



HIGHTIDE

# Management's Discussion & Analysis

**For the three and nine months ended July 31, 2019 and 2018**

Dated as at September 27, 2019



# High Tide Inc.

## Management's Discussion and Analysis

HIGHTIDE For the three and nine months ended July 31, 2019 and 2018

(In thousands of Canadian dollars, except share and per share amounts or otherwise stated)

### 1.0 Preface

#### 1.1 Overview

This Management's Discussion and Analysis ("MD&A") of the results of operations and of the unaudited consolidated financial position of High Tide Inc. ("High Tide" or the "Company") is for the three and nine months ended July 31, 2019 and 2018, and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended October 31, 2018 (hereafter the "Financial Statements") and with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB").

In this document, the terms "we", "us", and "our" refer to High Tide. This document also refers to the Company's three reportable operating segments: the "Retail" Segment represented by businesses including Canna Cabana, KushBar, Grasscity and Smoker's Corner, the "Wholesale" Segment represented by RGR and Famous Brandz, and the "Corporate" Segment.

High Tide is a vertically-integrated manufacturer, distributor and retailer of smoking accessories as well as a downstream-focused retailer of cannabis products. The Company's shares are listed on the Canadian Stock Exchange ("CSE") under the symbol "HITI", the Frankfurt Stock Exchange ("FSE") under the securities identification code 'WKN: A2PBPS' and the ticker symbol "2LY", and on the OTCQB Market ("OTCQB") under the symbol "HITIF". The address of the Company's corporate and registered office is # 120 – 4954 Richard Road SW, Calgary, Alberta T3E 6L1, while the address of the Company's headquarters is #112, 11127 15 Street NE, Calgary, Alberta, T3K 2M4.

Additional information about the Company, including the October 31, 2018, audited consolidated financial statements, news releases and the Company's long form prospectus can be accessed at [www.sedar.com](http://www.sedar.com) and at [www.hightideinc.com](http://www.hightideinc.com).

#### 1.2 Metrics

System-Wide Sales is a non-GAAP financial measure. Non-GAAP measures are not defined under the International Financial Reporting Standards (defined as ("IFRS") as issued by the IASB) and therefore may not be comparable to similarly titled measures reported by other issuers. Accordingly, System-Wide Sales are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

System-Wide Sales is defined as the sum of the external merchandise sales made by High Tide's divisions and includes sales by both corporate, franchise and partnered retail locations. Sales are inclusive of returns, allowances and discounts; sales exclude other revenue sources including rent revenue, royalties, interest and freight. Management believes this measure is useful in evaluating growth, the strength of our brands, performance across High Tide's businesses and in evaluating the financial and operational performance of the Company.

#### 1.3 Forward-Looking Information and Statements

Certain statements contained within this MD&A, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

In particular, this MD&A contains the following forward-looking statements pertaining, without limitation, to the following: changes in general and administrative expenses; future business operations and activities and the timing thereof; the future tax liability of the Company; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures.

We believe the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon.



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These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A, as the case may be. The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A; counterparty credit risk; access to capital; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the cannabis industry; and the other factors discussed under Section 10: "Financial Instruments and Risk Management" in this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

## 2.0 Accounting Framework

Financial data disclosed in this MD&A has been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the IASB. The Financial Statements and MD&A have been prepared on a historical cost basis except for financial instruments which are measured at fair value. Accordingly, the financial information contained herein have been prepared on the basis of accounting policies applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

These Financial Statements are presented in Canadian dollars ("C\$"), which is the Company's and its Canadian subsidiaries functional currency. The functional currency of its European subsidiaries is Euro ("€") and the functional currency of its USA subsidiaries is USD.

## 3.0 Corporate Overview

### 3.1 Nature of Operations

The Company's retail operations are focused on business-to-consumer markets. The operations of Smoker's Corner relate solely to the retail sale of smoking accessories, while the operations of Canna Cabana and KushBar are focused both on the retail sale of recreational cannabis products for adult use as well as smoking accessories. Grasscity has been operating as a major e-commerce retailer of smoking accessories for over 20 years and has significant brand equity in the United States and around the world. Its acquisition by High Tide in late 2018 has been complementary as the Company is utilizing its manufacturing and distribution channels to enhance gross margins within the Grasscity business, while Grasscity brings a recognizable name and an established online sales channel for High Tide to sell its proprietary products.

The wholesale operations of RGR are primarily focused on the manufacturing and distribution of smoking accessories and cannabis lifestyle products. RGR designs and distributes a proprietary suite of branded smoking accessories including overseeing their contract manufacturing by third parties. RGR also distributes a minority of the products in its catalogue that are manufactured by third parties. RGR does not sell its products directly to consumers but operates an e-commerce platform for wholesale customers. Similar to RGR, the wholesale operations of Famous Brandz are primarily focused on the manufacturing and distribution of smoking accessories and cannabis lifestyle products. Famous Brandz differentiates itself from RGR by focusing on acquiring licences, designing and distributing branded products. Famous Brandz has developed an extensive network of wholesale clients across Canada, the United States and Europe. It also sells directly to consumers through its own e-commerce platform.



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#### 3.2 Competitive Landscape

As of the date of this MD&A, the Company operates 20 corporately-owned retail Canna Cabana locations and one KushBar location. Further, Canna Cabana is currently represented by three branded locations selling cannabis products in Toronto, Hamilton, and Sudbury as well as one franchise in Calgary. In total, the Company currently has a total of 25 branded retail cannabis stores operating across Canada.

Canna Cabana and KushBar were established to sell recreational cannabis products following the deregulation of cannabis for adult use across Canada on October 17, 2018. Canna Cabana and Kushbar operate amongst a variety of large and small competitors, both consolidated and independent. Notable competitors include 420 Premium Market, Choom, Fire & Flower, NewLeaf Cannabis, Nova Cannabis, Prairie Records, Spiritleaf and YSS, as well as numerous independent retailers.

The Federal government has announced that the sale of edible products and concentrates will be deregulated no later than 12 months following October 17, 2018. The Company expects to dedicate additional resources to explore the sale of edible products and concentrates as soon as lawfully permitted.

The Company operates 6 corporately-owned retail locations under the Smoker's Corner banner across Alberta. As of the date of this MD&A, the Company is currently represented by 7 franchised Smoker's Corner locations operating across Alberta, British Columbia and Nova Scotia.

Smoker's Corner mainly competes with independent retailers of smoking accessories without significant market concentration. Smoker's Corner has created a strong brand over 10 years of operations through its network of stores and emphasis on customer service, as well as the depth and breadth of its product offering that is largely supplied by RGR.

Most of the Company's competitors applicable to its Wholesale Segment operate primarily as product distributors, while RGR and Famous Brandz both design, directly source, import and distribute their products. This creates advantages through vertical integration, brings unique product designs to market as well as offers wholesale customers favourable and flexible pricing.

In the future, the Company expects its Retail Segment to experience increased competition from the recreational cannabis industry as greater number of third-party stores are established across Canada offering cannabis products and smoking accessories. The Company believes that its product knowledge, operational expertise and margin maximization achieved through its vertically-integrated smoking accessories business will enable it to operate profitably over the long term. In addition, the Company expects opportunities to arise from the legalization of recreational cannabis for its Wholesale Segment to acquire new clients by supplying third-party retailers with smoking accessories on a wholesale basis, thereby offsetting some of the risks associated with increased competition affecting the Retail Segment.



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#### 4.0 Operating Performance (Unaudited)

| \$ Millions (except where noted)                  | Nine months ended July 31 |        |
|---|---------------------------|--------|
|   | 2019                      | 2018   |
|   | \$                        | \$     |
| System Wide Sales                                 | 29.4                      | 8.9    |
| Merchandise sales (excluding franchisee revenues) | 19.9                      | 6.7    |
| Gross Margin                                      | 7.2                       | 3.6    |
| Gross Margin Percentage                           | 36%                       | 55%    |
| Total Expenses                                    | (21.8)                    | (4.3)  |
| Loss Before Taxes                                 | (14.6)                    | (0.7)  |
| Net Loss for the Period                           | (10.9)                    | (0.7)  |
| Loss Per Share (Basic)                            | (0.06)                    | (0.01) |
| Loss Per Share (Diluted)                          | (0.06)                    | (0.01) |

During the nine months period ended July 31, 2019, the Company raised additional capital of \$22.4 million through the sale of convertible debentures, which allowed it to close the acquisition of Grasscity, the acquisition of Dreamweavers Cannabis Products Ltd. ("Dreamweavers") and to continue establishing Canna Cabana's retail network. The operations of Canna Cabana, the acquisition of Grasscity and the acquisition of Dreamweavers supported the achievement of significant sales and revenue growth in the period.

The Company reported a net loss of \$10.9 million during the nine-month period, which was primarily attributable to expenses incurred to expand its business inclusive of personnel costs, rent and operating costs associated with its expanded retail network, as well as transaction and compliance costs incurred to operate publicly raise capital and complete business acquisitions.

#### 4.1 Consolidated Results of Operations in Detail

##### Revenue

During the nine month period ended July 31, 2019, High Tide achieved a System-Wide Sales increase of \$20.5 million. The increase in sales was driven primarily by the operations of Canna Cabana, which began selling recreational cannabis products and smoking accessories on October 27, 2018, the acquisition of Grasscity, the acquisition of Dreamweavers and by new customers acquired in the Company's Wholesale Segment.

Sales growth (excluding franchisee revenues) led to increases in revenues of \$13.2 million between all segments.

The Company has been attracting new customers and positioning itself to be a key accessories supplier in the cannabis industry for 2019 and beyond. In 2018, the Company entered into supply agreements for smoking accessories with the Ontario Cannabis Store ("OCS") and received a large purchase order for white-label smoking accessories from Aurora Cannabis Inc. that was fulfilled during the current period.

##### Gross Margin

For the nine months ended July 31, 2019, gross margin increased by \$3.6 million as compared to the same period during the prior year, which was driven by the increase in sales volume. The gross margin rate declined from 54.9% to 35.7% largely attributable to changes in the overall product mix and sales strategy, with cannabis products driving growth at lower margins than accessories and with discounting applied to smoking accessories to support a differentiated cannabis retail experience as well as to drive traffic to Smoker's Corner and Canna Cabana locations.



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#### Expenses

Total operating expenses increased by \$16.1 million for the nine-month period ending July 31, 2019, compared to the same period during the prior year. The increase was a result of the Company's aggressive growth efforts to take advantage of significant market opportunities created due to the deregulation of recreational cannabis for adult use across Canada, which officially occurred on October 17, 2018 with the introduction of Bill C-45. This increased effort resulted in the Company being represented by 25 branded stores across Canada as at the date of this MD&A.

The increase in costs was largely attributed to salaries, wages and benefits expenses, which increased by \$5.2 million compared to the prior year with an additional \$2.0 million being incurred for share-based compensation. The increase in staffing was due to the need for additional personnel, within both the Retail and the Corporate Segments. The increase in staffing was required to facilitate growth and to ensure the Company could take full advantage of various market opportunities. General and administrative expenses increased by \$3.9 million compared to the same period in 2018 as a result of this expansion. Additionally, there was an increase in professional fees of \$2.6 million during the period ended July 31, 2019, compared to the same period in the prior year attributed to costs incurred for compliance reporting, the implementation of an enterprise resource planning software system to support the expanded operations as well as professional fees associated with raising capital and acquiring businesses.

### 5.0 Segment Operations

| For the three months ended July 31, | Wholesale | Wholesale | Retail  | Retail | Corporate | Corporate | Total   | Total   |
|-------------------------------------|-----------|-----------|---------|--------|-----------|-----------|---------|---------|
|                                     | 2019      | 2018      | 2019    | 2018   | 2019      | 2018      | 2019    | 2018    |
|                                     | (\$)      | (\$)      | (\$)    | (\$)   | (\$)      | (\$)      | (\$)    | (\$)    |
| Net Revenue                         | 1,421     | 1,094     | 6,643   | 1,080  | 226       | -         | 8,290   | 2,174   |
| Cost of sales                       | (927)     | (528)     | (4,297) | (469)  | (4)       | -         | (5,228) | (997)   |
| Gross margin                        | 494       | 566       | 2,346   | 611    | 222       | -         | 3,062   | 1,177   |
| Operating Expenses                  | (1,035)   | (913)     | (3,958) | (558)  | (2,106)   | (413)     | (7,099) | (1,884) |
| Other Income (Expenses)             | 216       | 32        | 410     | (23)   | (313)     | 83        | 313     | 92      |
| Net Income (loss)                   | (325)     | (315)     | (1,202) | 30     | (2,197)   | (330)     | (3,724) | (615)   |

| For the nine months ended July 31, | Wholesale | Wholesale | Retail  | Retail  | Corporate | Corporate | Total    | Total   |
|------------------------------------|-----------|-----------|---------|---------|-----------|-----------|----------|---------|
|                                    | 2019      | 2018      | 2019    | 2018    | 2019      | 2018      | 2019     | 2018    |
|                                    | (\$)      | (\$)      | (\$)    | (\$)    | (\$)      | (\$)      | (\$)     | (\$)    |
| Net Revenue                        | 5,314     | 3,771     | 14,317  | 2,880   | 254       | -         | 19,885   | 6,651   |
| Cost of sales                      | (3,345)   | (2,252)   | (9,333) | (750)   | (5)       | -         | (12,683) | (3,002) |
| Gross margin                       | 1,969     | 1,519     | 4,984   | 2,130   | 249       | -         | 7,202    | 3,649   |
| Operating Expenses                 | (2,924)   | (2,093)   | (9,403) | (1,782) | (8,123)   | (468)     | (20,450) | (4,343) |
| Other Income (Expenses)            | 242       | 101       | 1,020   | (92)    | 1,122     | (2)       | 2,384    | 7       |
| Net Income (loss)                  | (713)     | (473)     | (3,399) | 256     | (6,752)   | (470)     | (10,864) | (687)   |



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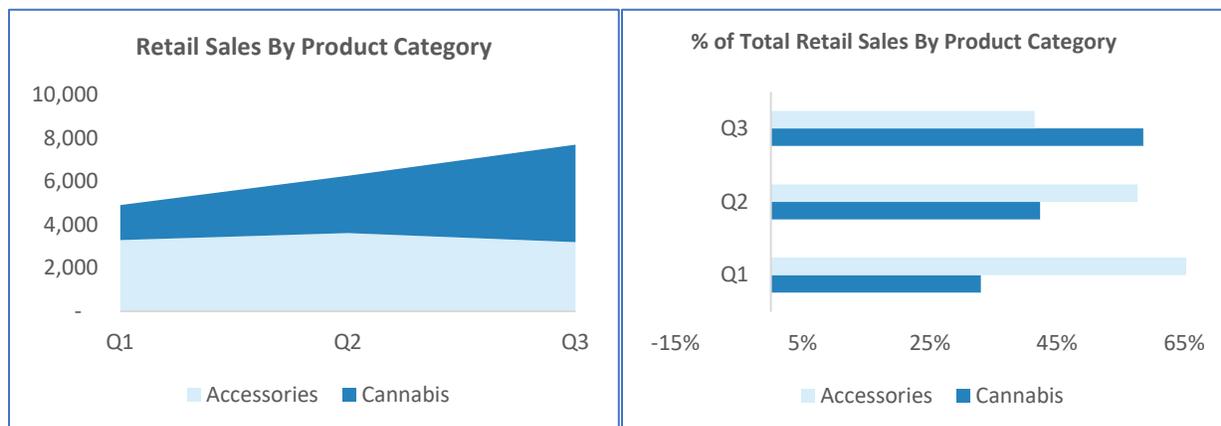
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### 5.1 Retail Segment Performance



The Company's Retail Segment demonstrated significant sales and revenue growth year-over-year with revenue \$11.4 million higher than the same period last year. Revenue growth is primarily attributable to Canna Cabana, which became operational and began selling recreational cannabis products for adult use in the period, along with the Grasscity acquisition that was closed in December of 2018. During the period, Canna Cabana experienced strong product demand and consistent retail margins being reported across in the industry.

Grasscity was acquired by High Tide on December 19, 2018 and contributed sales of \$3.3 million in the period. Grasscity is an online retailer of smoking accessories and cannabis lifestyle products, primarily to customers in the USA and Europe. Grasscity attracts approximately 5.8 million users to its online website each year and has had over 34 million unique users join its online forums since its inception. High Tide is investing in Grasscity to renew its online sales platform, increase its searchability and align its supply chain with RGR and Famous Brandz. Grasscity is a strong strategic fit with High Tide with its advantages in branding and online presence, while enabling the Company to leverage its vertical integration to improve order fulfillment, customer reach, product margins and the overall profitability of the business.

Smoker's Corner sales declined in the period compared to last year due to the closure of five corporate stores and three franchise stores. Four of the closed locations are being converted into Canna Cabana locations. High Tide expects to recapture and expand upon lost revenues under Canna Cabana.

Smoker's Corner franchisees generate four distinct revenue sources for High Tide:

- Variable sales royalties;
- Variable brand royalties;
- Financing revenues on asset purchases; and
- Fixed royalties for a defined term associated with the purchase of their location.

Sales and brand royalties continue to perform relative to the number of active franchise locations, however, royalty revenue overall declined slightly to \$0.4 million during the nine-month period, from \$0.64 million in the same period in the prior year. Terms on financing revenues and fixed royalties have fully matured for eight of the initial ten franchisees, which has resulted in those revenues no longer being collected.

Gross margin dollars for the nine-month period ended July 31, 2019 increased by \$2.7 million while the gross margin rate declined to 34% as compared to the same period in the prior year. The decline in gross margin rate is due, in combination, to the product mix at Canna Cabana that earns a lower blended margin than purely from the sale of higher-margin smoking accessories, as well as due to a decline in financing and fixed royalty revenues. High Tide will continue to optimize its operations to improve margins as cannabis sales become an increasingly large portion of the product mix.

Expenses increased significantly in the period due to the operations of Canna Cabana and Grasscity. For the nine months ended July 31, 2019, the Retail Segment incurred a loss of \$3.4 million.



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#### 5.2 Wholesale Segment Performance

Revenues in the Company's Wholesale Segment increased by \$1.5 million to \$5.3 million in the nine-month period ended July 31, 2019, from \$3.8 million for the same period in 2018. The increase in revenue was driven by the attraction of new customers created by the deregulation of recreational cannabis for adult use and the resulting retail cannabis industry. High Tide's Wholesale Segment has positioned itself as a key supplier to a number of retail cannabis competitors that have entered the marketplace since October 17, 2018.

Gross margins dollars increased by \$0.5 million, while the gross margin rate decreased from 40% to 37% owing primarily to the timing of prior year royalty recognition.

Expenses in the Wholesale Segment increased due to additional investments made to hire product developers, marketing professionals and digital marketing specialists. The additional staff were hired to expand product mix and further develop various proprietary brands.

The Wholesale Segment incurred a net loss of \$0.7 million compared to loss of \$0.5 million in the prior year due to the increase in staff and timing on prior year royalty recognition.

#### 5.3 Corporate Segment Performance

The Corporate Segment earned revenues of \$0.2 million in the nine months ended July 31, 2019, compared to no revenue being earned in the same period in the prior year. Revenue of \$0.2 million was made up of royalty fees and interest revenues. This Segment's main function is to administer the other two Segments (Retail and Wholesale) and is responsible for the executive management and financing needs of the business.



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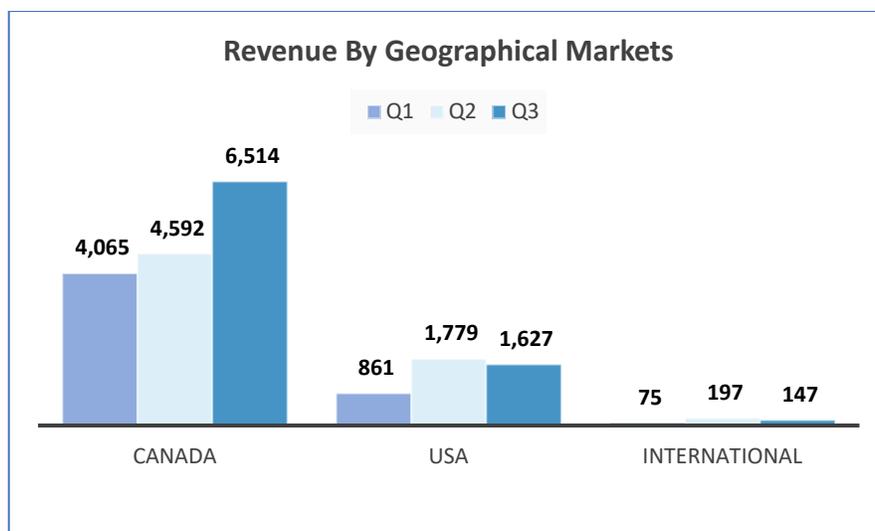
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#### 5.4 Geographical Segments



The following presents information related to the Company's geographical Segments:

| For the three months ended July 31, 2019 | Retail        | Wholesale    | Corporate  | Total         |
|--|---------------|--------------|------------|---------------|
|  | \$            | \$           | \$         | \$            |
| <b>Primary geographical markets</b>      |               |              |            |               |
| Canada                                   | 5,388         | 900          | 226        | 6,514         |
| USA                                      | 1,107         | 520          | -          | 1,627         |
| International                            | 147           | -            | -          | 147           |
| <b>Total revenue</b>                     | <b>6,642</b>  | <b>1,420</b> | <b>226</b> | <b>8,288</b>  |
| <hr/>                                    |               |              |            |               |
| For the nine months ended July 31, 2019  | Retail        | Wholesale    | Corporate  | Total         |
|  | \$            | \$           | \$         | \$            |
| <b>Primary geographical markets</b>      |               |              |            |               |
| Canada                                   | 11,179        | 3,766        | 254        | 15,199        |
| USA                                      | 2,812         | 1,455        | -          | 4,267         |
| International                            | 327           | 92           | -          | 419           |
| <b>Total revenue</b>                     | <b>14,318</b> | <b>5,313</b> | <b>254</b> | <b>19,885</b> |

Sales performance increased significantly in all segments, with Canna Cabana lifting Canadian sales and Grasscity contributing to US sales and International sales. Grasscity's operations are located in Amsterdam, Netherlands, leading to the addition of an International geographical segment. Revenues in this segment are comprised of sales made to all countries outside of North America.



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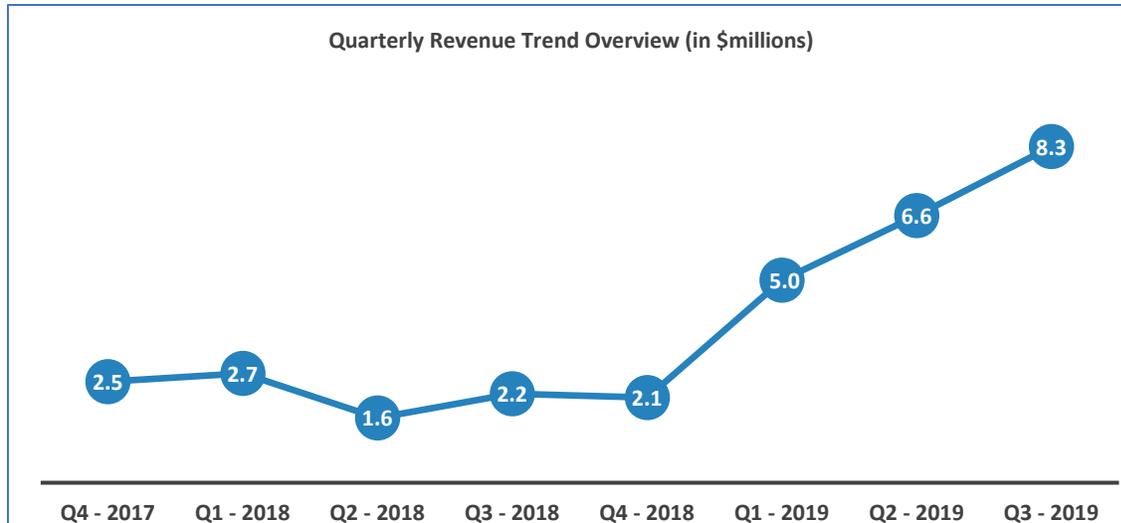
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#### 5.5 Summary of Quarterly Results



| (C\$ in millions,<br>except per share amounts) | Q4<br>2017 | Q1<br>2018 | Q2<br>2018 | Q3<br>2018 | Q4<br>2018 | Q1<br>2019 | Q2<br>2019 | Q3<br>2019    |
|--|------------|------------|------------|------------|------------|------------|------------|---------------|
| Net Revenue                                    | 2.5        | 2.7        | 1.6        | 2.2        | 2.1        | 5.0        | 6.6        | <b>8.3</b>    |
| Income (Loss)<br>Before OCI                    | 0.3        | 0.3        | (0.4)      | (0.6)      | (3.8)      | (3.8)      | (3.3)      | <b>(3.8)</b>  |
| Basic EPS                                      | -          | 0.01       | -          | -          | (0.05)     | (0.02)     | (0.02)     | <b>(0.02)</b> |
| Diluted EPS                                    | -          | 0.01       | -          | -          | (0.05)     | (0.02)     | (0.02)     | <b>(0.02)</b> |

Aside from the seasonal increase in consumer spending leading up to and slightly after the winter holiday period, which occurs in the first quarter of the Company's fiscal year, seasonality is becoming a decreasing factor in the Company's sales performance as the Retail Segment grows. In the first, second, and third quarters of 2019, revenues increased as the Company began operating Canna Cabana stores and selling recreational cannabis products, as well as from integrating its acquisition of Grasscity. These two businesses have no prior comparisons in quarterly performance. In the second quarter of 2018, expenses increased as the Company began to expand its Canna Cabana business as well as initiating the listing process of High Tide on the Canadian Securities Exchange, a process which continued through the third and fourth quarters of fiscal 2018.

#### 6.0 Financial Position

As at July 31, 2019, the Company had a working capital surplus of \$13,839, compared to \$14,920 on October 31, 2018. The change is mainly due to the growth in the Company's operations as it opened Canna Cabana stores and acquired Grasscity.

For the nine months ended July 31, 2019, the Company generated a net loss of \$10,864 compared to \$687 in the same period of 2018, and had net operating cash outflows of \$12,584 compared to \$1,824 in the same period of the prior year. The net loss and operating cash outflows are primarily driven by costs incurred to incorporate and finance the new High Tide and Canna Cabana entities which were not operational during this period in the prior year, as well as to close the acquisitions of Grasscity and Dreamweavers. This resulted in the hiring of new staff for both administration as well as retail operations, along with professional fees and increased rent.



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#### 6.1 Intangible Assets

|                                 | Software     | Lease buy-out | Brand Name   | Total        |
|---------------------------------|--------------|---------------|--------------|--------------|
| <b>Cost</b>                     | \$           | \$            | \$           | \$           |
| Balance, October 31, 2017       | -            | -             | -            | -            |
| Additions                       | 159          | 777           | -            | 936          |
| Balance, October 31, 2018       | 159          | 777           | -            | 936          |
| Additions (i)                   | 1,568        | 3,589         | 1,803        | 6,959        |
| <b>Balance, July 31, 2019</b>   | <b>1,727</b> | <b>4,366</b>  | <b>1,803</b> | <b>7,896</b> |
| <b>Accumulated depreciation</b> |              |               |              |              |
| Balance, October 31, 2017       | -            | -             | -            | -            |
| Charge for the period           | 2            | -             | -            | 2            |
| Balance, October 31, 2018       | 2            | -             | -            | 2            |
| Charge for the period           | 54           | 71            | 183          | 308          |
| <b>Balance, July 31, 2019</b>   | <b>56</b>    | <b>71</b>     | <b>183</b>   | <b>310</b>   |
| <b>Net book value</b>           |              |               |              |              |
| Balance at October 31, 2017     | -            | -             | -            | -            |
| Balance at October 31, 2018     | 157          | 777           | -            | 934          |
| <b>Balance at July 31, 2019</b> | <b>1,671</b> | <b>4,295</b>  | <b>1,620</b> | <b>7,587</b> |

- (i) Brand name intangible additions of \$1,539 were acquired as part of the acquisition of Grasscity that occurred on December 6, 2018.

#### 6.2 Property and Equipment

|                                 | Office equipment and computers | Leasehold improvements | Vehicles   | Buildings    | Total         |
|---------------------------------|--------------------------------|------------------------|------------|--------------|---------------|
|                                 | \$                             | \$                     | \$         | \$           | \$            |
| <b>Cost</b>                     |                                |                        |            |              |               |
| Balance, October 31, 2017       | 49                             | 321                    | 163        | -            | 533           |
| Additions                       | 144                            | 3,288                  | 4          | 145          | 3,581         |
| Balance, October 31, 2018       | 193                            | 3,609                  | 167        | 145          | 4,114         |
| Additions (i), (ii)             | 197                            | 5,654                  | 1          | 2,654        | 8,507         |
| <b>Balance, July 31, 2019</b>   | <b>390</b>                     | <b>9,263</b>           | <b>168</b> | <b>2,799</b> | <b>12,621</b> |
| <b>Accumulated depreciation</b> |                                |                        |            |              |               |
| Balance, October 31, 2017       | 25                             | 311                    | 96         | -            | 432           |
| Charge for the year             | 24                             | 14                     | 46         | -            | 84            |
| Balance, October 31, 2018       | 49                             | 325                    | 142        | -            | 516           |
| Charge for the period           | 68                             | 699                    | 9          | -            | 776           |
| <b>Balance, July 31, 2019</b>   | <b>117</b>                     | <b>1,024</b>           | <b>151</b> | <b>-</b>     | <b>1,292</b>  |
| <b>Net book value</b>           |                                |                        |            |              |               |
| Balance, October 31, 2018       | 144                            | 3,284                  | 25         | 145          | 3,598         |
| <b>Balance, July 31, 2019</b>   | <b>273</b>                     | <b>8,240</b>           | <b>17</b>  | <b>2,799</b> | <b>11,330</b> |

- (i) \$1,227 was incurred for new buildout of leasehold improvements for head office and warehouse in November and December 2018. The new head office and warehouse was available for use on January 1, 2019.
- (ii) The Company purchased a retail location of strategic importance in Niagara Falls, Ontario, for the purpose of opening a Canna Cabana retail location in the future. The consideration for the building consisted of \$700 in cash, \$1,600 as a vendor take back loan (notes payable), and \$300 paid in shares.



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#### 6.3 Summary of Outstanding Share Data

The Company had the following securities issued and outstanding as at the date of this MD&A:

| Securities <sup>(1)</sup>            | Units Outstanding |
|--------------------------------------|-------------------|
| Issued and outstanding common shares | 207,406,634       |
| Warrants                             | 43,180,190        |
| Stock options                        | 10,260,000        |
| Convertible debentures               | 30,520,001        |

<sup>(1)</sup> Refer to Note 7 "Convertible Debentures", Note 8 "Share Capital", Note 9 "Stock Option Plan", and Note 11 "Warrants" in the Company's Condensed Interim Consolidated Financial Statements for a detailed description of these securities.

#### 7.0 Commitments

The Company has commitments relating to operating leases for its office space and outlets under non-cancelable operating leases. The future minimal annual rental payments under these operating leases are as follows:

| As at                      | July 31, 2019 | October 31, 2018 |
|----------------------------|---------------|------------------|
|                            | \$            | \$               |
| Less than one year         | 2,532         | 2,336            |
| Between one and five years | 13,191        | 10,103           |
| Greater than five years    | 3,795         | 2,532            |
|                            | 19,518        | 14,971           |

As at July 31, 2019 Canna Cabana has entered into contracts totalling \$13,165. This includes leases for a total of 51 locations, including a wholesale warehouse in Regina for future use by Kush West Distribution, as well as construction and security contracts to complete the construction of retail locations across Canada.

#### 8.0 Transactions Between Related Parties

##### 8.1 Financing Transactions

As at July 31, 2019, the Company owed the non-controlling interest shareholder of KushBar \$426. The loan carries no interest and is due on demand.

Included in the convertible debenture that closed on December 12, 2018, was an investment by related party, CannalIncome Fund Corporation, for a total subscription amount of \$250.



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#### 8.2 Operational Transactions

During the nine-month period ended July 31, 2019, High Tide paid \$807 for inventory purchases, compared to \$295 during the same period in 2018, to 1990299 Alberta Ltd. ("199"), a company controlled by the President and CEO of the Company. 199 primarily facilitated the import of goods and subsequently transferred these goods to the Company at cost, which was at fair value. During the nine-month period, High Tide incorporated HT Global Imports and has transitioned the facilitation of its imports away from 199 to HT Global Imports.

An office and warehouse has been developed by Grover Properties Inc., which is a company that is related through a common controlling shareholder and the President and CEO of the Company. The office and warehouse were leased to High Tide to accommodate the Company's expansion. The lease cost was established by an independent real estate valuator at prevailing market rates and has an annual basic rent of \$386. The primary lease term is five years with two additional five-year term extensions at the option of the Company. To facilitate the mortgage for the development of this unit, a loan guarantee of up to \$1.5 million was provided by Smoker's Corner.

## 9.0 Changes in Accounting Policies Including Initial Adoption

### 9.1 Changes in Accounting Standards Not Yet Adopted

#### (i) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than twelve months, unless the underlying asset's value is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors will continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17, Leases.

Management is currently executing its implementation plan and has completed the initial scoping phase to identify material lease contracts. However, the analysis of such contracts to quantify the transitional impact is still in progress. The most significant impact of IFRS 16 will be our initial recognition of the present value of unavoidable future lease payments as right-of-use assets under property, plant and equipment and the concurrent recognition of a lease liability on the consolidated statement of financial position. Majority of our property leases, which are currently treated as operating leases, are expected to be impacted by the new standard which will result in lower rent expense, higher depreciation expense and higher finance costs related to accretion and interest expense of the lease liability. IFRS 16 will also impact the presentation of the consolidated statement of cash flows by decreasing operating cash flows and increasing financing cash flows.

The standard will be effective for the Company for the fiscal year commencing November 1, 2019. The Company will be adopting the standard retrospectively by recognizing the cumulative impact of initial adoption in opening retained earnings (i.e. the difference between the right-of-use asset and the lease liability). The Company will measure the right-of-use asset at an amount equal to the lease liability on November 1, 2019, apply a single discount rate to leases with similar remaining lease terms for similar classes of underlying assets and will not separate non-lease components from lease components for certain classes of underlying assets.

#### (ii) Definition of a Business

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrate activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.



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## 10.0 Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks. The Company is exposed to credit, liquidity, and market risk because of holding certain financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management in conjunction with the Board of Directors.

A full analysis is provided in Note 20 of the audited consolidated financial statements with significant updates as follows:

### *Credit risk*

Credit risk arises when one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Financial instruments that subject the Company to credit risk consist primarily of cash, accounts receivable, marketable securities and loans receivable. The credit risk relating to cash and cash equivalents and marketable securities balances is limited because the counterparties are large commercial bank. The amounts reported for accounts receivable in the statement of financial position is net of allowances for doubtful accounts and bad debts and the net carrying value represents the Company's maximum exposure to credit risk. Accounts receivable credit exposure is minimized by entering into transactions with creditworthy counterparties and monitoring the age and balances outstanding on an ongoing basis. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

The following table sets forth details of the aging profile of accounts receivable and the allowance for doubtful accounts:

| As at                           | July 31, 2019 | October 31, 2018 |
|---------------------------------|---------------|------------------|
|                                 | \$            | \$               |
| Current (for less than 30 days) | 1,040         | 343              |
| 31 – 60 days                    | 144           | 233              |
| 61 – 90 days                    | 269           | 73               |
| Greater than 90 days            | 1,302         | 334              |
| Allowance for doubtful accounts | (168)         | (128)            |
|                                 | <b>2,587</b>  | 855              |

During the period ended July 31, 2019, \$171 in trade receivables were written off due to bad debts, as compared to \$396 for the year ended October 31, 2018. Individual receivables known to be uncollectible are written off by reducing the carrying amount directly. The remaining accounts receivable are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified.

The Company performs a regular assessment of collectability of accounts receivables. The Company monitors the financial performance and/or cash flows of its franchisees through observation of their point of sale system, receipt of cash from customers and maintains regular contact/discussions. The Company continues to receive payments from franchisees and has assessed their amounts to be collectible, however a significant portion of the accounts will take more than one year to collect. Accordingly, management has classified them as long term. In fiscal 2018, the Company reviewed the expected payment schedule and discounted it using an average franchisee credit adjusted rate of 11% resulting in the receivables being discounted by \$474.

For the period ended July 31, 2019, management reviewed the estimates with no significant changes. Accordingly, a recovery of \$87 was recognized for the nine months ended July 31, 2019, representing time value accretion on the discount, which has been recorded in the statement of loss and comprehensive loss. The Company continues to receive payments from the franchisees. Further, the Company holds security over its franchisees by way of holding the head lease to their operations and having the right to assume control of a franchisee's location and any operations governed by the applicable Franchise Agreement.



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#### 11.0 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company generally relies on funds generated from operations and equity financings to provide sufficient liquidity to meet budgeted operating requirements and to supply capital to expand its operations. The Company continues to seek capital to meet current and future obligations as they come due. Maturities of the Company's financial liabilities are as follows:

|  | Contractual cash flows | Less than one year | 1-5 years | Greater than 5 years |
|--|------------------------|--------------------|-----------|----------------------|
|  | \$                     | \$                 | \$        | \$                   |
| <b>October 31, 2018</b>                  |                        |                    |           |                      |
| Accounts payable and accrued liabilities | 2,515                  | 2,515              | -         | -                    |
| Shareholder loans                        | 36                     | 36                 | -         | -                    |
| Finance lease obligation                 | 23                     | 6                  | 17        | -                    |
| <b>Total</b>                             | <b>2,574</b>           | <b>2,557</b>       | <b>17</b> | <b>-</b>             |
| <b>July 31, 2019</b>                     |                        |                    |           |                      |
| Accounts payable and accrued liabilities | 2,091                  | 2,091              | -         | -                    |
| Shareholder loans                        | 419                    | 419                | -         | -                    |
| Finance lease obligation                 | 19                     | 6                  | 13        | -                    |
| <b>Total</b>                             | <b>2,529</b>           | <b>2,516</b>       | <b>13</b> | <b>-</b>             |

#### 11.1 Foreign Currency Risk

Foreign currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company maintains cash balances and enters into transactions denominated in foreign currencies, which exposes the Company to fluctuating balances and cash flows due to variations in foreign exchange rates.

The Canadian dollar equivalent carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as at the dates presented were as follows:

| (Canadian dollar equivalent amounts of US dollar and Euro balances) | July 31, 2019 (Euro) | July 31, 2019 (USD) | July 31, 2019 Total | October 31, 2018 |
|---|----------------------|---------------------|---------------------|------------------|
|   | \$                   | \$                  | \$                  | \$               |
| Cash  | 174                  | 65                  | 239                 | 90               |
| Accounts receivable (including long term portion)                   | 58                   | 161                 | 219                 | 522              |
| Accounts payable and accrued liabilities                            | (562)                | (445)               | (1,007)             | (218)            |
| <b>Net monetary assets</b>  | <b>(330)</b>         | <b>(219)</b>        | <b>(549)</b>        | <b>394</b>       |

Assuming all other variables remain constant, a fluctuation of +/- 5 percent in the exchange rate between the United States dollar and the Canadian dollar would impact the carrying value of the net monetary assets by approximately +/- \$11, as compared to \$20 on October 31, 2018. Maintaining constant variables, a fluctuation of +/- 5 percent in the exchange rate between the Euro and the Canadian dollar would impact the carrying value of the net monetary assets by approximately +/- \$17, as compared to \$Nil on October 31, 2018. To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates. The Company had no balances denominated in Euros as at October 31, 2018.



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#### 12.0 Subsequent Events

- (i) On September 1, 2019, the Company acquired assets of Smoker's Corner franchise located on Jasper Avenue, Edmonton, Alberta. The total consideration paid to acquire the franchise was \$475, of which \$270 payable in cash and the remainder was paid through the issuance of 559,742 common shares of the Issuer, with each common share having a deemed value of approximately \$0.367 per common share.
- (ii) On September 4, 2019, the Company obtained a \$2,000 term loan bearing an interest rate of 12% per annum. The purpose of the loan is to finance ongoing working capital and the Company's growing operations. The loan is due on September 4, 2020. The Company issued 1,600,000 warrants to the lender, exercisable at a price of \$0.85 per share, for a period of two years.

#### 13.0 Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer, as the case may be, of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No changes were made in the Company's internal control over financial reporting during the period covered by this MD&A that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.