	Unlimited	401,792,516 *

(\* ) In 2018, the Company bought back for cancellation 9,562,140 Treasury Shares.

- (b) Summary of Options outstanding as at April 22, 2020:

Number of Options	Exercise Price	Expiry Date
2,500,000	\$0.08	June 6, 2021
2,500,000		

## **Accounting Principles**

The financial statements have been prepared in accordance with IFRS.

The policies and estimates are considered appropriate under the circumstances but are subject to judgments and uncertainties inherent in the financial reporting process. See also Note 2 in the consolidated financial statements for the year ended December 31, 2019 and December 31, 2018 for additional detail on accounting principles.

## **Foreign currency translation**

The consolidated financial statements are presented in Canadian dollars.

Transactions in foreign currencies are translated into the entity's functional currency at the exchange rates at the date of the transactions. Monetary assets and liabilities of the Company's operations denominated in a currency other than the Canadian dollar are translated using the exchange rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates in effect at the date of the underlying transaction, except for depreciation related to non-monetary assets, which is translated at historical exchange rates. Exchange differences are recognized in the statements of loss and comprehensive loss in the year in which they occur.

## **New standards, amendments and interpretations:**

*Effective January 1, 2019*

IFRS 16 – Leases. IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. Effective January 1, 2019, the Company adopted this new standard. For short-term leases (lease term of 12 months or less), the Company has opted to recognize a lease expense on a straight-

line basis as permitted by IFRS16. The Company has taken the exemption related to short-term leases. The adoption of IFRS 16 did not have a material effect on the Company's Financial Statements.

## **Risks and Uncertainties**

### **Credit risk**

The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. Cash is held at reputable financial institutions, from which management believes the risk of loss to be remote. Receivables consist primarily of amounts due from government agencies, from loans outstanding to employees and consultants, and from management services clients, which the Company believes will be fully collected, however there is a risk of non-payment from the management services clients.

### **Liquidity risk**

As at December 31, 2019, the Company had a cash balance of \$653,975 to settle current liabilities of \$171,754. The Company is not subject to liquidity risk.

### **Interest rate risk**

The Company has cash balances subject to fluctuations in the prime rate. The Company's current policy is to invest some of excess cash in investment-grade highly liquid demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes that interest rate risk is remote as cash deposits are payable on demand and the Company currently does not carry interest bearing debt at floating rates. Fluctuations in interest rates may impact the value of the Company's investments in publicly traded common shares and investments in floating rate debt and deposits.

### **Foreign currency risk**

The Company's functional currency is the Canadian dollar; however, there are transactions in U.S. dollars and the Company keeps some of its cash in US currency. The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility in these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. A 10% change in the foreign exchange rate would have had an approximate \$50,000 impact on foreign exchange gain or loss.

### **Market and Investment risk**

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The amounts at which the Company's publicly-traded investments could be disposed of currently may differ from their carrying values based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity. Additionally, current market prices may differ significantly from the historical prices used to calculate fair value for the purposes of the Company's financial statements. The Company's investments are accounted for at fair value and are sensitive to changes in market bid prices, such that market trends and changes in market prices result in a proportionate change in the carrying value of the Company's investments.

The Company's results of operations and financial condition are dependent upon the market value of the securities that comprise the Company's investment portfolio. Market value can be reflective of the actual or anticipated operating results of the Company's portfolio companies and/or the general market conditions that affect the sectors in which the Company invests. The Company's investments are primarily concentrated in the junior healthcare, natural resource, and technology industries, which results in exposure to higher volatility and risk than broader market investments and indexes. The value of any or all of the Company's investments could become zero in the future. There are various factors that could have a negative impact on investee companies and thereby have an adverse effect on the Company. Additionally, the Company's investments are mostly in small-cap businesses which the Company believes exhibit potential for growth and sustainable cash flows but which may not ever mature or generate the returns the Company expects or may require a number of years to do so. Technology and resource companies may never achieve success.

This may create an irregular pattern in the Company's revenues (if any). Macro factors such as fluctuations in commodity prices and global political, economic and market conditions could have an adverse effect on one or more sectors to which the Company is exposed, thereby negatively impacting one or more of the portfolio companies concurrently. Company-specific risks could have an adverse effect on one or more of the Company's portfolio companies at any point in time. Company-specific and industry-specific risks which materially adversely affect the Company's investments may have a materially adverse impact on its operating results.

The Company holds investments in private and publicly-traded equity securities. Market prices for equity securities are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Investments in securities of public companies are subject to volatility in the share prices of the companies. There can be no assurance that an active trading market for any of the subject shares is sustainable. The trading prices of the subject securities could be subject to wide fluctuations in response to various factors beyond the control of the Company, including quarterly variations in the subject entities' results of operations, changes in earnings (if any), estimates by analysts, conditions in the industry of the subject companies and general market or economic conditions. In recent years, equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, often unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of the Company's investments and significantly negatively impact upon the Company's operating results.

Some investments may not be very liquid, and dispositions may take time or may be sold at less than market prices. The amounts at which the Company's private company investments could be disposed of currently may differ from their carrying values since there is no active market to dispose of these investments. Investments in private issuers cannot be resold without a prospectus, an available exemption or an appropriate ruling under relevant securities legislation and there may not be any market for such securities. These limitations may impair the Company's ability to react quickly to market conditions or negotiate the most favourable terms for exiting such investments. Investments in private issuers may offer relatively high potential returns but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for any of the Company's private company investments or that the Company will otherwise be able to realize a return on such investments. The Company also invests in illiquid securities of public issuers. A considerable period of time may elapse between the time a decision is made to sell such securities and the time the Company is able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that the Company will be unable to realize the Company's investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy. In some cases, the Company may be prohibited by contract or by law from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

Investments may include debt instruments and equity securities of companies that Belgravia does not control. These instruments and securities may be acquired by the Company in the secondary market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the Company does not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve the Company's interests. If any of the foregoing were to occur, the values of investments could decrease and the Company's financial condition, results of operations and cash flow could suffer as a result.

A 10% change in the fair values of the Company's investments at December 31, 2019 would have an \$750,000 impact on results from operations.

### **Operating History and Expected Losses**

The Company has a limited history of operations and no material earnings to date and there can be no assurance that the business of the Company will be successful or profitable. No dividends have been paid to date. Payment of any future dividends, if any, will be at the discretion of the Company's board of directors.

The Company may need additional funding to complete its short and long-term objectives. The ability of the Company to raise such financing in the future will depend on the prevailing market conditions, as well as the business performance of the Company. Global financial conditions are subject to high volatility, thus access to public financing may be negatively impacted. There can be no assurances that the Company will be successful in its efforts to raise

additional financing on terms satisfactory to the Company. The market price of the Company's shares at any given point in time may not accurately reflect the long-term value. If adequate funds are not available or not available on acceptable terms, the Company may not be able to take advantage of opportunities, to develop new projects or to otherwise respond to competitive pressures.

### **Growth Management**

In executing the Company's business plan for the future, there will be significant pressure on management, operations and technical resources. The Company anticipates that its operating and personnel costs will increase in the future. In order to manage its growth, the Company will have to increase the number of its technical and operational employees and efficiently manage its employees, while at the same time efficiently maintaining a large number of relationships with third parties.

### **Regulatory & Legal Risks**

The Company is subject to a number of technological challenges and requirements and can be subject to the regulations and standards imposed by applicable regulatory agencies.

Various federal, state or provincial and local laws govern the Company's business in the jurisdictions in which it operates or proposes to operate, or to which it exports or proposes to export our products, including laws and regulations relating to health and safety, conduct of operations and the production, management, transportation, storage and disposal of its products and of certain material used in its operations. Compliance with these laws and regulations requires concurrent compliance with complex federal, provincial or state and local laws. These laws change frequently and may be difficult to interpret and apply. Compliance with these laws and regulations requires the investment of significant financial and managerial resources, and a determination that it is not in compliance with these laws and regulations could harm its brand image and business. Moreover, it is impossible for the Company to predict the cost or effect of such laws, regulations or guidelines upon its future operations. Changes to these laws or regulations could negatively affect the Company's competitive position within our industry and the markets in which it operates

### **Reliance on Key Personnel and Advisors**

The Company relies heavily on its officers and is dependent upon the services of key executives, including the Chief Executive Officer. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

### **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 the common shares of the Company 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.

### **COVID-19 (Coronavirus) Risk**

On March 11, 2020 the World Health Organization (WHO) declared COVID-19 (Coronavirus) outbreak as a “pandemic”, namely, the worldwide spread of a new disease. The Government of Ontario announced on March 17, 2020 that it made an order declaring a state of emergency in response to coronavirus (COVID-19) (the “Government Order”). All provinces in Canada have now declared a state of emergency and/or state of public health emergency. On March 31, 2020 the Premier of Ontario announced that an order was made that all schools remain closed through to the end of April and most recently advised the province’s public schools will not be reopening on May 4, 2020 amid the coronavirus pandemic. Further COVID-19 measures are expected to last until July 2020.

The outbreak and ensuing government restrictions raise corporate governance concerns and come with inherent commercial and operational risks due to potential disruptions to investee companies’ supply chains, instances of high absenteeism, and/or travel risks. These effects are exacerbated now that the WHO raised its classification of the coronavirus to “pandemic” level. With three of the Company’s directors currently residing outside of Canada, in the short term, the Company has decided to hold all board and committee meetings via telephone conference.

Ever-expanding governmental restrictions on travel, movement, and large gatherings have resulted in significant business interruptions and widespread event and travel cancellations, with a particularly salient impact on the stock markets and the Company’s carrying values in investee companies in the mining resource and other sectors, resulting in a detrimental effect to the performance of Belgravia’s stock liquidity and price, and ability to engage in management services. Further, there is no assurance that the ripple effect of COVID-19 will not continue to affect the performance of Belgravia for a considerable period of time in the future.

### **Other risks**

To the extent of the holdings of the Company through its subsidiaries, the Company will be dependent on the cash flows of these subsidiaries to meet its obligations, which cash flows may be constrained by applicable taxation and other restrictions.

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies and, consequently, there exists the possibility for such directors and officers to be in a position of conflict.

There are specific risks associated with some of the industries in which the Company invests, including legal cannabis, healthcare, technology, blockchain and natural resources.

### **Risks Related to the Medical Cannabis Industry**

The Company has no commercial operations in the cannabis industry. The Company is not a grower or retailer of any cannabis products. The Company is a passive investor in the cannabis sector and in select circumstances may have one of its consultants or employees act as an advisor to a company operating legally in the sector.

#### **The Legal Cannabis Market**

The medical cannabis industry and market are relatively new in Canada and the U.S., and this industry and market may not continue to exist or grow as anticipated. The Company makes investments in companies and is internally creating products in a relatively new licit cannabis industry and market.

In addition to being subject to general business risks, the Company will need to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote its products as effectively as intended, or at all. Competitive conditions, consumer preferences, patient requirements and pending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

The Company and its investees are constrained by law in their ability to market their products in Canada.

#### **Canadian Companies with U.S. Marijuana-Related Assets**

In 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (the “Staff Notice”), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state’s

regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents. Currently the activity of Belgravia Capital in the US cannabis sector is limited, and its industry involvement of cannabis activities is indirect (as such term is used in the Staff Notice) through investments in entities (the “Investees”) operating in the US cannabis industry. More importantly, the Company does not operate, does not control any subsidiary that is directly engaged in the cultivation or distribution of marijuana or cannabis in accordance with a US state license. Due of the Investees cannabis operations in the US (described below), the Company is subject to the requirements of the Staff Notice.

To date Belgravia Capital has not obtained independent legal advice regarding compliance with US state regulatory boundaries, exposure and various risks from US federal laws in the states where its Investees conduct operations. For each of the Investees involved in the US cannabis industry, as discussed below in the synopsis of holdings, to the best of the Company’s knowledge, the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable US state for any of such Investees’ business and the Company is not aware of: (i) any non-compliance by these Investees with respect to marijuana related activities, or (ii) any notices of violation with respect to any Investees’ marijuana-related activities by its respective regulatory authorities. Cannabis laws may be subject to change in the US.

#### **Ability to Access Public and Private Capital**

The Company has an ongoing banking relationship with more than one Canadian chartered bank., including TD Canada Trust.

Since the cultivation, distribution and possession of cannabis is currently illegal under U.S. federal law and the Company may invest in companies with cannabis operations in the U.S, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the cannabis industry. The inability to open or maintain bank accounts with certain institutions could materially and adversely affect the business of the Company.

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. The Company has had investments in cannabis-related companies who were legally licenced and allowed to operate in the United States under state law since early 2018. The Company has not had to complete any private placements or public offerings since January 2018, and various factors including risk factors related to the Company’s investment in the cannabis sector could negatively impact the Company’s ability to raise capital, although the sector has been liquid and capital arrangements have been recently executed for numerous companies.

Although the Company has accessed private financing in the past, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable.

#### **Reliance on third-party suppliers, manufacturers and contractors**

Due to the uncertain and changing regulatory landscape for regulating cannabis in Canada and the United States, the Company’s third-party suppliers and contractors may elect, at any time, to decline or withdraw services necessary for the Company’s operations. Loss of these suppliers and contractors may have a material adverse effect on the Company’s business and operational results.

#### **Nature of The Company’s Involvement in the U.S. Cannabis Industry**

The Company does not conduct cannabis-related activities in the United States (“U.S.”) except to the extent, if any, that holding non-controlling investments in entities directly involved in the U.S. cannabis industry constitutes conducting cannabis-related activities.

The Company has no direct involvement in the cultivation, possession or distribution of cannabis in the U.S. and does not provide goods or services to any entity that cultivates or distributes cannabis in the U.S.

The Company does not have any operational or management involvement with the companies listed below. As at December 31, 2019 the Company holds less than 1% of the outstanding shares in five companies with investments or operations in the U.S.

1. **Plus Products Inc.** is a CSE-listed branded cannabis products manufacturer company with headquarter in Palo Alto, California. It has introduced fast-acting edibles positioned for a healthy and active lifestyle audience seeking a premium cannabis experience. All products are hand-crafted with high quality ingredients without the gluten and calories found in competing edible products. The Company invested \$347,405 to hold 124,999 common shares.
2. **Captor Capital Corp.** is a Canadian investment firm focused on the cannabis sector listed on the Canadian Securities Exchange, the OTC, and the Frankfurt Stock Exchange. A vertically integrated cannabis company, Captor provides recreational and medical marijuana-based products to consumers via its leading brands and dispensary locations. Captor owns and operates advanced growing facilities which produce consistent high quality contaminant free marijuana for its customers, as well as other high demand cannabis based goods for consumption. Captor currently has a number of revenues generating cannabis investments including two wholly owned branded MedMen dispensaries in West Hollywood and Santa Ana, California. The Company invested \$165,200 to hold 41,300 common shares.
3. **C21 Investments**, a CSE-listed company, is a vertically integrated cannabis company with newly acquired operations in Oregon, U.S.A. C21's focus is to expand where it can wholly-own indoor/outdoor cultivation operations, processing/extraction facilities, bakeries, branded products, and retail dispensaries with a large distribution network. The Company invested \$205,410 to hold 162,000 common shares.
4. **Planet 13 Holdings Inc.**, a CSE-listed company, is vertically integrated cannabis company which owns a retail cannabis store, 6 licenses, and various cannabis product brands in Nevada. The Company invested \$296,958 to hold 156,250 common shares.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company or its investees, including its reputation and ability to conduct business, the listing of its securities on any stock exchange, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

The following table is a summary of the Company's balance sheet exposure to U.S. cannabis-related activities as of December 31, 2019 via its non-controlling investments:

Current assets	\$ 738,429
Non-current assets	\$ -
Total assets	\$ 738,429
Current liabilities	\$ -
Non-current liabilities	\$ -
Total liabilities	\$ -

During the year ended December 31, 2019, the Company did not incur any operating expenses related to its investments in U.S. companies in the cannabis sector or recognize any operating revenue from its involvement in the U.S. cannabis sector. The Company's consolidated statements of loss and comprehensive loss includes net realized gain of \$449,308 and unrealized loss of \$234,864 on its investments in U.S. companies in the cannabis sector during the year.

#### **Compliance of United States Operations**

Investees of the Company described above are subject to regulations in the U.S. states in which they operate.



The Company's minority investments in the U.S. cannabis industry will be (i) only in those states that have enacted laws legalizing cannabis; and (ii) only in those state's where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

Based on the Company's investigation, the investees of the Company are in compliance with applicable licensing requirements and the regulatory framework enacted by the States of Nevada, California and Oregon.

However, the Company has not obtained legal advice, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks; and (b) potential exposure and implications arising from U.S. federal law.

In addition, the Company will continue to ensure that its investments in the U.S. are in compliance with applicable licensing requirements and the regulatory framework enacted in such States either by way of a review of such entities licenses or affirmation certifications from management. The Company will only invest in companies that are legally operating in the relevant U.S. States. The Company will continue to monitor, evaluate and re-assess the regulatory framework.

While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law.

#### **Overview of the cannabis industry in the US**

Despite legal, regulatory and political obstacles, the U.S. cannabis industry continues to experience substantial growth. Cannabis Laws may be subject to change in the U.S.

In the U.S., 33 states and Washington D.C. have legalized medical marijuana, while 11 states and Washington D.C. have also legalized adult-use cannabis. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the U.S. Controlled Substance Act of 1970 (the "CSA"). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis products remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

While technically illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis programs. The Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated cannabis businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by the Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memorandum was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum does emphasize that cannabis is a Schedule I controlled substance and states the statutory view that it is a "dangerous drug and that cannabis activity is a serious crime," it does not otherwise guide U.S. Attorneys that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands

of U.S. Attorneys in deciding whether or not to prosecute cannabis-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. In Nevada, the U.S. Attorney has yet to make any comments regarding the revocation of the Cole Memorandum or indicate any changes to enforcement priorities.

Jeff Sessions was replaced by William Barr as U.S. Attorney General. Currently, Barr's stance on cannabis legalization is not yet clear. However, Sens. Elizabeth Warren (D-Mass.) and Cory Gardner (R-Colo.), each hailing from marijuana-legal states, have co-sponsored the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, which was reintroduced in May 2019. The STATES Act does not remove marijuana from the Controlled Substances Act, but it does exempt pot-legal states from federal marijuana enforcement, if they adhere to baseline standards.

In terms of banking, the House Financial Services Committee advanced a bill called the SAFE Banking Act ON September 25, 2019. This measure would enable financial institutions to accept cannabis clients without fear of federal punishment.

### **Regulatory risks of cannabis industry in the U.S.**

The cannabis sector is a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management of The Company may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

Participants in the U.S. cannabis industry 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 restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to 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. Further, The Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct its business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on The Company's financial statements also could occur for the period in which the effect of an unfavourable final outcome becomes probable and reasonably estimable.

The U.S. cannabis 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 the control of the Company 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 The Company's earnings and could make future growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of The Company and which cannot be reliably predicted.

The Company does not expect to derive a large proportion of its revenues or investment gains from the U.S. cannabis industry, which industry is illegal under U.S. federal law. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. Almost half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA. The federal government of the U.S. has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use use cannabis even if state law sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened by the revocation of the Cole Memorandum in January 2018.

Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to 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.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's business would be materially and adversely affected. U.S. federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of cannabis related legislation could adversely affect the Company. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against The Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

In addition, the export and import of medical cannabis is subject to United Nations treaties establishing country-by-country quotas and export and import permits are subject to these quotas which could limit the amount of medical cannabis the Company can export to any particular country.

Cannabis-related products may be subject to recalls for a variety of reasons, which could require us to expend significant management and capital resources.

#### **Anti-Money Laundering Laws and Regulations**

The Company is subject to a variety of laws and regulations in Canada and the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of The Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while The Company has no current intention to declare or pay dividends on its common shares in the foreseeable future, The Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

#### **US State regulation overview**

##### *Oregon*

The State passed the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act" in November 2014, which created the framework for people over the age of 21 purchase cannabis, as well as cultivate at home. The regulatory body that oversees these businesses is the Oregon Liquor and Control Commission" ("OLCC"), which enacted rules that commenced in June 2016 known as Division 25 of the Oregon Administrative Rules Division ("OAR Division 25"). There currently is no limit on the number of licenses being issues.

The latest Federal memorandum was issued in May 2018 by Attorney Williams for priorities to combat illicit cannabis operators. One major issue was the oversupply crossing state borders which is still Federally illegal. Other items included to combat cultivation that threaten federal land, selling to minors, and unlicensed producers. The Company has not found any other statement.

### *California*

California was the first State to pass a medical marijuana law for medicinal use in 1996. However, it wasn't until September of 2015 when it passed the "Medical Cannabis Regulation and Safety Act" ("MCRSA") to establish licensing and regulations for this purpose. Later, in November 2016, the "Adult Use of Marijuana Act" ("AUMA") was enacted to tax and regulate use for adults over the age of 21 years of age.

In June 2017, the "Medical and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA") passed the Senate, which combined the MCRSA and AUMA to regulate all cannabis use in the State. Later in November 2017, California introduced regulations which were to be governed by the California Bureau of Cannabis Control ("BCC"), California Department of Public Health and California Department of Food and Agriculture to provide further clarity on legalizing cannabis. These took effect on January 2018 when California fully legalized cannabis use.

Current rules imply cannabis operators must first obtain local approval, as each locality governs what is prohibited in their jurisdiction. Once approved, the operator may apply for a State license, in which there currently is no limit in California. The only current stipulation is that of testing laboratories, which may not hold any other license. On January 16, 2019, the Office of Administrative Law (OAL) officially approved state regulations for cannabis businesses across the supply chain.

The latest Federal statement was issued in May 2018 by Attorney McGregor Scott, which provided \$2.5 million in federal funds to combat illicit cannabis operators, while defending regulation of licit cannabis. And lastly, on May 22, 2019, the California Senate voted almost unanimously to pass a bill that would allow banks and credit unions to accept cash deposits from cannabis retailers. On October 12, 2019 California Governor Gavin Newsom signed Assembly Bill 37, which will allow California's cannabis businesses to deduct expenses on state income tax returns, which helps normalize the cannabis business in California.

### *Nevada*

Nevada legalized medicinal use of marijuana in 2001, but it wasn't until 2015 that state-certified dispensaries became operational, which is governed by the Nevada Revised Statute ("NRS") 453A. This statute sets out the licensing and operational requirements for distribution and production of medicinal cannabis. Later in November 2016, sale of cannabis for adult use was set out by NRS 453A, which exempts a person who is 21 or older from state and local prosecution.

As of July 2017, the Nevada Department of Taxation ("NDT") became responsible for licensing and regulating cannabis businesses and the state medicinal program. For medicinal establishments, each must register with the NDT, as well as all people who work and volunteer there. Among some of the requirements are minimum liquidity and restrictions on locations. These certificates expire every year and must be renewed. For recreational use, medical dispensaries can now have dual licenses. For strictly recreational dispensaries, locations are determined by county size.

Nevada Attorney General Adam Laxalt vehemently defends the cannabis state law since it was approved by the voters, making various statements against the Sessions Memorandum. Governor Steve Sisolak created a multiagency task force to root out criminal activity in the legal cannabis market. Governor Sislak also appointed Tyler Klimas to be the executive director of the new Cannabis Compliance Board (CCB) which is aimed at providing stronger oversight on the industry. Neither of these individuals are a federal authority or prosecutor, but their actions provide a good indication of the support for the cannabis industry in this State. US Attorney for the State of Nevada is Dayle Eliason, who has not clearly or publicly indicated her position on the Sessions Memorandum. The Company has not found any other recent statements made by Federal authorities in this State.

### **The Company's Investments in the Cannabis Industry (other than those operating in the U.S.)**

The Company has invested in a minority interest (<1%) of Weekend Unlimited Inc. (CSE: POT), which was originally R&D Pharma Corp. ("R&D"), a private Canadian corporation developing a vertically integrated legal medicinal cannabis business in Jamaica.

### **Heightened Scrutiny and Canadian Securities Regulatory Matters**

For the reasons set forth above, the Company's activities (investing in companies that operate in the U.S. or possible future sales of its own products in the U.S.) in the U.S. may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's activities in the U.S. or any other jurisdiction, in addition to those described herein.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of common shares of The Company to make and settle trades. In particular, The Company common shares would become highly illiquid because until an alternative was implemented, investors would have no ability to effect a trade of such shares through the facilities of a Canadian stock exchange.

### **Regulatory Framework and Risks Relating to Cannabis in Canada**

#### *Summary of the Cannabis Act and Regulations*

On December 13, 2016, the Task Force on Cannabis Legalization and Regulation (the "Task Force"), which was established by the Canadian Federal Government to seek input on the design of a new system to legalize, regulate and restrict access to cannabis, published its report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released 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"), which proposed the enactment of the Cannabis Act (Canada) to regulate the production, distribution and sale of cannabis for unqualified adult use. On November 27, 2017, the House of Commons passed Bill C-45. On June 20, 2018 the Senate approved Bill C-45 and the Act received Royal Assent on June 21, 2018. The Cannabis Act came into force on October 17, 2018. Given that these regulations are very new, the impact of such regulatory changes on the Company's business, future business, and investments is unknown.

The Cannabis Act provides a licensing and permitting scheme for the production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for nonmedicinal (i.e., adult use) use, to be implemented by regulations made under the Cannabis Act. The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export licenses and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp.

On July 11, 2018, the Federal Government published regulations in the Canada Gazette, Part II, to support the coming into force of the Cannabis Act, including the Cannabis Regulations ("Cannabis Regulations"), the new Industrial Hemp Regulations ("IHR", and together with the Cannabis Regulations, the "Regulations"), along with proposed amendments to the Narcotic Control Regulations and certain regulations under the Food and Drugs Act (Canada). The Regulations, among other things, outline the rules for the legal cultivation, processing, research, testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licenses that can be granted, and set standards for cannabis and hemp products that became available for legal sale on October 17, 2018. As of October 17, 2018, the Cannabis Act and Regulations replaced the Access to Cannabis for Medical Purposes Regulation ("ACMPR") as the governing regulations in respect of the production, sale and distribution of medical

cannabis and related oil extracts. Transitional provisions of the Cannabis Act provide that every license issued under Section 35 of the ACMPR that was in force immediately before the day on which the Cannabis Act came into force (being October 17, 2018) was deemed to be a licence issued under the Cannabis Act, and that such licence will continue in force until it is revoked or expires.

The Cannabis Regulations establish six classes of licenses:

1. Cultivation licenses;
2. Processing licenses;
3. Analytical testing licenses;
4. Sales for medical purposes licenses;
5. Research licenses; and
6. Cannabis drug licenses.

The Cannabis Regulations also create subclasses for cultivation licenses (standard cultivation, micro-cultivation and nursery) and processing licenses (standard processing and micro-processing). Different licenses and each sub-class therein, carry differing rules and requirements that are intended to be proportional to the public health and safety risks posed by each license category and each sub-class. Producers holding production and sales licenses under the ACMPR will be transferred to similar licenses under the Cannabis Act.

The Cannabis Regulations permit cultivation license holders to conduct both outdoor and indoor cultivation of cannabis, however no licensed activities (except for destruction, antimicrobial treatment and distribution) can take place in a "dwelling-house". The implications of the proposal to allow outdoor cultivation are not yet known, but such a development could be significant as it may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices as capital expenditure requirements related to growing outside are typically much lower than those associated with indoor growing.

The new IHR replaced the Industrial Hemp Regulations on October 17, 2018. The regulatory scheme for industrial hemp largely remains the same, however the IHR permits the sale of hemp plants to licensed cannabis producers, and licensing requirements were softened in accordance with the low risk posed by industrial hemp.

#### *Cannabis Tracking System*

Under the Cannabis Act, the Minister of Health is authorized to establish and maintain a national cannabis tracking system. The purpose of this system is to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the legal market. The Cannabis Regulations provide the Minister of Health with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister.

#### *Cannabis Products*

The Cannabis Regulations set out the requirements for the sale of cannabis products at the retail level permit the sale of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds, including in such forms as "prerolled" and in capsules. The THC content and serving size of cannabis products is limited by the Cannabis Regulations. The IHR defines industrial hemp as cannabis plants whose leaves and flowering heads do not contain more than 0.3% THC. On October 17, 2019, Canada legalized edibles, topicals and extracts with CBD.

#### *Packaging and Labelling*

The Cannabis Regulations set out requirements pertaining to the packaging and labelling of cannabis products. Such requirements are intended to promote informed consumer choice and allow for the safe handling and transportation of cannabis. The Cannabis Regulations require all cannabis products to be packaged in a manner that is tamperproof and child-resistant.

While minor allowances for branding would be permitted, Health Canada is proposing strict limits on the use of colours, graphics, and other special characteristics of packaging. Cannabis package labels must include specific information, such as (i) product source information, including the class of cannabis and the name, phone number and

email of the cultivator, (ii) a mandatory health warning, rotating between Health Canada's list of standard health warnings; (iii) the Health Canada standardized cannabis symbol; and (iv) information specifying THC and CBD content.

A cannabis product's brand name may only be displayed once on the principal display panel or, if there are separate principal display panels for English and French, only once on each principal display panel. It can be in any font style and any size, so long as it is equal to or smaller than the health warning message. The font must not be in metallic or fluorescent colour. In addition to the brand name, only one other brand element can be displayed.

#### *Cannabis for Medical Purposes*

Part 14 of the Cannabis Regulations sets out the regime for medical cannabis following legalization, which is to remain substantively the same as that which existed under the ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system. Patients who have the authorization of their healthcare provider will continue to have access to cannabis, either purchased directly from a federally licensed producer, or by registering to produce a limited amount of cannabis for their own medical purposes or designating someone to produce cannabis for them.

Under the Part 14 of the Cannabis Regulations, patients have three options for obtaining cannabis for medical purposes: (a) they can continue to access cannabis by registering with Licensed Producers; (b) they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or (c) they can designate someone else to produce cannabis for them. With respect to (b) and (c), starting materials, such as marijuana plants or seeds, must be obtained from Licensed Producers. It is possible that (b) and (c) could adversely affect the business, future business, financial condition and results of operations of the Company or its investee companies.

#### *Health Products and Cosmetics Containing Cannabis*

Health Canada has taken a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices. Under the Cannabis Regulations, the use of cannabis-derived ingredients (other than certain hemp seed derivatives containing no more than 10 parts per million THC) in cosmetics is permitted and will be subject to provisions of the Cannabis Act.

#### *Import / Export Permits for Medical or Scientific Purposes*

Part 10 of the Cannabis Regulations sets out the process by which a license holder may apply for an import or export permit for medical or scientific purposes, as set out in the regulations. A permit must be obtained for each shipment of cannabis. An application for an import or export permit must contain specific information including the name and address of the holder, license number and specifics of the particular shipment including intended use of the cannabis and specific shipment details. The Cannabis Regulations contain reporting requirements in respect of the import / export of cannabis in reliance of a permit issued under the Cannabis Regulations.

#### *Provincial and Territorial Regulatory Framework for Recreational Cannabis*

While the Cannabis Act provides for the regulation of the commercial production of cannabis for recreational purposes and related matters by the federal government, the Cannabis Act proposes that the provinces and territories of Canada will have authority to regulate other aspects of recreational cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

All Canadian provinces and territories have announced proposed regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. Each of these Canadian jurisdictions has established a minimum age of 19 years old, except for Québec and Alberta, where the minimum age is 18.

### *Additional cannabis-related risk factors in Canada*

The Company, or its subsidiaries or investee companies, may be subject to product liability claims or regulatory action if its products are alleged to have caused significant loss or injury. This risk is exacerbated by the fact that cannabis use may increase the risk of serious adverse side effects.

The Company may not be able to obtain adequate insurance coverage in respect of the risks, the premiums for such insurance may not continue to be commercially justifiable or there may be coverage limitations and other exclusions which may result in such insurance not being sufficient to cover potential liabilities.

The laws, regulations and guidelines generally applicable to the medical cannabis industry in Canada and other countries may change in ways that impact the Company's ability to continue its business as currently conducted or proposed to be conducted. The successful execution of any future cannabis-related business objectives is contingent upon compliance with all applicable laws and regulatory requirements in Canada and other jurisdictions and obtaining all other required regulatory approvals for the development, production, sale, import and export of our medical cannabis products. Failure to comply with applicable regulations or good manufacturing processes could prevent the Company or its investee companies from being able to carry on their business or execute future business plans.

The Company, through its investments, and some of its investee companies are dependent upon regulatory approvals and licenses for their ability to grow, process, package, store, sell and export medical cannabis and other products derived therefrom, and these regulatory approvals are subject to ongoing compliance requirements, reporting obligations and fixed terms requiring renewal. There can be no assurance that required licenses will be obtained, nor can there be any assurance that the Canadian government will continue to issue export permits on the same terms, or that other countries will allow, or continue to allow, imports.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of cannabis for medical purposes in some form or another.

Increased international competition and/or limitations placed on the Company by Canadian regulators may impact the financial performance of the Company. The Company may seek to expand its business and operations into jurisdictions outside of Canada and the U.S. and there are risks associated with doing so and there can be no assurance that any market for The Company's products will develop in any such foreign jurisdiction. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit the Company's capability to successfully expand its operations and may have a material adverse effect on the Company's business, financial condition and results of operations.

### **Corporate Governance Practices**

The disclosure required pursuant to National Instrument 58-101-Disclosure of Corporate Governance Practices was made by the Company in its Management Information Circular which was mailed to shareholders and is accessible via the Internet for public viewing on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported year. Actual results could differ from those estimates.

### **Other Information**

The Company's website address is [www.belgraviacapital.ca](http://www.belgraviacapital.ca). Other information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).