MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED APRIL 30, 2019

July 2, 2019

The following Management's Discussion and Analysis ("MD&A") is current to July 2, 2019 and constitutes management's assessment of the factors that affected the financial and operating performance of Lineage Grow Company Ltd. ("Lineage" or the "Company") for the three months ended April 30, 2019. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended April 30, 2019, as well as the Company's audited consolidated financial statements and related notes for the year ended January 31, 2019. The Company's unaudited condensed interim consolidated financial statements for the three months ended April 30, 2019 and the financial information contained in this MD&A are prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting, based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All figures are in Canadian dollars ("$" or "CAD") unless stated otherwise.

This MD&A includes, but is not limited to, forward-looking statements regarding: the success in the Company's operations in establishing state-of-the-art cultivation facilities to develop retail sales and premium quality craft cannabis business in the States of Oregon and California in the United States (the "US"); the Company's ability to meet its working capital needs for the twelve-months period ending April 30, 2020, including the cost and potential impact in complying with existing and proposed laws and regulations. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Description of Business

Lineage is a cannabis company focused on assembling a portfolio of licensed operators, either through direct acquisition or through joint ventures, with an aim towards a vertically integrated cannabis business that leverages best-in-class cultivation, brands, distribution, and retail assets. Lineage is targeting legalized cannabis markets across multiple jurisdictions in the US and Canada, and is seeking to deploy best practices in cultivation, branding, distribution, and retail management to drive performance across the Company's asset base.

On May 30, 2019, Lineage and FLRish Inc. ("FLRish"), a corporation governed under the laws of California d/b/a Harborside, completed a reverse takeover transaction ("RTO Transaction"), whereby the shareholders of FLRish hold a majority of the outstanding common shares of the resulting entity (the "Resulting Issuer"). Pursuant to the terms of the merger agreement (the "Merger Agreement"), Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one (1) new common share (the "Consolidation") which were reclassified as post-Consolidation common shares as subordinate voting shares. Concurrent with the closing of the RTO Transaction, the Company changed its name to Harborside Inc. to continue on with the business of FLRish and Lineage combined.

On June 10, 2019, the Subordinate Voting Shares of the Company commenced trading on the Canadian Securities Exchange (the "CSE") under the trading symbol "HBOR".

Recent Developments

On February 8, 2019, Lineage and FLRish entered into the Merger Agreement, whereby the RTO Transaction was being structured as a three-cornered merger (the "Merger"). Pursuant to the Merger Agreement, which was amended on April 17, 2019, FLRish agreed to, among other things, merge with Lineage Merger Sub Inc. ("Merger Sub"), a wholly-owned subsidiary of Lineage, to form a merged corporation.

On April 30, 2019, Lineage received conditional approval from the CSE for the RTO Transaction, and the listing for trading of the Subordinate Voting Shares of the Company to be renamed "Harborside Inc." (the "Resulting Issuer") on the CSE.

On May 24, 2019, Lineage's board approved and paid a stock dividend to holders of common shares of record on May 23, 2019. The following shares were authorized and issued:

- 44,775,010 Series A Special Shares;
- 11,513,533 Series B Special Shares; and
- 14,072,120 Series C Special Shares.

On May 30, 2019, the Company completed the RTO Transaction with FLRish pursuant to the terms of the Merger Agreement. The RTO Transaction was completed by way of a "three-cornered merger" whereby FLRish merged with Merger Sub to form a merged corporation and a wholly-owned subsidiary of the Company.

On June 10, 2019, the Subordinate Voting Shares commenced trading on the CSE under the trading symbol "HBOR".

Business Acquisition

On September 26, 2018, Lineage acquired the assets (the "Terpene Station Acquisition") of Rosebuds Bakery, LLC d/b/a Terpene Station and Brooklyn Holding Co. d/b/a Terpene Station Portland which operate under the "Terpene Station" brand name ("Terpene Station"). Terpene Station is an Oregon-based cannabis retailer engaged in the selling of cannabis products such as flower, edibles and oils. The Company determined that the Terpene Station Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with the Company being the accounting acquirer on the acquisition date of September 26, 2018.

Pursuant to the terms of the Asset Purchase Agreements related to the Terpene Station Acquisition, the aggregate purchase price by the Company consisted of:

(i) Cash payment of USD $400,000; and

(ii) Issuance of two (2) secured convertible promissory notes (the "Secured Convertible Notes") in the principal amounts of USD $400,000 each, convertible into common shares of Lineage at a price of CAD $0.35 per share for a term of three (3) years from the date of issuance.

The following table sets forth a preliminary allocation of the purchase price to the assets acquired, based on a preliminary estimate of fair value. The preliminary allocation is subject to adjustment, specifically relate to valuation of intangible assets acquired.

Purchase Price Allocation

Purchase Price Consideration Paid	
	$
Cash	**519,000**
Fair value of convertible promissory notes	**842,301**
Derivative liability component of convertible promissory notes	**195,699**
	1,557,000

Net Identifiable Assets Acquired	
	$
Cash	**12,806**
Inventories	**239,447**
Security deposit	**7,268**
Intangible assets	**590,031**
Liabilities assumed	**(12,806)**
Deferred tax liability	**(143,670)**
Total net identifiable assets acquired	**693,076**
Goodwill	**863,924**

Outlook and Growth Strategy

Lineage operates two (2) cannabis retail dispensaries in Oregon and has entered into agreements to purchase additional cannabis retail and cultivation assets located in San Jose and Yolo County, respectively, in California. The Company is targeting the US cannabis market with an acquisition-focused growth strategy, and it believes that the US cannabis market offers an attractive pool of private cannabis operators with whom the Company can seek to acquire or partner with.

The market for cannabis products is rapidly evolving and many participants continue to enter the market. Many of the Company's competitors in Oregon have experienced downward price pressure as there is an overflow of players entering the cannabis retail space. Consumer preferences are constantly evolving while focusing on more sophisticated products, such as high-quality oils and edibles. The Company continues to develop expertise to retail and market cannabis products with a scalable methodology that focuses on controlling its supply chain and lowering its cost of goods as the market matures. Low barriers to entry in the Oregon cannabis industry had led to oversupply, and a decreasing trend was witnessed in the price of raw cannabis materials. According to the Oregon-Idaho High Intensity Drug Trafficking Area's *Initial Assessment of Cannabis Production, Distribution, and Consumption in Oregon 2018 – An Insight Report* published in August 2018, as of 2018, only 31% of available cannabis inventory was distributed, putting a strain on cannabis cultivators.

In response to Oregon's oversupplied recreational marijuana market and a backlog of applications, state regulators had temporarily discontinued processing new adult-use licenses effective June 15, 2018. The temporary suspension of new license applications enhances the value of the OLCC Licenses held by the Company. Lineage has taken initiatives to protect itself from any potentially adverse impact of cannabis price contraction in Oregon by diversifying into other geographic markets, including California.

To date, the Company has assembled the following portfolio of projects and acquisitions:

State of Oregon – Terpene Station

Through the Terpene Station Acquisition, Lineage has acquired and now operates two (2) retail cannabis dispensaries under the "Terpene Station" banner in Oregon. The Terpene Station retail dispensaries are engaged in the marketing and sale of cannabis flower, edibles, and oil derivative products. The Terpene Station Acquisition was entered into with a view towards establishing operations focused on serving the premium quality segment of the cannabis market in Oregon. The acquisition of the two (2) dispensaries is in line with this corporate strategy and is expected to put the Company in an advantageous position when structuring transactions to acquire cultivation operations up the value chain.

The Company had devoted a team to develop a subscription model that is expected to enable delivery of a sampler pack comprised of a variety of products. Once implemented, the Company will charge a monthly subscription at price points between USD $50 to $75 to best match our customer preferences. Work has begun with discussions with various partners.

On the retail front, sales had continued to improve as initiatives had taken place to update the Company's menu to promote products at a higher price point versus selling lower-grade flowers. As part of the initiatives, the Company had also installed electronic kiosks inside the stores, which enable customers to self-explore through the menu and watch videos and obtain additional product info such as potency and THC and CBD percentages.

State of California – Altai Acquisition

On March 28, 2018, the Company entered into a binding Letter of Intent ("LOI") to acquire a 100% interest in Altai Partners, LLC ("Altai"), a limited liability company operating out of California (the "Altai Acquisition").

The Altai Acquisition aligns with the Company's growth strategy through acquisitions and strategic partnerships, and it provides Lineage an opportunity to establish a footprint in the growing California retail market, as Altai currently holds four (4) licenses including Retail, Cultivation, Extraction, and Delivery through Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX").

In the near-term, the Company intends to commence development of a cannabis delivery service for LUX's various product offerings and is currently engaged in discussions with multiple parties with a view towards establishing a dominant cannabis delivery business. Cannabis delivery services have and continue to experience significant growth in California since legalization in the state, and development of its own delivery service will allow Lineage to provide a further integrated customer offering, and further develop its strategic objective of becoming one (1) of the premier vertically-integrated cannabis companies in the Bay Area. See "Proposed Transactions" for further details regarding the Altai Acquisition.

State of California – Agris Acquisition

Lineage has entered into a Membership Interest Purchase Agreement (the "Agris Agreement") to acquire California-based Walnut Oaks, LLC d/b/a Agris Farms ("Agris Farms"), which operates a fully licensed and fully operational 40,500 sq. ft. outdoor cannabis cultivation facility in Yolo County (the "Agris Acquisition"). Agris Farms is in commercial production with annual production capacity of 16,000 lbs. of unprocessed cannabis.

The Agris Acquisition is expected to provide the Company with foundational assets to execute on the Company's expansion strategy in California. If completed, Lineage will be able to drive sales of premium branded products including craft flower through its wholly-owned dispensary while capturing margin along the entire value chain. See "Proposed Transactions" for further details regarding the Agris Acquisition.

State of California – RTO Transaction

Following closing of the RTO Transaction on May 30, 2019, the Company indirectly operates two (2) flagship dispensaries in the Bay Area, a cultivation facility in Salinas, California, and owns the "Harborside" and "Key" brands. As a result of the RTO Transaction, the Company expects to gain access to the necessary resources to fulfill management's vision for California's vertically integrated cannabis company focused on retail and high-margin branded product sales channels.

As the fully regulated California market unfolds, management of the Company sees strong potential growth in consumer demand and in the area of branded products, a market in which the "Harborside" and "Key" brands are market leaders and well positioned. The Company plans to continue to integrate and carry on the businesses of FLRish and Lineage as a vertically integrated, fully licensed, California-centric cannabis company. The Company's business will have three (3) segments: (i) retail dispensaries, (ii) cultivation, production, and wholesale sales, and (iii) management advisory and administrative services, as follows:

1. Regarding dispensaries, the Company will:
   - Control two (2) dispensaries in California: Patients Mutual Assistance Collective Corporation, a corporation governed under the laws of California ("Harborside Oakland") and San Jose Wellness, a non-profit mutual benefit corporation governed under the laws of California ("Harborside San Jose");
   - Own two (2) dispensaries in Oregon (Terpene Station); and
   - Manage two (2) other dispensaries in California: San Leandro Wellness Solutions, Inc., a corporation governed under the laws of California ("Harborside San Leandro") and a retail dispensary located in Desert Hot Springs, California ("Harborside Desert Hot Springs").
2. The Company will operate a cultivation facility at the Salinas Farm in Salinas, Monterey County, California. The facility at Salinas Farm is approximately three (3) acres in size, enabling the Company to produce a diverse array of cannabis products offered at varying price points, meeting the ever diverse and changing buying habits of customers and other dispensaries, manufacturers and distributors. Upon, and subject to, the successful completion of the Agris Farms Acquisition, the Company will own a second cultivation facility in Yolo County, California.
3. The Company will provide management advisory and administrative services to licensed cannabis businesses throughout California, enabling it to generate high margin revenue streams, control shelf-space, increase brand recognition, and further integrate its supply and distribution chains.

The business objectives that the Company expects to accomplish in the forthcoming 12-month period are as follows:

- Consolidate and expand its California retail footprint in the Bay Area;
- Scale and improve cannabis production/manufacturing capabilities;
- Expand wholesale and business-to-business sales of its cannabis products; and
- Evaluate the launching of new branded products.

Overall Market Outlook

It is expected that the Company will remain a significant acquirer in the cannabis industry across all sectors of the industry (including retail, manufacturing, and cultivation), and will actively seek both small and large acquisition and investment opportunities across the cannabis supply chain.

As the cannabis industry matures, it is anticipated that:

- Manufactured cannabis consumer products will continue to evolve;

- Consumers have already proven demand for vaporizer pens and purchasing habits will continue to trend in favor of branded manufactured products over flower;
- As cultivators scale production, unbranded cannabis flower will experience commoditization, and prices for unbranded flower will decrease;
- Producers of unbranded cannabis products that lack vertically integrated retail or wholesale channels will struggle with margin compression; and
- Industry consolidation may occur as smaller, horizontal operators are unable to compete on price against vertically integrated operators or are absorbed by larger vertically integrated companies, multi-state operators, or new market entrants such as the pharmaceutical, alcohol, and tobacco industries.

Combining significant California retail market share, cost-efficient cultivation, and branded manufactured product lines, the Company's vertically integrated model is well-positioned to gain additional West Coast market share and to achieve and maintain sustainable profitability.

Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 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.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the US marijuana industry; (ii) an explanation that marijuana is illegal under US federal law and that the US enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's US marijuana-related activities are conducted in a manner consistent with US federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

At this time, the Company's involvement in the US cannabis industry is "Direct" through the acquisition of the two (2) Terpene Station retail cannabis dispensaries and closing of the RTO Transaction with FLRish, while the involvement is "Indirect" through its proposed acquisitions of entities operating in the US cannabis industry (the "Acquisition Targets"). As a result of the Company's current operations and proposed acquisitions in the US (as described below), the Company is subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

Compliance with Applicable State Laws in the US

The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal law in the states where its retails dispensaries and Acquisition Targets conduct operations. As of July 2, 2019, the Company has not received any notices of violation, denial or non-compliance from any US authorities which would result in a restriction of operations and fines.

Nature of Subsidiaries and Acquisition Targets with US Cannabis-Related Activities

<u>Terpene Station</u>

Terpene Station operates as a cannabis retailer in the State of Oregon, and is engaged in the selling of cannabis products such as flower, edibles and oil derivative products, through retail space of more than 5,500 sq. ft. across two locations in southeast Portland and downtown Eugene. The Portland location was the first licensed recreational store in the state and both locations are recognized for their premium product offerings and track record of serving the craft segment of the Oregon cannabis market. Lineage completed transfer of the OLCC Licenses to its name upon closing of the Terpene Station Acquisition, which offers an existing base of revenue-generating assets positioned in the adult-use market. The Company has since centralized purchasing decisions for the two (2) dispensaries to improve margins, and has also upgraded the store locations in order to increase sales.

Harborside

On May 30, 2019, Lineage and FLRish completed the RTO Transaction. Following completion of the RTO Transaction, the Company indirectly, among other things, operates two (2) flagship dispensaries in the Bay Area, a cultivation facility in Salinas, California, and owns the Harborside brand. The Company manages the Harborside Oakland and Harborside San Jose retail cannabis dispensary stores in California, which is projected to be the largest adult-use cannabis market in the US. The Harborside Oakland dispensary was founded in 2006 by Steve DeAngelo and dress wedding, and the Harborside brand today is well known throughout California and globally. Combined, the two (2) Harborside dispensaries have generated over CAD $400 million in sales since their opening, including over CAD $50 million sales in in 2018 and 2017.

Altai

On March 28, 2018, Lineage entered into a binding LOI to acquire a 100% interest in Altai which operates out of California. Altai has an agreement in place to acquire a 45% interest in LUX, a licensed dispensary operating in San Jose. LUX operates as a cannabis retailer in the State of California engaged in the selling of cannabis products such as flower, edibles and oil derivative products. Concurrent to its agreement acquiring a 45% ownership interest in LUX, Altai subsequently entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. LUX currently holds four (4) licenses including Retail, Cultivation, Extraction, and Delivery. In the near-term, the Company intends to commence development of a cannabis delivery service for LUX's various product offerings and is currently engaged in discussions with multiple parties with a view towards establishing a dominant cannabis delivery business. Upon completion of the Altai Acquisition, Lineage will hold a 100% ownership interest in LUX. See Proposed Transactions for further details.

Agris Farms

On June 12, 2018, Lineage entered into term sheet (the "Term Sheet") to acquire Agris Farms, which operates a fully licensed and fully operational 43,500 sq. ft. greenhouse cannabis cultivation facility in Yolo County, California. Agris Farms is in commercial production with annual production capacity of 6,000 lbs. of premium quality craft cannabis. On November 20, 2018, the Company entered into the Agris Agreement to complete the Agris Acquisition. Pursuant to the Agris Agreement, Lineage would acquire a 100% ownership interest in Agris Farms. See Proposed Transactions for further details.

Regulatory Overview

US Federal Law

While marijuana and marijuana-infused products are legal under the laws of several US States (with vastly differing restrictions), presently the concept of "medical marijuana" and "retail marijuana" do not exist under US federal law. The US *Federal Controlled Substances Act* ("FCSA") classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision.

The US Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The US Department of Justice (the "DOJ") has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo, the memorandum dated August 29, 2013, as being an enforcement priority.

Prior to 2018 and in the Cole Memo, the DOJ acknowledged that certain US states had enacted laws relating to the use of marijuana and outlined the US federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. The Cole Memo was addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the US, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

(1) Distribution of cannabis to minors;
(2) Criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis;
(3) Transfer of cannabis from States where it is legal to States where it is illegal;
(4) Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity;
(5) Violence or use of firearms in cannabis cultivation and distribution;
(6) Drugged driving and adverse public health consequences from cannabis use;
(7) Growth of cannabis on federal lands; and
(8) Cannabis possession or use on federal property.

On November 14, 2017, Jeff Sessions, the US Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement, Attorney General Sessions stated that the US federal government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the States may legalize marijuana for its law enforcement purposes, but it remains illegal with regard to federal purposes.

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Attorney General Sessions (the "Sessions Memo"). It is the Company's opinion that the Sessions Memo does not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the DOJ to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. The result of the rescission of the Cole Memo is that federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions; however, discretion is still given to the federal prosecutor to weigh all relevant considerations of the crime, including the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. No direction was given to federal prosecutors as to the priority they should ascribe to such activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities.

Furthermore, the Sessions Memo did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from US Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. See "US Enforcement Proceedings". Due to the ambiguity of the Sessions Memo in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. See "Risk Factors".

Even though the Cole Memo has been rescinded, the Company will continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current US Federal enforcement guidelines and US states in which the retail cannabis dispensaries and Acquisition Targets operate in.

On January 16, 2018, A bipartisan coalition of State Attorneys General have issued a letter to Congressional leadership urging them to "advance legislation" to permit state-licensed marijuana businesses greater access to banking and other financial services. The letter is undersigned by the Attorneys General from the States of Alaska, California, Colorado, Connecticut, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, New Mexico, New York, Oregon, Pennsylvania, Vermont, and Washington, as well as from the District of Columbia and the US territory of Guam.

On March 22, 2018, the House of Representatives and Senate voted in favor of approving the Omnibus Spending Bill (the "Bill") and it was signed into law the following day by the President Donald Trump. With the Bill's approval comes an extension of Rohrabacher-Leahy Amendment until September 2018, which is represented by Section 538 of the Bill. Rohrabacher-Leahy Amendment prevents the DOJ from using federal funds in enforcing federal law relating to medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since then. It should be noted that this amendment does not apply to adult-use marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Senator Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recession of the Cole memo will not impact Colorado's legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding states' rights to regulate cannabis, and that former House Speaker John Boehner has been appointed to the advisory board of a private US cannabis company. The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized marijuana. The Company is cautiously optimistic that these recent developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

On November 7, 2018, Attorney General Sessions resigned after the US Mid-Term Elections, both of which would potentially impact the US cannabis industry. From the Mid-Term Elections, US voters delivered a split verdict for Congress, as the Democrats secured a majority in the House of Representatives (the "House") while the Republicans expanded their majority in the Senate. With the Democrats taking back control of the House, it may prove to be a catalyst for the sector to reinforce the notion that cannabis in the US is getting closer to the path of eventual full legal status. While pro-cannabis legislation would still require passing the Senate and the Executive Branch, the path to legalization seems to have opened up with Mr. Sessions's departure. With divided congressional power, there will be opportunity for bi-partisanship on a number of issues including the Strengthening the Tenth Amendment Through Entrusting States Act, S. 3032 ("STATES Act"), which would protect individuals working in cannabis sectors from federal prosecution. The STATES Act was introduced in June 2018 through bi-partisan efforts initiated by Senator Gardner together with Massachusetts Senator Elizabeth Warren. Senator Warren won re-election which ensures she will push the change to federal law regarding cannabis. In addition, constituents of Michigan voted to legalize recreational marijuana, making Michigan the first state in the Midwest to do so and the 10th in the US overall demonstrating growing sentiment amongst Americans towards legalization. Voters in Missouri and Utah approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.

On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives such as CBD from the purview of the FCSA. Prior to its enactment, the 2014 Farm Bill allowed Industrial Hemp to be cultivated under agricultural pilot programs conducted by state departments of agriculture and institutions of higher education. The Statement of Principles published by the USDA, the DEA and the FDA in 2016 confirmed that state departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate Industrial Hemp as part of the agricultural pilot program.

Most recently, the US Congress passed H.R. 3055, the "Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020" (the "2020 Appropriations Act").

On June 20, 2019, the 2020 Appropriations Act was Amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (***Blumenauer (D-OR), Norton (D-DC), McClintock (R-CA)***), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the DOJ from interfering with "state cannabis programs", which includes both medical and adult-use cannabis programs.

Although Jeff Sessions has been replaced by President Trump with William Barr, there is still very little clarity as to how President Trump, or Attorney General Barr, will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. **Any such change in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company's and its Acquisition Targets' businesses, which could in turn have an impact on the Company's operations. A change in its enforcement policies could impact the ability of the Company to continue as a going concern**. See "Risk Factors".

US Enforcement Proceedings

The US Congress has passed appropriations bills each of the last three (3) years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the ''Rohrabacher-Leahy Amendment'') and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. These protections were subsequently extended through December 21, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations.

State-Level Overview

The following sections present an overview of regulatory conditions for the marijuana industry in US States in which the Company's retail dispensaries and Acquisition Targets have an operating presence:

<u>California</u>

On November 8, 2016, California voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate for all adults 21 years of age and older. In 1996, California was the first US state to pass a medical marijuana law allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On June 27, 2017, California State Legislature passed Senate Bill No. 94, known as the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA"), which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State Government introduced the emergency regulations, which shall be governed by California Bureau of Cannabis Control (the "BCC"), California Department of Public Health and California Department of Food and Agriculture, which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. On January 1, 2018, the new State regulations took effect as California moved to full adult-use state legalization for cannabis products.

To operate legally in California, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are no residency requirements for ownership under MAUCRSA.

In California, two (2) state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memo. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal weed rather than going after the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there," "So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

In March 2019, lawmakers in California had proposed State Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses has dealt predominantly in cash due to continued federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other state and territorial attorneys, had sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for marijuana companies. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

Oregon

In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act" creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed retail marijuana stores, as well as cultivating marijuana at home. The OLCC licenses and regulates adult-use marijuana businesses and is currently accepting applications. On October 15, 2015, the OLCC published draft recreational marijuana rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("OAR Division 25"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in the State of Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to OLCC's review and approval.

In Oregon, there are six (6) types of recreational marijuana licenses for commercial uses: Producer, Processor, Wholesaler, Retail, Laboratory, a Certificate for Research, and a Hemp Certificate. While there is no limit on the number of licenses being issued, state regulators in Oregon had temporarily discontinued processing new adult-use licenses effective June 15, 2018, due to an oversupplied recreational marijuana market and a backlog of applications in the state.

In February 2018, US Attorney Billy Williams told a gathering that included Governor Kate Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five priorities for going after illegal cannabis operations that violate federal laws, with the first priority to crack down on the leakage of surplus marijuana into bordering states where pot is still against the law. The memo also stated that federal prosecutors will also target keeping marijuana out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage federal lands through improper pesticide and water usage.

In May 2019, Oregon Attorney General Ellen Rosenblum, along with 37 other state and territorial attorneys, had sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for marijuana companies. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon.

The following represents the portion of certain assets on Lineage's unaudited condensed interim consolidated statements of financial position that pertain to US cannabis activity as of April 30, 2019:

Statement of Financial Position Line Item	**Percentage (%) which related to holdings with US marijuana-related activities**
Cash	14%
Other receivables	20%
Inventories	100%
Prepaid expenses	83%
Investments	100%
Right-of-use assets	100%
Intangible assets	100%
Goodwill	100%

Financial Information

Selected Annual Information

Lineage's selected financial information as at and for the three (3) most recently completed financial years ended January 31 are summarized as follows:

	January 31, 2019	January 31, 2018	January 31, 2017
	$	$	$
Sales	679,449	-	-
Gross margin	131,448	-	-
Operating expenses	(4,166,742)	(1,226,258)	(256,571)
Other expenses	(2,265,003)	(1,365,754)	(15,889)
Net loss	(6,328,604)	(2,592,012)	(272,460)
Loss per share	(0.107)	(0.079)	(0.026)
Total assets	5,293,256	4,528,801	622,334
Total liabilities	4,122,903	4,341,885	189,797
Shareholders' equity	1,170,353	186,916	456,828

Selected Quarterly Financial Results

Lineage's selected financial information for the eight (8) most recently completed quarters as at April 30, 2019 are as follows:

	Q1 2020	Q4 2019	Q3 2019	Q2 2019
	$	$	$	$
Sales	528,919	488,211	191,238	-
Gross margin	216,661	61,847	69,601	-
Operating loss	(366,735)	(1,920,050)	(710,196)	(802,387)
Other income (expenses)	4,963	(1,785,965)	868,084	4,861
Net income (loss)	(361,772)	(2,797,409)	157,888	(797,526)
Income (loss) per share – basic and diluted	(0.005)	(0.065)	0.003	(0.013)
Working capital (deficiency)	(2,591,138)	(1,967,590)	2,592,090	2,523,482

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
	$	$	$	$
Sales	-	-	-	-
Gross margin	-	-	-	-
Operating loss	(602,227)	(655,226)	(268,444)	(196,981)
Other expenses	(980,601)	(1,420,742)	(113,131)	148,838
Net loss	(1,582,828)	(1,909,044)	(381,575)	(29,671)
Loss per share – basic and diluted	(0.032)	(0.058)	(0.012)	(0.001)
Working capital	4,084,979	3,864,610	2,205,312	2,448,167

Financial Results for the Three Months ended April 30, 2019

Results of Operations

During the three months ended April 30, 2019 ("Q1 2020"), the Company generated sales of $528,919, from the two (2) dispensaries in Oregon acquired pursuant to the Terpene Station Acquisition in September 2018. The Company now owns a vehicle which generates sources of revenue from selling of cannabis products such as flower, edibles and oils. The Company is focused on increasing sales going forward.

During Q1 2020, the Company incurred an operating loss of $366,735 (Q1 2019 – $602,227). The substantial decrease in operating loss in the current quarter is primarily attributed to (a) revenues generated from the 2 dispensaries and (b) decrease in management and consulting fees of $164,519, to $128,561 in Q1 2020 as compared to management and consulting fees of $293,080 in Q1 2019. In Q1 2019, the Company entered into a number of consulting agreements upon obtaining its listing on the CSE, whereas some of the agreements had terminated in the current quarter. These were offset by (c) an increase of $139,044 in professional fees, for a total of $211,873 as compared to $72,829 in Q1 2019. The increase in legal fees was a direct result of the resources required to advance the RTO Transaction; and (d) an increase in office and general expenses of $31,437 to $183,114, due to an increased scope of operations.

During Q1 2020, the Company generated other income of $4,963 (Q1 2019 – other expenses of $980,601). Finance costs, comprising of interest and accretion on debentures, totaled $130,291 in Q1 2020 (Q1 2019 – $153,064) and were principally related to the issuance of the Secured Convertible Note issued on completion of the Terpene Acquisition. The conversion feature and the warrants component of the Convertible Debentures were accounted for as embedded derivative liabilities as their fair value is affected by changes in the fair value of the Company's common shares. The fair value change had significantly reduced from a loss of $832,293 in Q1 2019 to a gain of $110,138 in the current quarter.

Net loss for the three months ended April 30, 2019 was $361,772 ($0.005 per share on a basic and diluted basis), as compared to a net loss of $1,582,828 ($0.032 per share on a basic and diluted basis) for Q1 2019.

Cash Flows

Net cash generated from operating activities during the three months ended April 30, 2019 was $258,004, as compared to net cash used in operations of $1,192,148 in Q1 2019. The Company had significantly reduced spending in its operations in the current quarter, as management was focused on closing the RTO Transaction while maintaining its operations in Oregon. In the comparative period, while the Company was on the verge of advancing its expansion into the US cannabis industry, it had paid off certain obligations and made substantial advances with suppliers and consultants through funds raised from its private placement financings.

Net cash used in financing activities for Q1 2020 was $87,097, which are related to payment of its notes and lease obligations. Net cash raised from by financing activities for Q1 2019 was $877,144, related to funds received on Tranches 2 to 4 of the Concurrent Financings which closed in February 2018. Together with funds of approximately $850,000 which were already received as at the end of the prior year, the Company raised an additional $991,900 in Q1 2019, for total funds raised of approximately $1.8 million. Cash proceeds of $17,500 from exercise of warrants were also received in the comparative period.

Net cash used in investing activities for Q1 2020 was $200,625, comprised of a fourth instalment advance of $200,625 (USD $150,000) to Altai. Net cash used in investing activities for Q1 2019 was $1,349,430 (USD $1,050,000), comprised of the first of four (4) cash payments of USD $300,000, and $962,700 (USD $750,000) in promissory notes advanced to Altai, as consideration for the Altai Acquisition.

Working Capital and Liquidity Outlook

Currently, the level of operations is principally a function of availability of capital resources. The primary source of funding has been through the completion of private placement financings. Going forward, with the Terpene Station Acquisition, the Company will be able to generate regular cash flows from operations. However, it will likely also continue to rely on additional equity or debt financings for its working capital requirements. There is no guarantee that the Company will be able to successfully complete such financings, as market conditions may dictate availability and interest.

As at April 30, 2019, the Company had total assets of $5,674,012, total liabilities of $4,845,893 and total shareholders' equity of $828,119. This compares to total assets of $5,293,256, total liabilities of $4,122,903 and total equity of $1,170,353 as at January 31, 2019. The increase in total liabilities is primarily attributed to the recognition of a lease payable balance of $601,261 on adoption of IFRS 16 – Leases ("IFRS 16").

As at April 30, 2019, the Company had total current assets of $542,034 (January 31, 2019 – $1,072,369), including cash of $370,587 (January 31, 2019 – $578,528) to settle current liabilities of $3,133,172 (January 31, 2019 – $3,039,959), for a net working capital deficiency of $2,591,138 (January 31, 2019 – working capital deficiency of $1,967,590).

Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

Related Party Transactions and Key Management Compensation

Key management personnel compensation

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

On October 15, 2010, Lineage and FMI Capital Advisory Inc. ("FMICA") entered into a financial advisory and consulting agreement, subsequently amended on June 5, 2017. Peter Bilodeau, the Chief Executive Officer ("CEO") and Director of the Company, is also the President of FMICA. FMICA is a subsidiary of Foundation Financial Holdings Corp. ("FFHC"), an entity in which Adam Szweras is a director and whereas his children hold an indirect interest. For the three months ended April 30, 2019, the Company was charged $36,000 (2018 – $117,667) for advisory and consulting services provided by FMICA. As at April 30, 2019, no balance was owed to FMICA (January 31, 2019 – $nil).

Effective April 17, 2018, Lineage and Peter Bilodeau entered into a consulting agreement, providing for CEO and consulting services to the Company. Fees of $10,000 are payable on a monthly basis from the effective date. During the three months ended April 30, 2019, the CEO was paid $30,000 (2018 – $4,720) for CEO consulting services provided to the Company, which are included in management and consulting fees. As at April 30, 2019, no balance was owed to the CEO (January 31, 2019 – $3,380; included in accounts payable and accrued liabilities).

Upon closing of the Concurrent Financing in February 2018, the Company and Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, amended the management services agreement, providing for CFO services to Lineage, as well as other accounting and administrative services, which are included in professional fees. Branson is a company in which FFHC and Adam Szweras hold a 60% and 15% ownership interest, respectively. In consideration for the services provided, the Company agreed to pay a monthly fee of $8,000. During the three months ended April 30, 2019, the Company was charged $24,000 (2018 – $27,675) for services provided by Branson. As at April 30, 2019, no balance was owed to Branson (January 31, 2019 – $nil).

As at April 30, 2019, an amount of $10,972 (January 31, 2019 – $4,074) owing to the CFO for reimbursement of expenses was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the three months ended April 30, 2018, the Company recorded fees of $158,000 (2017 – $nil), including a bonus of $150,000 paid upon the Company securing its listing on the CSE, for services rendered by a former officer to the Company, which are included in management and consulting fees.

During the three months ended April 30, 2019, officers and directors of the Company received stock-based compensation of $21,200 (2018 – $3,094).

Agreements with related parties

On January 24, 2018, the Company and Foundation Markets Inc. ("FMI") entered into a private placement finder's fee agreement in relation to the Concurrent Financing which closed in February 2018. Peter Bilodeau and Adam Szweras are the President and the Chairman of FMI, respectively. Of the tranches of the Concurrent Financing which closed in February 2018, FMI was paid the following compensation:

- Tranche 2: Finder's fee of $28,925 and 80,200 finders' warrants exercisable at $0.25 for two (2) years;
- Tranche 3: Finder's fee of $12,800 and 51,200 finders' warrants exercisable at $0.25 for two (2) years; and
- Tranche 4: Finder's fee of $4,500 and 18,000 finders' warrants exercisable at $0.25 for two (2) years.

On March 7, 2018, the Company issued 320,000 common shares to FMICA as compensation for consulting services in relation to the closing of the Concurrent Financings.

Capital Management

The Company's objective in managing its capital structure is to ensure the entity continues as a going concern as well as to maintain optimal returns and benefits to shareholders and other stakeholders. The Company monitors its capital structure and makes adjustments according to market conditions to meet its objectives given the current business and industry outlook in general. To maintain or adjust the capital structure, the Company may issue new shares or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business. Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements;
(ii) reducing or eliminating exploration expenditures which are of limited strategic value; and
(iii) exploring alternate sources of liquidity.

In light of the above, the Company will continue to assess and acquire an interest in new business opportunities if it feels there is sufficient potential and if it has adequate financial resources to do so.

As at April 30, 2019, the Company's capital consists of share capital, conversion component of convertible debentures, reserve in warrants, reserve in share-based payments, accumulated other comprehensive income and accumulated deficit, in the amount of $828,119 (January 31, 2019 – $1,170,353). Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's capital management objectives, policies and processes have remained unchanged during the three months ended April 30, 2019 and the year ended January 31, 2019.

The Company is not subject to externally imposed capital requirements.

Financial Instrument Risks

Financial instruments

The Company's classification and measurements of financial assets and liabilities are summarized below:

	Classification
Cash	FVTPL
Other receivables (excluding sales tax recoverable)	Amortized cost
Investments and advances	Amortized cost / FVTPL
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Derivative liabilities	FVTPL
Notes payable	Amortized cost
Lease payable	Amortized cost

Fair value hierarchy

The Company classifies fair value measurements using 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).

As at April 30, 2019, the Company does not have any financial instruments measured at fair value after initial recognition, except for cash included at Level 1, the derivative liabilities which were calculated using Level 2 inputs and investments classified at Level 3 where the fair value was determined based on implied enterprise value of the investee by referring to values of comparable entities, as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	370,587	-	-	370,587
Investment	-	-	319,640	319,640
Derivative liabilities	-	182,106	-	182,106
	370,587	**182,106**	**312,996**	**872,333**

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and other receivables, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is primarily held with reputable Canadian chartered banks and in trust with the Company's legal counsel. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivables is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at April 30, 2019, the Company had a cash balance of $370,587 (January 31, 2019 – $578,528) to settle current liabilities of $3,133,172 (January 31, 2019 – $3,309,959).

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

As at April 30, 2019, the Company had the following contractual obligations:

	Less than 1 year	1 to 3 years	3 to 5 years	Total
	$	$	$	$
Accounts payable and accrued liabilities	656,427	-	-	656,427
Derivative liabilities	182,106	-	-	182,106
Convertible notes payable	-	1,015,876	-	1,015,876
Notes payable	2,108,493	-	-	2,108,493
Lease payable	55,096	144,443	126,972	326,511
	3,002,122	**1,160,319**	**126,972**	**4,289,413**

Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's main operations are based in the US, where the majority of transactions are incurred in USD. The Company's primary exposure to foreign exchange risk is that transactions denominated in USD may expose the Company to the risk of exchange rate fluctuations.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debts have fixed interest rates. As at April 30, 2019, the Company had no hedging agreements in place with respect to floating interest rates.

Significant Accounting Judgments and Estimates

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the unaudited condensed interim consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Licenses and trade names have an indefinite useful life and are tested for impairment annually.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (each a "Cash-Generating Unit or a "CGU") can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company had identified the retail cannabis dispensaries as separate CGUs, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

Impairment

Long-lived assets, including property and equipment and intangible assets are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Income taxes

Income taxes and tax exposures recognized in the unaudited condensed interim consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with officers and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Expected credit losses on financial assets

Determining an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Derivative liabilities

The conversion feature and the warrants component of convertible debentures and convertible note payable which contain contractual terms that result in the potential adjustment in the conversion or exercise price, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's common shares. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrant component of the convertible debentures and convertible note payable is required to be measured at fair value at each reporting period. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain.

Summary of Significant Accounting Policies

The accounting policies applied in the Company's unaudited condensed interim consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended January 31, 2019, unless otherwise noted below.

Adoption of New Accounting Policies

The Company adopted the following standards, effective February 1, 2019. These changes were made in accordance with the applicable transitional provisions:

<u>IFRS 16 – Leases ("IFRS 16")</u>

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset ("RUA") and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

The Company has applied IFRS 16 with an initial application date of February 1, 2019, in accordance with the transitional provisions specified in IFRS 16. The Company applied the simplified transition approach and did not restate comparative amounts to the year prior to adoption. In respect of these lease commitments, the Company recognized right-of-use assets of approximately $601,261, current lease liabilities of $52,595 and non-current lease liabilities of $548,666 as at February 1, 2019.

The following accounting policy is applicable from February 1, 2019:

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. Leases are recognized as a RUA and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. Finance costs are charged to profit or loss over the lease term.

The lease liability is measured at amortized cost using the effective interest method. The RUA is initially measured at cost, which comprises the initial amount of the lease liability any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. Amortization is recorded on RUA on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The RUA may be adjusted for certain remeasurements of the lease liability and impairment losses.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23")

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRS Interpretations Committee ("IFRIC") concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

Recent Accounting Pronouncements

At the date of authorization of the Company's unaudited condensed interim consolidated financial statements, the IASB and IFRIC issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after February 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact of adopting the new standards or amendments will have on the Company's unaudited condensed interim consolidated financial statements. No material impact is expected upon the adoption of the following new standards:

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

Commitments and Contingencies

Lease commitments

The Company entered into two (2) lease agreements for the cannabis retail dispensaries located in Portland and Eugene. As at April 30, 2019, the Company is committed to minimum annual lease payments for its two (2) Oregon dispensaries locations as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	$	$	$	$
Lease obligations	587,489	123,938	259,142	204,409

Proposed Transactions

Altai Partners, LLC

On March 28, 2018, the Company entered into a binding LOI to acquire a 100% interest in Altai, which had an agreement in place, dated March 15, 2018, to acquire a 45% interest in LUX, a licensed dispensary operating in San Jose, California.

On March 28, 2018, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Accordingly, Lineage will acquire an indirect 100% ownership interest in LUX through its purchase of a 100% interest in Altai. The purchase price for the Altai Acquisition is USD $5,400,000, payable on or prior to closing, comprised of:

(a) USD $1,950,000 payable in cash; and

(b) USD $3,450,000 payable by the issuance of common shares in the capital of Lineage priced at USD $0.20 per common share.

In addition, pursuant to the terms of the Altai Acquisition:

(c) USD $750,000 will be lent to Altai under promissory notes bearing at 12% annual interest. The promissory notes will become loans to subsidiary after completion of the Altai Acquisition; and

(c) Lineage, under its ownership of Altai, will assume USD $1,200,000 in payment obligations towards Altai's purchase of LUX. This obligation includes four (4) cash payments to LUX shareholders of USD $300,000 each.

As at April 30, 2019, the Company had advanced total funds of $2,356,115 (USD $1.80 million) (January 31, 2019 – $2,155,490 (USD $1.65 million)) to Altai, comprised of:

(i) Total advances of $1,375,065 (USD $1,050,000) (January 31, 2019 – $1,174,440 (USD $900,000)); and

(ii) Funds of $981,050 (USD $750,000) in the form of two (2) promissory notes, issued at USD $250,000 and USD $500,000, respectively. These promissory notes will become a loan to subsidiary after completion of the Altai Acquisition. Should the Altai Acquisition not ultimately close, the advances will be repaid to the Company.

As at April 30, 2019, the total advances made to Altai were recorded at an amortized cost of $2,315,522 (January 31, 2018 – $2,041,335).

Completion of the Altai Acquisition is subject to satisfactory completion of due diligence, execution of a definitive agreement, required approvals and consents, as well as the completion of Altai's acquisition of 100% ownership interest in LUX.

Walnut Oaks, LLC

On June 12, 2018, the Company entered into the Term Sheet to acquire California-based Agris Farms. Agris Farms operates a craft cannabis cultivation facility in Yolo County in Northern California. Pursuant to the Term Sheet, Lineage would acquire a 51% interest in Agris Farms based on an implied enterprise value of USD $6,600,000. Consideration would be in the form of shares and the assumption of liabilities. Lineage would have an option to acquire the remaining 49% of Agris Farms within six (6) months from closing for share consideration.

On November 20, 2018, the Company, through its subsidiary Lineage GCL California, LLC, entered into the Agris Agreement to acquire a 100% ownership interest in Agris Farms. The Agris Agreement superseded the Term Sheet in its entirety.

The aggregate purchase price payable under the Agris Acquisition is USD $6,600,000 payable on closing, comprised of:

(a) An amount of USD $2,148,880 payable on closing by the issuance of Lineage common shares at a price of $0.165 per share;

(b) The assumption of liabilities in the aggregate amount of USD $2,951,120 which is to be settled as follows:

   (i) USD $451,120 payable in cash which had been paid;

   (ii) USD $1,000,000 convertible on closing, into Lineage common shares at a price of $0.165 per share; and

   (iii) USD 1,500,000 which, on closing, Lineage will assume as a subordinate note owing to a third-party lender who will be granted a put option by Lineage in favor of the holder where the note holder can choose to convert the subordinate note into a Lineage note convertible into a unit consisting of one (1) Lineage common share and one-half (1/2) of a warrant with a conversion price of $0.19 per share and a warrant exercise price of $0.25 per share. On closing, the third-party will have a general security interest over all assets of Walnut Oaks.

(c) A cash investment into Walnut Oaks in the amount of USD $1,500,000 of which $316,020 (USD $238,128) was subscription for the purchase of 698.17 membership units (approximately 6.53%) of Walnut Oaks and the excess of $1,658,604 (USD $1,261,872) as advances. During the year ended January 31, 2019, the advances were written down as their recoverability was uncertain.

The sellers may also be entitled to receive an additional earn-out payment equal to six (6) times of any EBITDA in excess of USD $1.1 million.

As at April 30, 2019, the total investments made to Walnut Oaks were recorded at $319,640 (January 31, 2019 – $312,996).

Closing of the Agris Acquisition is subject to various conditions, including the approval of Yolo County for the transfer of cultivation license, and required approvals and consents.

RTO Transaction

On August 12, 2018, the Company and FLRish, entered into a letter agreement pursuant to which Lineage and FLRish agreed to complete the RTO Transaction.

On February 8, 2019, and as amended on April 17, 2019, Lineage and FLRish entered into the Merger Agreement, and on May 30, 2019, Lineage and FLRish completed the RTO Transaction (see "Recent Developments" and "Subsequent Events" for details).

Issued and Outstanding Share Capital

As at June 28, 2019, the Company had the following securities issued and outstanding:

Designation of Securities	**Number of Underlying Subordinate Voting Shares**
Subordinate Voting Shares	15,848,349
Multiple Voting Shares	26,078,565
Series B Special Shares	275,325
Series C Special Shares	336,508
Options	5,372,357
Warrants	7,104,767
Broker Warrants	464,485
Convertible Debts	72,696
Shares issuable to vendors in Altai Acquisition	430,315
Shares issuable to finders in Altai Acquisition	20,046
Shares issuable to vendors in Agris Acquisition	606,958
Convertible Debt for assumption of Agris Acquisition	251,087
Warrants issuable for Agris Acquisition	221,920
Shares issuable to FMICA as advisory fee	118,543
Total Fully Diluted Share Capital	**57,201,921**

Off-Balance Sheet Arrangements

As at April 30, 2019 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Subsequent Events

Warrants

Subsequent to April 30, 2019, 10,400,000 warrants exercisable at $0.25 expired unexercised.

Special shares

On May 24, 2019, Lineage's board approved and paid a stock dividend to holders of common shares of record on May 23, 2019. The following shares were authorized and issued as a stock dividend:

- 44,775,010 Series A Special Shares;
- 11,513,533 Series B Special Shares; and
- 14,072,120 Series C Special Shares.

RTO Transaction

On May 30, 2019, the Company completed its previously announced RTO Transaction with FLRish pursuant to the Merger Agreement dated February 8, 2019, as amended on April 17, 2019 among the Company, FLRish and Merger Sub, a wholly-owned subsidiary of the Company.

The RTO Transaction was completed by way of a "three-cornered merger" whereby FLRish merged with Merger Sub to form a merged corporation and a wholly-owned subsidiary of the Company. Immediately prior to the RTO Transaction taking effect, Lineage (a) effected the Consolidation of its common shares on the basis of approximately 41.82 common shares into one new common share, (b) changed its name to "Harborside Inc.", (c) reclassified the post-Consolidation common shares as Subordinate Voting Shares and (d) created a new class of Multiple Voting Shares.

On closing of the RTO Transaction, the holders of shares of FLRish received Multiple Voting Shares, Subordinate Voting Shares or a combination thereof, for each share of FLRish outstanding immediately prior to completion of the RTO Transaction.

On June 10, 2019, the Subordinate Voting Shares commenced trading on the CSE under the trading symbol "HBOR".

Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. Significant business risk factors related to the business of the Company as at April 30, 2019 are consistent with the business risk factors described in detail in the Company's Listing Statement dated May 30, 2019 which is available on SEDAR (www.sedar.com).

The following is a summary of additional risk factors that could be applicable to the business of the Company:

Limited operating history in its new area of business

The Company, with a limited operating history in its new area of business, is in the early-stage development and must be considered as a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenue. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company also has no history of earnings. Because the Company has a limited operating history in emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Additional financing

The Company believes that its raised capital is sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan which, in turn, is based on assumptions, which may prove to be incorrect. In addition, the Company may need to raise significant additional funds sooner to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Regulation

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Local, State and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

US Federal Law

The business operations of the Company are dependent on State laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the business of the Company.

The concepts of "medical marijuana" and "retail marijuana" do not exist under US federal law. The FCSA classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US 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, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their 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.

As of the date of this MD&A, 33 States, the District of Columbia and Guam allow their residents to use medical marijuana. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The State laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by State-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, State and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

Local regulation could change and negatively impact on the Company's operations

Most US States that permit marijuana for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult-use marijuana businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit marijuana businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

There are risks associated with removal of US Federal Budget Rider Protections

The US Congress has passed appropriations bills (the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of fiscal year 2018. These protections were subsequently extended through December 21, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriation bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business-even those that have fully complied with state law-could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Regulation that may hinder the Company's ability to establish and maintain bank accounts

The US federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the US banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues.

If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Lack of access to US Bankruptcy Protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company was to experience a bankruptcy, there is no guarantee that US federal bankruptcy protections would be available to the Company's US operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

Taxes

US federal prohibitions on the sale of marijuana may result in the Company not being able to deduct certain costs from its revenue for US federal taxation purposes if the Internal Revenue Service ("IRS") determines that revenue sources of the Company are generated from activities which are not permitted under US federal law. Section 280E of the IRC of 1986 prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the FCSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the US that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

Illegal drug dealer could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the US, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized marijuana businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

US border crossing

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the US. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the US due to their involvement in the marijuana sector.

The majority of persons travelling across the Canadian and US border do so without incident, whereas some persons are simply barred entry one time. The US Department of State and the Department of Homeland Security have indicated that the US has not changed its admission requirements in response to the pending legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the US may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the US may be denied to any person working or 'having involvement in' the marijuana industry, according to US Customs and Border Protection. Inadmissibility in the US implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

Risks associated with increasing competition

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult-use industry, many of which possess greater financial and marketing resources and other resources than the Company. The cannabis business is often affected by changes in national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any changes in these factors could materially and adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition and results of operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations the Company.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

The products sold by the Company are subject to regulation governing food, dietary supplement, controlled substances and related products

Should the Federal government legalize marijuana for medical or adult use nation-wide, it is possible that the US Food and Drug Administration (the "FDA") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938. The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical marijuana and marijuana-infused products. Clinical trials may be needed to verify efficacy and safety of the medical marijuana. It is also possible that the FDA would require that facilities where medical marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event, any of these regulations are imposed, The Company cannot foresee the impact on its operations and economics. If the Company or the Licensed Operators are unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency, the Company or the Royalty Producer may be unable to continue to operate in its current form or at all.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, discontinuation of products, adverse impact on the Company's reputation with its clients and consumers generally and could have a material adverse effect on its results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company is establishing procedures to test finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Dependence on suppliers and skilled labor

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Operating risk and insurance coverage

The Company's insurance coverage is intended to address all material risks to which it is exposed and is adequate and customary in its current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Uninsurable risks

The medical and retail marijuana business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

Management of growth

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

Limited market for securities

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

The market price of securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares or Warrants to sell their securities at an advantageous price. Market price fluctuations in the Shares and Warrants may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the shares and warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares and warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the shares and warrants may be materially adversely affected.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company's shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Foreign currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the US using USD. The Company's financial results are reported in CAD and costs are incurred primarily in USD in its cannabis retail segment. The depreciation of the CAD against the USD could increase the actual capital and operating costs of the Company's US operations and materially adversely affect the results presented in the Company's unaudited condensed interim consolidated financial statements.

Difficult to forecast demand

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and the US. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

Cautionary Note Regarding Forward Looking Statements

This MD&A contains certain forward-looking information and statements relating, but not limited to, the Company's future financial position and results of operations, strategies, plans, objectives, goals, targets, and future developments in the markets where the Company participates or is seeking to participate. Forward-looking information typically contains statements with words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future outcomes or statements regarding an outlook, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements of the Company to differ materially from those suggested by the forward-looking information and statements, some of which may be beyond the control of management.

Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking information and statements are reasonable, such forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking information and statements.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the success in the Company's operations in establishing state-of-the-art cultivation facilities to develop retail sales and premium quality craft cannabis business in the States of Oregon and California in the US; the Company's ability to meet its working capital needs for the twelve-months period ending April 30, 2020, including the cost and potential impact in complying with existing and proposed laws and regulations. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

The forward-looking information and statements in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information and statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects.

The Audit Committee has reviewed the unaudited condensed interim consolidated financial statements and this MD&A with management of the Company. The Board of Directors has approved the unaudited condensed interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

July 2, 2019

Andrew Berman
Chief Executive Officer