GOLDEN LEAF HOLDINGS LTD.
517 SW 4th Ave Ste 400
Portland, Oregon 97024

Management's Discussion & Analysis of Financial Condition and Results of Operations for the Financial Year Ended December 31, 2015

Date: May 31, 2016

General

This Management's Discussion & Analysis ("MD&A") of Golden Leaf Holdings Ltd. ("Golden Leaf", "GLH" or the "Company") has been prepared by management and should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2015. The audited financial statements, together with the following MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to future performance. The audited financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include the operating results of the Company.

This MD&A was reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 31, 2016. The information contained within this MD&A is current to May 26, 2016.

The Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in U.S dollars unless noted otherwise.

Additional information relating to the Company, including regulatory filings, can be found on the SEDAR website at www.sedar.com.

IMPORTANT NOTE TO READERS: This MD&A includes amended and restated financial results of the Company with respect to Q1, Q2 and Q3 2015 under the headings "Quarterly Results". Please refer to "Restatement of Interim Results for 2015" below for further information.

Forward-Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These forward-looking statements can generally be identified as such because of the context of the statements, including such words as "believes", "anticipates", "expects", "plans", "may", "estimates", or words of a similar nature. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from anticipated future results and/or achievements expressed or implied by such forward-looking statements, which speak only as of the date the statements were made. Readers are therefore advised to consider the risks associated with any such forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth herein.

Overview

Golden Leaf was incorporated on April 12, 2011 as "Longacre Resources Inc." ("**Longacre**") under the *Business Corporations Act* (British Columbia). Golden Leaf Holdings Inc. ("**GLHI**") was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) ("**OBCA**") on April 8, 2014.

On October 6, 2015, Longacre completed a reverse takeover of GLHI (the "**RTO**"). Pursuant to the RTO, Longacre, 2470251 Ontario Inc. ("**Subco**"), a wholly-owned subsidiary of Longacre, and GLHI completed a three-cornered amalgamation. Upon completion of the RTO (the "**RTO Closing**") common shares of the Company (the "**Common**

Shares") were issued to former shareholders of GHLI, on a one-for-one basis and the business and shareholders of GLHI became the business and shareholders of the Company. The Company filed Articles of Continuance in Ontario and continued as a corporation governed under the laws of the Province of Ontario under the name "Golden Leaf Holdings Ltd."

The registered and head office of the Company is located at 36 Toronto Street, Suite 1000, Toronto, Ontario, M5C 2C5 and its principal place of business is located at 517 SW 4th Avenue, Suite 400, Portland, Oregon, 97204.

Business of the Company

Upon completion of the RTO, the business of GLHI became the business of the Company, namely the supply of medical marijuana to registered patients. Golden Leaf also began selling cannabis buds and plant material ("flower") via the Oregon Health Authority's ("OHA") "Early Start Program" that kicked off on October 1, 2015 allowing existing medical dispensaries to sell flowers to recreational customers ("adult use".)

The Company is a large cannabis oil and solution provider in North America. It is a leading cannabis products company in Oregon built around recognized brands providing medical and adult users with a superior value experience. Golden Leaf leverages a strong management team with cannabis and food industry experience and advanced research techniques including R&D to complement its expertise in extracting, refining and selling cannabis oil. The Company is focused on first mover advantage and developing the lowest cost production of highest quality oils through its competitive advantage rooted in economies of scale and intellectual property. Golden Leaf is dedicated to partnering with industries, communities and regulators.

Golden Leaf grows flower in limited quantities, extracts and refines oil from the flower, prepares and packages the oils into various products for medicinal use and sells these cannabis oil based products along with the cannabis flower that it cultivates or purchases through both a wholesale distribution network and its own state-licensed medical dispensary. The Company's main operating entity is Greenpoint Oregon, Inc. ("**GPO**"). GPO's products trade under the brand names Golden XTRX™, Golden™, and Proper™.

The Company's products are sold in approximately 200-250 dispensaries in Oregon which are licensed to sell a wide variety of medicinal cannabis products directly to patients. On October 1, 2015, these dispensaries were also allowed to sell cannabis flower to non-medical customers in the Early Start program, and commencing June 2, 2016, medical dispensaries that are already participating in the Early Start Program will also be allowed to sell single serving low dose edibles, single receptacles of extract, and topicals to retail consumers. This change allows GPO to sell extracts and edibles to adult users through the Oregon Medical Marijuana Dispensary Program (OMMDP). The Company has also entered into the Washington market, in the form of a strategic partnership with BMF (See Significant Acquisitions and Dispositions and developments since RTO). Lastly, the Company has also partnered with Dixie Brands to manufacture and distribute Dixie Edibles in the state of Oregon.

History

Longacre Resources Inc.

Prior to the completion of the RTO, Longacre had no active business operations and was seeking business opportunities. None of Longacre's securities were listed or posted for trading on any stock exchange or quotation system, but Longacre was a reporting issuer in the Provinces of Alberta and British Columbia.

Golden Leaf Holdings Inc.

GLHI was incorporated pursuant to the OBCA on April 8, 2014. On May 12, 2014 GLHI entered into an asset purchase agreement with Andy Hartogh, of Portland, Oregon to acquire certain cannabis cultivation and processing assets for total consideration of $680,800. GLHI issued Mr. Hartogh a promissory note in the amount of $212,500, 2,925,000 common shares of GLHI ("**GLHI Shares**") and common share purchase warrants exercisable for 1,500,000 GLHI Shares at an exercise price of C$0.02 per GLHI Share as full consideration for the acquired assets. GLHI used these assets to assemble its cultivation facility and its oil extraction and processing facility located just outside Portland,

Oregon. As part of the transaction, Mr. Hartogh signed an employment agreement with GPO and entered into a non-competition and non-solicitation agreement with GLHI.

In May of 2014, GLHI, through its wholly-owned subsidiary Left Coast Connections Inc. ("**LCC**"), acquired a license to operate a dispensary selling cannabis products directly to patients along with other assets from OMCC Oregon, LLC ("**OMCC**"). As consideration for the acquisition, GLHI paid OMCC 200,000 GLHI Shares and assumed $27,000 of liabilities.

GLHI commenced sales and full operations in August 2014, selling both cannabis flower and CO_2 extracted cannabis oil products under the brand name Golden XTRX™.

In January 2015, GLHI acquired a hydrocarbon machine for the production of hydrocarbon extracted cannabis oils which became operational in February 2015. GLHI launched its line of hydrocarbon extracted cannabis oil products that same month under the brand name Proper™. GLHI acquired a second hydrocarbon machine in April 2015 with a view to doubling its output of hydrocarbon extracted cannabis oils.

Also in January 2015, GLHI launched its R&D division through its wholly-owned Israeli subsidiary, GPS. In connection with the launch of its R&D division, Dr. Moshe Bar joined GLHI as head of the R&D division. Dr. Bar was a former member of the vegetable R&D leadership team at Syngenta AG, the Swiss based global seeds company. The R&D division supported the cultivation process which enabled GLHI to develop a differentiated product-mix with its own proprietary strains of cannabis. As referenced in "Subsequent Events", the R&D operation has since been wound down.

In February 2015, GLHI acquired a second CO2 oil extraction machine which became operational in March of 2015, effectively allowing GLHI to double its CO2 extracted cannabis oil production. A third CO2 extraction machine became operational in May 2015 and in June 2015, GLHI ordered two additional machines which became operational in September 2015.

On April 1, 2015, GPO entered into a 15 year sub-lease near Aurora, Oregon for a 96 acre property to build out GLHI's cultivation and grow activities (the "**Aurora Property**"). Although this sublease was terminated on June 30, 2015, an option to purchase the property was acquired by GLHI for warrants exercisable into 200,000 GLHI Shares at an exercise price of $1.00 per GLHI Share and warrants exercisable into 200,000 GLHI at an exercise price of US$5.00, each for a period of three years. The option to acquire the property was assigned to GLHI's wholly-owned subsidiary, Greenpoint Real Estate, LLC and was exercised on September 28, 2015. The Aurora Property was acquired for a purchase price of $3,300,000 and was financed by: (a) $100,000 in cash from GLHI; (b) a $1,500,000 secured 9% promissory note, maturing on September 14, 2017; and (c) $1,700,000 in 12% convertible debentures, convertible at $1.00 and maturing on September 17, 2017. A total of 100,000 bonus warrants (the "**GLHI Bonus Warrants**") were issued to the holders of the convertible debentures. Each GLHI Bonus Warrant was exercisable into one GLHI Shares at a price of $1.00 per GLHI Share for a period of three years. In connection with the purchase and financing of the Aurora Property, Sam Pillersdorf, a director of GLHI, represents La Prima Investments Limited which purchased a convertible debenture in the principal amount of $1,000,000 and received 59,171 of the 100,000 GLHI Bonus Warrants.

GLH plans on moving its head office to the Aurora Property, and all processing facilities and cultivation have already been migrated to the new site. A project is under development to refurbish and expand the existing greenhouse facilities on this site, enable the corporate office, and further enhance the processing facilities. However, the Aurora Property is currently subject to a county "opt-out" ordinance (which creates a moratorium on cannabis activities) that will preclude recreational or "Adult Use" cannabis related activities on the property as of approximately October 1, 2016 when the OLCC rules are adopted. This "opt-out" will be subject to a county referendum in November 2016 at which point the "opt-out" will be either confirmed or denied. GLH anticipates that the moratorium will not survive, and that GLH's "adult use" operations will be subject to minimal disruption. Notwithstanding its expectation, the Company has identified a contingency location in an effort to minimize any disruptions to its operations.

Golden Leaf Holdings Ltd.

On October 6, 2015, the Company completed the RTO and the business of GLHI became the business of the Company. For additional details regarding the RTO see "*The RTO*".

Also on October 6, 2015, the Company applied to have the Common Shares of the Company listed and quoted for trading on the CSE. The CSE provided the Company with final approval and trading of the Common Shares commenced on October 14, 2015 under the symbol "GLH".

On October 27, 2015, the Company entered into an investor relations consultancy agreement with Viridian Capital Advisors ("**Viridian**") pursuant to which Viridian serves as an advisor to the Company with respect to the Company's corporate communications and investor and public relations.

The Company entered into an exclusive licensing agreement with Dixie Brands Inc., a leader in emerging cannabinoid extraction and wellness platforms on November 15, 2015 (the "**Licensing Agreement**"). Pursuant to the terms of the Licensing Agreement, the Company will manufacture and distribute Dixie Elixirs and Edibles products in the state of Oregon. Established in 2010, Dixie is a recognized brand name in the infused products market and is currently establishing a presence in markets around the country. The parties also intend to begin working collaboratively to explore future opportunities in other jurisdictions for their collective portfolios of products.

The RTO

On May 22, 2015, Longacre, GLHI and Subco entered into a merger agreement (the "**Merger Agreement**") pursuant to which and subject to the satisfaction of certain conditions GLHI agreed to amalgamate with Subco (the "**Amalgamation**") and continue the amalgamated entity under the name to "Golden Leaf Holdings Inc." ("**Amalco**"). On October 6, 2015, GLHI, Subco and Longacre entered into an amalgamation agreement (the "**Amalgamation Agreement**") and completed the Amalgamation. In connection with the Amalgamation and pursuant to the terms of the Merger Agreement and Amalgamation Agreement, the GLHI Shares were cancelled and each GLHI shareholder received one Common Share for each GLHI Share held. Immediately following the Amalgamation, the former GLHI shareholders held 60,448,736 Common Shares; Amalco became a wholly-owned subsidiary of the Company, and the Company continued under the OBCA under the name "Golden Leaf Holdings Ltd."

Prior to the RTO, GLHI had common share purchase warrants outstanding exercisable into 32,989,115 GLHI Shares (the "**GLHI Warrants**"). In connection with completion of the RTO and in accordance with the terms of the GLHI Warrants and the Merger Agreement, all GLHI Warrants became exercisable into Common Shares on identical terms *mutatis mutandis*. Additionally, upon completion of the RTO, the 5,595,000 GLHI Options that were outstanding became exercisable into Common Shares on a one for one basis.

GLHI also has $2,190,000 in principal amount of convertible debentures (the "**GLHI Debentures**") that were convertible into 2,190,000 GLHI Shares. In accordance with the terms of the GLHI Debentures, upon the completion of the RTO, the GLHI Debentures became convertible into Common Shares on substantially the same terms, *mutatis mutandis*.

The deemed issue price of each Common Share issued to the former GLHI shareholders was $1.00. The Common Shares held by the officers, directors and insiders of GLHI became subject to escrow restrictions pursuant to the policies of the CSE. For additional information regarding the escrowed Common Shares, see "*History – Conditions to Closing the RTO and Required Approvals*" and "*Escrowed Securities*."

RTO Mechanics

Pursuant to the Merger Agreement, and as a condition of closing, the following transactions occurred on or prior to the RTO Closing:

Disposition of Longacre's Mineral Property Assets

By agreement dated August 28, 2015, Longacre sold all of its right, title and interest in and to those three adjoining mineral tenures comprising 314.64 hectares located approximately 40 kilometres northeast of Hope, in south western British Columbia, referred to as the Christa – Aura Property, for nominal consideration. Following that disposition, Longacre had no material assets.

Consolidation of Longacre's Shares and Cancellation of Warrants

On February 1, 2015, Longacre cancelled all of its 4,670,000 escrow shares and on May 14, 2015, it completed a consolidation of its remaining shares (the "**Consolidation**") on a one for two basis. After the completion of the Consolidation, Longacre had 700,000 common shares issued and outstanding.

Prior to the completion of the RTO, Longacre had common share purchase warrants (the "**Longacre Warrants**") outstanding which were exercisable to acquire 4,570,000 common shares of Longacre. On February 1, 2015, Longacre entered into warrant cancellation agreements with each holder of Longacre Warrants pursuant to which all outstanding Longacre Warrants were cancelled. After the cancellation of the Longacre Warrants, Longacre had no securities outstanding that were exercisable, convertible or exchangeable into common shares of Longacre.

Debt Cancellation and Conversion

In February 2015, Longacre entered into debt cancellation agreements with its creditors pursuant to which debt of $101,250 was forgiven. On May 22, 2015, after completion of the Consolidation, a creditor of Longacre converted $3,750 of debt owing by Longacre into 75,000 common shares of Longacre (the "**Debt Conversion**"). After the completion of the Consolidation and the Debt Conversion, Longacre had 775,000 common shares issued and outstanding.

Continuance of Longacre from British Columbia to Ontario

On October 1, 2015, Longacre filed an application for continuance with the B.C. Registrar of Companies which was duly endorsed and authorized. On October 6, 2015, Longacre filed Articles of Continuance in Ontario and continued as a corporation governed under the laws of the Province of Ontario under the name Golden Leaf Holdings Ltd.

Treatment of GLHI Options

All of the GLHI Options that were not duly exercised prior to the RTO Closing became exercisable into Common Shares (the "**Exchange Options**") on substantially the same terms as the GLHI Options, *mutatis mutandis*. The GLHI Options continue to be governed by the GLHI incentive stock option plan. See the Company's Listing Statement for additional information regarding GLHI's stock option plan.

Conditions to Closing the RTO and Required Approvals

The RTO was subject to a number of approvals, which were obtained, and conditions, which were met, prior to its implementation.

Longacre had 775,000 common shares issued and outstanding immediately prior to the RTO Closing.

Upon the completion of the RTO, the Company had 61,223,736 Common Shares issued and outstanding, with former GLHI shareholders holding 60,448,736 Common Shares or approximately 98.7% of the outstanding Common Shares as the date of the RTO Closing.

In addition, after completion of the RTO the Company had securities exchangeable or exercisable for, or convertible into, 40,774,115 Common Shares.

In accordance with the policies of the CSE, certain of the Common Shares held by founders and management are subject to an escrow agreement (the "**Escrow Agreement**") pursuant to which transfers of such Common Shares are

prohibited for up to three years following the listing of the Company on the CSE. The escrowed shares will otherwise continue to have all of the normal rights associated with Common Shares, such as entitlement to dividends, voting powers and participation in assets upon dissolution or winding up.

Additionally, in conjunction with the RTO Closing, the Board of Directors of the Company (the "**Board**") was reconstituted and, in accordance with the Merger Agreement, the Company's senior management was changed. For additional details, see "*Directors and Officers*".

Subsequent Events

The Company completed an acquisition of certain assets from BMF Washington, LLC on January 20, 2016 for a price of $15 million, of which $3 million was to be paid in cash within 45 days and $12 million to be paid in the form of shares in Golden Leaf Holdings, plus the issuance of 300,000 warrants. This was amended on March 4, 2016, such that $1.5 million of cash would be in the form of a note payable at10% interest to be paid in installments over the next 9 months, provided that the Company has sufficient cash flow, with a final maturity of January 14, 2017. Don Robinson, CEO and Board member, provided a personal guarantee for the note. The balance of cash, equity consideration and warrants was paid in March upon closing of the Company's previously announced convertible debenture financing (details below). BMF (specifically owner Peter Saladino) received 30,767,777 shares given the Company share price of C$0.54/$0.39 at the date of issuance, and the 300,000 warrants at $0.39.

The assets acquired included fixed assets and the rights to Intellectual Property including BMF's brands. BMF and GLH also entered into a strategic partnership, whereby BMF entered into both equipment leasing and royalty agreements with GLH in exchange for the provision of certain goods and services. GLH also negotiated an option to purchase from BMF for a nominal fee the license to operate a cannabis business in the state of Washington, at such time when regulations allowed GLH to own the license.

GLH completed a convertible senior unsecured debt financing in Q1 and Q2 2016. The offering allowed for up to C$10 million of debentures at 10% interest paid semi-annually with a term to September 11, 2017 and convertible to Common Shares at C$0.67, through a syndicate of agents led by Dundee Securities Inc. and including Liberty North Capital as an advisor to the Company. The Company raised a gross total of C$7,538,000 in two tranches, the 1st of C$5,863,000 closing March 14, 2016 and the 2nd of C$1,675,000 closing April 4, 2016 and included C$1,500,000 from Board members Michael Cohl (C$500,000) and Don Robinson (C$1,000,000), and C$664,000 from former Board Chairman Rick Miller.

The 1st tranche resulted in proceeds of C$5,502,432 (less C$360,568 of fees and expenses), and also resulted in 382,447 compensation options issued, each exercisable for one Common Share and one half of one warrant at an exercise price of C$0.67. Each whole underlying warrant is exercisable for one Common Share at an exercise price of C$0.85. In addition, the 1st tranche resulted in shares issued of 853,164 to members of the syndicate. The 2nd tranche resulted in proceeds of C$1,564,127 (less C$110,823 of fees and expenses), and also resulted in 140,298 compensation options issued, each exercisable for one Common Share and one half of one warrant at an exercise price of C$0.67. Each whole underlying warrant is exercisable for one Common Share at an exercise price of C$0.85. Due to anti-dilution provisions, there was also a "make whole" addition to the debentures payable of C$582,000 and C$216,000 for the 1st and 2nd tranches respectively for the lead institutions that participated in the financing resulting in total notes payable of C$8,336,000.

During Q1 2016, Golden Leaf's Board of Directors with recommendations from management agreed to wind down the Company's Israeli subsidiary Greenpoint Science (GPS) to refocus on US operations. Employees were notified in February, including Dr. Moshe Bar President of GPS who is entitled to a 4-month severance to be earned while overseeing the wind-down of the enterprise

On January 20, 2016, the Company's Board of Directors approved the issuance of 700,000 more stock options to new employees with an exercise price of $0.48 per share. All the options vest evenly over 3 years and expire 10 years after issuance.

Since year end, the composition of the Company's Board of Directors has changed. During Q1, Rick Miller resigned as Chairman, Michael Cohl replaced Eli Cohl, and Peter Saladino was added to the Board. Q2 saw the resignation of Philip van den Berg from the Board.

The regulatory and legislative environments have evolved since the time of the RTO. Although the Oregon legislative session ended in July, 2015, the administrative rules associated with those laws are still being deployed by both the medical regulator, the Oregon Health Authority ("OHA") and the Adult Use regulator. On October 22, 2015 the state regulatory body The Oregon Liquor Control Commission ("OLCC") published the temporary administrative rules associated with the deployment of the recreational or "Adult Use" program. Some of the provisions in the rules, if not addressed, posed a risk to the cannabis industry as a whole, and to the business strategy of GLHI. The issues included but were not limited to, a provision that required a majority of investors in a recreational business to be residents of the state of Oregon, a limit on the canopy size of a marijuana grow, a rule prohibiting collocation of medical and recreational cannabis licensed businesses. These and other issues had to be addressed in the interim period between when the rules were published and when they would take effect. Given that the cannabis industry is in its infancy, the legislative and regulatory rule making process is very dynamic. There is little precedence to refer to. As a result, rule making is iterative and requires educating the legislators and regulators on the impact and costs of regulation and how there may be unintended consequences of rules that need to be addressed either administratively or via the legislative process.

Oregon 2016 Legislative Session:
In February 2016, the Oregon legislature met in a short 45 day session. Many issues that impacted the Oregon cannabis industry either in the 2015 session or in the administrative rules process were raised to the legislators. The legislators introduced and passed several key cannabis bills (SB1511 (2016), HB4014 (2016), SB1598 (2016) and SB1601 (2016)). These bills addressed many of the key issues impacting the industry. The legislation removed residency restrictions and allowed for co-location of medical and adult use businesses. The legislation also allowed businesses that intend to opt-in to the adult use program from the medical program to continue to operate with higher plant counts until their license application is processed, even if the processing of the application is delayed due to a county moratorium. Canopy limits were not addressed in the legislative session, but the canopy restrictions do not materially impact the GLHI business model.

OHA Processor ruling in March
As part of the temporary rules making process in response to the 2015 Oregon legislative session, the OHA published temporary administrative rules on March 1, 2016, part of which declared companies who perform cannabis extraction as illegal businesses until they are registered with the OHA. The industry as well as the legislators involved in creating the laws voiced their opposition of these rules and declared them to be too narrow in the interpretation of the laws. GLHI and others proposed solutions to this issue. The OHA adopted these proposals and the extractor businesses were allowed to operate as long as they had an active application submitted to the OHA. However, the industry was impacted for a period of 6 weeks until the temporary rules could be adjusted and the application process could be created and deployed by the OHA. GLHI is currently a registered processor of extracts, and at the time of the publication of this update, the application is still under review by the OHA.

OHA and OLCC permanent rule making processes:
The OHA and OLCC are currently in the permanent rules making process. This is a lengthy process that can take up to 6 months to finish. The rules must be reviewed by the regulators, offered to the public for review and comments and an economic impact statement must be produced. The permanent rules for both the medical and adult use programs will be published in the Q2'16 and Q3'16 timeframes.

Additional Company information

Production

Cultivation

GLH operates its cultivation business through its wholly owned subsidiary, GPO. Currently, GPO may cultivate and process oils in the Oregon Medical Marijuana Program ("OMMP"). GPO is permitted under Oregon state law to cultivate and grow cannabis plants for registered patients designating GPO as their dedicated grow site. Each grower that is designated as a grower by a patient and that designates the grow site to be at a GPO location is permitted to grow 6 mature plants, unlimited immature plants, and have a maximum of 1.5 pounds of usable marijuana per patient. One person may be designated as a grower by up to four patients. GPO has agreed to provide each of the patients that have designated a grow site at a GPO location with one ounce of cannabis flower per month at no charge. In return, each patient has agreed to sign over all of the remainder of their allotment of cannabis to the grower who can then transfer it to a licensed dispensary. Each employee of GPO that has been designated as a grower, transfer the excess cannabis that has been signed over by the patient to the grower on behalf of GPO and all money from the sale of cannabis is turned over to GPO.

GPO has submitted all license applications at its Aurora location to also sell into the recreational or "Adult Use" market. These applications include producing (growing), processing (extraction and edible manufacturing) as well as for wholesale distribution.

GPO currently operates its cultivation business in a 29,000 square foot fully functional grow facility. The cultivation business is overseen by Tim Fitzpatrick, the VP of Operations and is supported by a team of experienced cannabis growers and breeders. All employees of GPO that have been designated by patients as a grower have entered into non-competition agreements which contractually prevent these employees from growing cannabis for the same patients if they cease to be employed by GPO for five years.

The major stages in the cannabis cultivation process are cloning, vegetation, flowering, curing and trimming. The entire process lasts from 100 to 130 days. However, GPO's production can be intentionally staggered such that plants are ready for harvest every 14 – 21 days. Each mature plant is bar-coded and tracked in the inventory tracking system and is internally audited on a regular basis throughout the growth cycle. The plants are tracked throughout the process and are also weighed and tracked once harvested and ready for sale.

The cannabis flower is sold directly to patients through GLH's licensed dispensary or to other dispensaries through its wholesale distribution network. All of the Trim from GLH's cultivation operations is used for oil extraction.

Over the next year, GPO intends to expand its breeding, cloning and commercial production operations in its 96 acre property. Management expects that the expansion of GPO's cultivation facilities will result in increased sales of cannabis flower while also increasing the amount of Trim it can supply itself for its oil extraction business. The Company intends for this facility to supplement a raw materials sourcing strategy that is primarily comprised of contract farming supply contacts or market buying.

The extent to which the Aurora Property is developed will be dependent upon the outcome of a vote to permanently ban Adult use cannabis businesses in Marion County, the county where the Aurora Property is located. In late September 2015, an ordinance was passed by the Marion county commissioners prohibiting Adult use cannabis businesses from being established in the county until a vote of the Marion county citizens was conducted in November 2016. The vote would either establish a permanent ban or would rescind the ordinance and allow adult use businesses to conduct business in the county. A provision in the ordinance allowed existing medical facilities (like Aurora) to continue in operation. A recent poll was conducted and a majority of the citizens support allowing adult use businesses to operate in the county.

The objective of the GPO grow operations is to continue to develop proprietary expertise in the area of cannabis cultivation, to supply the GPO processing facility with "Trim" (small leaves from the cannabis plant that are trimmed

from the cannabis flower) and to provide a revenue stream through the sale of cannabis flowers through the Oregon's licensed medical dispensary and Adult use retail system.

Production & Sales - Oil Extraction

Management is observing, and sales data in Washington, Colorado and recent data from Oregon supports, a growing preference amongst consumers for cannabis oil over cannabis flower. Cannabis oil can be vaporized and consumers can inhale the vapors. Alternatively, oil can be used in edibles that can then be ingested. In many instances this may provide a healthier and safer option to consumers over smoking cannabis flower.

Cannabis oil is generally extracted from dried cannabis plant material, which is mostly comprised of Trim.

The trimming process involves removing small leaves away from the flower or bud. The desirable cannabinoids that are found in marijuana plants are mostly concentrated in the mature cannabis flowers, but they are also found in the leaves and stems. Both the flowers and the trimmings are weighed and tracked in the GPO inventory tracking system. The Trim is then transferred to the GPO processing facility.

By using our proprietary extraction methods, GPO is able to produce cannabis oils, hash and edibles while controlling the flavors and potency of these products.

While GLH uses the cannabis material from its own cultivation operations for oil extraction, GLH will also purchase additional cannabis as part of its strategy to develop contract farming supply arrangements for the majority of its needs.

GPO maintains a tightly managed quality and pricing policy for Trim acquisition. The price GPO pays for Trim varies based on quality (curing, cannabinoid content, age) as well as seasonality. In order to address the variability in seasonal pricing, GPO is working with third party growers to enter into sourcing agreements with an agreed to price.

Currently, GPO uses two separate extraction methods for extracting cannabis oil; carbon dioxide extraction and hydro-carbon extraction.

<u>Carbon Dioxide Extraction:</u>

Using CO2 as an extraction solvent, allows for GLH to focus the extraction process so that desirable cannabinoids can be targeted, leaving behind non-beneficial properties such as chlorophyll, lipids, waxes and fats from the plant.

When high pressure is applied to CO2, it becomes a liquid that is capable of working as a solvent, stripping away cannabinoids and essential oils from plant material.

CO2 extraction involves warming carbon dioxide and then pumping it across plant material through the extractor at a precise pressure.

The carbon dioxide in this condition is condensed to a liquid which strips the cannabinoids and oils from the plant material.

With release of the pressure, the carbon dioxide escapes in its natural gaseous form, leaving the pure essential oil behind.
The advantage of using CO2 to extract the cannabis oil is that there are no solvent residues left behind, and the resulting product is pure.

Additional refinement techniques involve the use of alcohol. Depending upon the product, further processing via heat, agitation, or vacuum pressure will aid in removing any residual alcohol from the oil, which is essential for determining the finished form of the oil.

Currently, GPO is operating five 20 liter CO2 extraction machines at full capacity. A CO2 extraction machine operated by GLH has capacity to process approximately 10 pounds of Trim per day for conversion into cannabis oil with a target yield of approximately 10% of the weight of the Trim that is input. Thus a CO2 extraction machine has the capacity to produce approximately 450 grams of CO2 based cannabis oil per day. With five machines in operation GPO's production output is approximately 2,250 grams of cannabis oil per day.

Hydrocarbon Extraction:

Hydrocarbon or Hydro-carbon/Propane extraction uses non-polar hydrocarbon as a solvent. Hydro-carbon is especially well-suited for stripping dried cannabis material its cannabinoids, terpenes, and other essential oils while leaving behind the majority of unwanted chlorophyll and plant waxes.

GPO operates two hydro-carbon extractors. Both machines utilize similar preparation and processing methodologies. During extraction, the solvent washes over the plant material and is then purged off from the resulting solution using a variety of techniques and variables such as heat, vacuum and agitation.

After obtaining hydro-carbon based oils through this extraction method, the oil will be vacuum purged in a vacuum chamber to separate the cannabis oil from any remaining hydro-carbon gas. The vacuum oven is heated to release the Hydro-carbon and Propane, leaving behind only the extract. This "purging" process, depending on duration of exposure to vacuum and heat, and will give the hydro-carbon characteristic textures, such as wax, crumble, shatter and butter.

These post-extraction processes also determine what the final texture of the product is, whether it be butter, shatter, or a more traditional sticky cannabis oil. Routinely testing at over 60% tetrahydrocannabinol ("THC"), Hydro-carbon is the most popular choice for "dabbing", when properly-made, hydro-carbon extracted cannabis oil offers a very potent, direct, and flavorful method of ingesting cannabis.

The Hydro-carbon process, unlike the CO2 process generally requires higher quality cannabis material in order to have higher quality finished product. GPO operates two hydro-carbon extraction machines for the processing and production of hydro- carbon extracted cannabis oil. The input capacity of the two machines is 24 pounds of Trim per day per machine which yields approximately 3 pounds or 1,350 grams of hydro-carbon extracted cannabis oil per day.

Research and Development

Management believes that research and development is an important factor in positioning the Company as a leader in the cannabis industry.

The Company's key strategic R&D objectives are:

- To develop new innovative product lines, based on a holistic breeding approach and an integrated technology
- To focus on key market/segment: breeding by design
- To create an IP portfolio around variety, trait (research) and crop modeling (Agronomy)
- To focus research and development efforts on developing cutting-edge cannabis products and delivery systems driven by consumer insights and market demand

R&D is based on four pillars:

1. Breeding

Genetics factors are the main tool to control the plant's cannabinoid profile. This opens exciting possibilities for breeding by design. Breeding by design is breeding to achieve specific chemo types (chemical genotypes):

- Use state of the art breeding tools to speed up the breeding process and thus shorten time to market
- Crop uniformity vis-a-vis yield potential
- Build a portfolio that supports a product profile and specific market needs (ratio between CBD and THC)
- Develop new varieties with different profiles between THC and CBD
- Breeding for pure female lines

In addition, breeding develops new varieties from clones and seeds using propagation methods and secure IP for breeding methodology and germ plasms.

2. Agronomy

The goal is to secure the quality and quantity of our commercial cultivation in a sustainable way in order to maximize our profitability.

- By moving from warehouse growing to greenhouse cultivation.
- By designing an efficient growing facility equipped with the latest growing technologies and techniques.
- By using biological products/crop program to control disease and pest.
- By reducing the input for each gram of product (electric energy, temperature control, disease and pest control etc.

3. Quality control

The goal is to secure the quality of products year round. Quality consistency is assured by an active ingredient content and the ratio between each one of them (tetrahydrocannabinol (THC) and cannabinol (CBD) as well as a range of other ingredients.

- By developing homogeneous genetic materials.
- By implementing a protocol; from growing through harvesting to storage and product manufacturing.
- Key Deliverables: Standard Operation Procedures (SOP).

Quality is assured by the following factors:

- Genetics.
- Growing and storage conditions.
- Plant Maturity at harvest.
- Methods used to process and formulate the material.

4. New Product Innovation

GLH will lead on product innovation and on application of best practices and new technology to the cannabis sector. The Company will achieve this by focusing on:

- Developing a dynamic brand portfolio based on consumer research on segmented needs.
- Leverage an understanding of consumer segments to develop clear product and market combinations.

- Building a product development process that supports specific market needs.
- Maintaining leadership and expertise in extracting and refining.
- Launch best-in-class delivery systems developed in tune with consumer demand

Products

The Company produces and distributes two main types of products; cannabis flower and cannabis oils. All of the Company's products are independently lab tested and certified before being packaged and labelled with detailed information about the levels of THC and CBD contained in each product.

THC is the main cannabinoid found in the cannabis plant and is responsible for the majority of the plant's psychoactive properties. Studies have shown that THC has many medical benefits, including analgesic properties and its tendency to increase appetite. CBD is gaining popularity as the primary therapeutic cannabinoid for a variety of diseases, such as autism, epilepsy and other nerve-related conditions. CBD is generally the second-most common cannabinoid found in cannabis, after THC and is becoming highly sought after for medical purposes, despite the cannabinoid being nearly bred out of modern cannabis in the hunt for the higher THC strains. Now that studies have demonstrated the medical importance of CBD in certain circumstances, many cannabis cultivators and strain breeders now pride themselves on their high CBD-to-THC ratios.

THCA (tetrahydrocannabinol acid) is the biosynthetic precursor of THC. THCA is found abundantly in growing and harvested cannabis whereas very little to none of the THC cannabinoid is found in growing or harvested plants. Research has shown that THCA has some neurone-protective and anti-inflammatory effects but it does not produce the psychoactive effect that makes you feel "high" like THC does. Accordingly, cannabis used in making medicinal cannabis oils and edibles requires decarboxylation which is the process through which THCA becomes THC.

Decarboxylation occurs when carboxylic acids lose a carbon atom from a carbon chain effectively releasing CO_2, thus converting THCA to THC. This happens naturally (but very, very slowly) during the drying process; it could take years to complete the conversion of THCA to THC this way. Fortunately, a heat source or flame causes the decarboxylation to happen rapidly, which explains why smoking it exposes the converted THC.

Nearly all modern cannabis strains are hybridized in some form or another; the energetic sativa and the relaxing, sedative indica sides of the cannabis spectrum or the in-between options. Most dispensaries will organize their shelf in terms of indica, hybrid and sativa to help patients understand how a given variety will affect them.

The Company's CO_2 oil products are sold under the brand names Golden XTRX™ and Golden™ through a number of delivery systems; e-pens, cartridges and dabs.

Rather than combusting the cannabis product (whether it be flowers, hash, or oil), a vaporizer heats it just enough so that the cannabinoids activate and vaporize and they can then be inhaled. This method is preferable for those with breathing conditions, or those who simply do not want to actually smoke anything but still require the direct and immediate relief that inhalation provides compared to edible consumption. A popular variation on the vaporizer that has taken the cannabis (and nicotine) market by storm is the pen vaporizer, also known as an "e-vape.

The vape-pen is a small, portable vaporizer that either uses pre-filled concentrate cartridges or has a chamber to load a patient's own concentrates or flower.

Dabbing refers to dropping concentrates onto a hot surface (nail, skillet, etc.) and inhaling the resulting vapour via a "rig," which is usually made of glass and sends the vapour through water.

The Company's hydrocarbon products are sold under the name Proper. It is sold in one gram cartridges, or in 1 gram receptacles as crumble and shatter. Hydrocarbon is also sold in bulk in slab format.

Hydrocarbon products generally come in two forms, shatter and wax (or crumble). Shatter is a texture of hash oil and refers to the transparent, shelf-stable oil which breaks into pieces rather than bending. The most popular choices of hydrocarbon concentrates on the market are either shatter or wax, which are on opposite ends of the spectrum when it comes to texture. Shatter tends to have a consistency ranging from sticky sap to a very stable, hard resin at room temperature and can have an appearance anywhere from a dark brown to nearly translucent. Wax on the other hand, tends to be completely dry and crumbly and is sometimes referred to as "honeycomb" because of its resemblance.

Sales, Marketing and Distribution

The Company generates revenues currently of approximately $1 million per month, approximately 80% of which is wholesale and 20% of which is retail through Left Coast Connections (LCC). Best-selling products include the Golden XTRX 1 gram cartridge (45% of total sales) and 1 gram Proper shatter (10% of total sales). This composition is approximate and changes monthly. GLH would expect its proportion of wholesale activity to increase as the Company grows.

Dispensary Sales

The Company owns a fully-licensed dispensary under Oregon law through its wholly-owned subsidiary Left Coast Connections ("LCC"). LCC is fully-licensed to sell a wide range of cannabis products directly to registered patients. LCC sells the cannabis flower and cannabis oil produced by GPO along with third party cultivators and producers. LCC opened and became fully-operational on April 7, 2015. The dispensary is only permitted to sell to patients (or their caregivers) that are registered under the OMPP and who hold proof of their registered status. However, as of October 1, 2015, retail-recreational sales of cannabis flower are permitted in medical dispensaries on a temporary basis through December 31, 2016 while the full roll out of the retail-recreational program is implemented. Quantities will be limited to a quarter ounce (7 grams) per day per customer. As of June 2, 2016 under the Early Start Program, in addition to flower, LCC will also be allowed to sell single serving low dose edibles, single receptacles of extract, and topicals to adult use or retail consumers on a temporary basis until the full implementation of the "Adult use" retail program expected to be in early Q4, 2016.

Wholesale Sales to Other Dispensaries

GPO employs nine sales representatives who sell GPO's cannabis products to third party dispensaries. They sell useable marijuana in the form of cannabis flower or oil products. GPO's current sales and marketing efforts are and have been focused on immediate opportunities in the medicinal market. Management intends to expand its sales and marketing efforts as retail-recreational use becomes legalized in Oregon.

GPO sells its products both on credit terms and for cash on delivery to 200-250 dispensaries in the state of Oregon. GPO has stringent policies and processes in place to ensure that all cash collected is monitored at all times.

The primary sales and marketing goals for the medicinal market in Oregon is to increase awareness of GPO's product line and product offering, turning initial trials of GPO's products into repeat purchases, introducing new products based on internal market research of consumer preferences, advertising and consumer promotions. Management's strategy to increase sales growth and market share gains in the Oregon medicinal and recreational markets include:

(a) achieving distribution of all product lines in every dispensary in the State of Oregon;

(b) new product development through R&D efforts and introduction of new products;

(c) advertising in print, radio, , and social media;

(d) building business to business relationships to supply other manufacturers of other cannabis products with oils and concentrates produced by GPO, and

(e) leveraging LCC's retail-recreational sales directly to customers to understand emerging trends and consumer preferences.

Specialized Skill & Knowledge

From the time GLHI became licensed to extract and refine cannabis oil, it, and now the Company, has developed certain proprietary intellectual property (IP) for operating *Carbon Dioxide (Co_2) Extraction* and the *Hydrocarbon Extraction* machinery, including best production practices, procedures, and methods, as outlined above. This requires specialized skills in cultivation, extraction and refining. The Company employs a Bio chemist and leverages employees with experience in breeding and growing.

At the corporate level the Company employs university graduates with degrees in marketing, economics, accounting and business finance. Staff have joined the Company from a variety of industries and corporations such as Mars, Walt Disney, Oracle, Organically Grown Produce, Mighty Leaf Tea, and Syngenta.

Competitive Conditions

The market for flower and oil extraction products is fragmented. The Company is considered the largest operator in Oregon and is well ahead in monthly sales of what is considered its competitor, the CO2 Company based out of Southern Oregon. The CO2 Company uses carbon dioxide extraction to extract the oil for their products. The CO2 Company is not vertically integrated and sources Trim from eco-friendly farmers. The CO2 Company sells its only product, the Green Light Pen, in 172 dispensaries throughout the State of Oregon whereas the Company offers 15 different products across approximately 150 Oregon dispensaries. Another competitor is emerging in the state (Select Strains) however little business intelligence is available at this time.

Components

The Company sources raw materials from external parties and from its own greenhouse grow operation. Trim is the highest cost component of the production costs of oil. Production costs of 1 gram of oil are approximately US$10, although very sensitive to trim prices and extractions as trim represents approximately 2/3 of these costs presently. The remainder is labor and ingredients such as CO2, utilities, testing and packaging. The Company engages with suppliers to provide consistent supply at established prices, and is pursuing contract farming arrangements to further secure raw materials at advantaged prices. This would enable the Company to be the lowest cost producer and reduce dependency on outdoor seasonality and the impact of this on quality and price. It would also enable the Company to have pricing power as the lowest cost producer. The Company distributes its flower and oil extract products in the medicinal market and flower products in the retail-recreational market. The retail-recreational market for flower opened up on October 1, 2015. On June 2, 2016 low dose edibles and single receptacles of oil will also be able to be sold to adult use customers. In the fourth quarter in 2016 it is expected that additional oil extract products may be offered in the retail-recreational market once the Adult Use program is fully deployed. Premium oil extract products such as Golden XTRX command a premium price. Flower is expected to commoditize over time, and at some point the Company may decide to use flower in the extraction process, which improves the conversion yield into oil extracts.

Intangible Properties

The Company has certain proprietary intellectual property ("**IP**"), including but not limited to brands, trademarks, tradenames, recipes and proprietary processes. However, the Company does have proprietary IP, but does not have registered patents or trade names. As described in the R&D section the Company has plans to create an IP portfolio around variety, trait (research) and crop modeling (Agronomy).

Cycles

Golden Leaf does not cultivate sufficient cannabis to supply itself with enough Trim to operate its oil extraction business. Currently, the Company acquires Trim from third parties in amounts sufficient to operate its oil extraction business. However, there can be no assurance that there will continue to be a supply of Trim available for the Company to purchase in order to operate its oil extraction business. Additionally, the price of Trim may rise which would increase Golden Leaf's cost of goods. If Golden Leaf were unable to acquire the Trim required to operate its oil extraction business or if the price of Trim increased it could have a material adverse impact on the business of the Company, its financial condition and results from operations.

The Company currently depends on its raw materials from farmers who operate grows, many of which are outdoor harvests. Hence their harvest is dependent on the weather conditions and all growers harvest at the same time of the year, once a year. This creates high quality Trim at attractive prices once farmers harvest and as supplies of Trim become limited later in the season, the quality declines and the price increases. Yields to convert Trim into oil fluctuate depending on the season, time of year, and quality of Trim. In order to mitigate this occurrence, the Company has engaged with growers to provide steady, continuous supply at set prices and specifically is pursuing contract farming.

Economic Dependence

The Company is not substantially dependent on one single large contract. It serves a broad based platform of dispensaries in Oregon. Equally the Company is not dependent on any single contract for the purchase of raw materials that could affect the Company in operating its business.

Changes to Contracts

The Company has changed the business policy and no longer sells products to large customers on consignment. There is a strong focus on cash collections and control of the number of days of sales outstanding.

Employees and Management

The Company, inclusive of its subsidiaries, has a total of 81 employees. Don Robinson and Brian Gentry serve as the Company's Chief Executive Officer and Chief Financial Officer respectively.. Andy Hartogh is the President of the Company's main operation subsidiary, GPO, and Mr. Hartogh and Tim Fitzpatrick oversee GPO's current cultivation and oil production operations. Ryan Acheson oversees the Company's retail-recreational operations through its fully-licensed dispensary which is held through a wholly-owned subsidiary, LCC. Beau Whitney serves as GPO's compliance officer, Tim Fitzpatrick heads operations, Bliss Dake is in charge of marketing and Andreas Moppin heads up GPO's wholesale sales efforts.

Foreign Operations

To date all of the Company's operations are in the United States and, as such, all of the Company's business is dependent on operations outside of Canada.

Social and Environmental Policies

The Company is currently working with local municipalities to create a community vibrancy fund, which will go towards making improvements in local social programs, community infrastructure and education. Beau Whitney heads governmental and regulatory affairs and in that role participates in many community outreach programs, including drug awareness programs for at risk youth and on an energy council whose goal is to provide grants on energy reduction in the cannabis industry.

Principal Market

Oregon

As at April 22, 2016, there were 73,715 registered patients and 33,489 caregivers registered under the Oregon Medical Marijuana Program ("OMMP"). Only those patients that are registered under the OMMP may legally purchase medical strength cannabis products. Recreational or "Adult Use" customers may purchase cannabis products in the quantity and strength designated by the OHA. There are 1,722 Oregon-licensed physicians with current OMMP patients. As at May 9, 2016 there are 422 licensed dispensaries in the State of Oregon permitted to sell cannabis products to registered patients or their caregivers. 339 of these dispensaries may service both medical and recreational customers.

On November 4, 2014, Oregon voters passed "Measure 91", known as the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", requiring the Oregon state government to promulgate rules by July 1, 2015 for the legal recreational possession, use, and cultivation of marijuana by adults 21 and older. Under state laws allowing recreational use of cannabis, adults 21 years and older will be allowed to possess up to eight ounces of marijuana and grow up to four marijuana plants. Purchases from licensed dispensaries will be limited for recreational users to a quarter ounce per visit.

Oregon State Regulation

The Oregon Medical Marijuana Program ("OMMP") is a state registry program within the Public Health Division, Oregon Health Authority ("OHA"). The role of the OHA is to administer the Oregon Medical Marijuana Act.

The OMMP allows individuals with a medical history of one or more qualifying illnesses and a doctor's written statement to apply for registration with the OMMP. Qualified applicants are issued a medical marijuana card and are known as "Patients", which entitles them to legally possess and cultivate cannabis, subject to certain limitations. A Patient registered under the OMMP is allowed to possess cannabis products. In addition, registered Patients under the OMMP may also legally grow up to 6 mature cannabis plants (i.e., plants that are flowering) and unlimited immature cannabis plants (plants that are not mature plants). Patients are also permitted to designate another person as a "caregiver" ("Caregiver") and another person as a "grower" ("Grower") on their behalf. Caregivers are individuals (other than a patient's attending physician) who are at least 21 years old and are responsible for managing the well-being of a Patient. Patients are limited to a single Caregiver who must be formally designated by the patient on the Patient's application for a registry identification card or other written notification to the OMMP. The Caregiver is issued a registry identification card allowing them to transport cannabis for the patient within the allowable limits, as long as the Caregiver is in possession of their registry identification card. Growers are persons who have been formally designated by a Patient to grow their medical marijuana. Although each Patient can only have one designated Grower, a person may be designated as a Grower for up to four Patients. A Grower must provide all marijuana produced for a Patient or Caregiver to the Patient at the time the Grower ceases producing marijuana for the Patient or Caregiver. Patients or their Caregivers may reimburse the Grower for the costs of supplies and utilities associated with the production of the marijuana; however no other costs, including labour, are reimbursable to the Grower. Patients, their Caregivers and Growers may also legally deliver marijuana to each other, and to other third-party Patients, if the delivery is made without consideration (i.e., a "donation"). The privileges which normally protect Patients, Caregivers, and Growers from citation, arrest, and penalty do not excuse possession, manufacture, or delivery in cases where they are simultaneously guilty of certain offenses listed in ORS 475.316, such as driving under the influence of marijuana or using marijuana in public.

On November 4, 2014, Oregon voters passed "Measure 91", known as the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", effectively ending the state's prohibition of recreational marijuana and taking recreational marijuana sales off the criminal market and legalizing the possession, use, and cultivation of marijuana within legal limits by adults 21 years and older. The Act did not amend or effect the Oregon Medical Marijuana Act and the OMMP. The Act empowered the Oregon Liquor Control Commission with regulating sales of recreational marijuana. However, during the 2015 Oregon legislative session and again in the 2016 session amendments were made to both the medical and recreational programs.

Effective July 1, 2015, possession and home cultivation by adults at least 21 years old is allowed within legal limits. The Act permits adults at least age 21 to possess up to eight ounces of marijuana and grow no more than four marijuana plants in their households. Those amounts are total limits for the household, regardless of the number of adults at least 21 who live there. Each adult can possess up to an ounce in public. Individuals at least 21 may also gift, but not sell, up to an ounce of dried marijuana, 16 ounces of marijuana products in solid form, or 72 ounces of marijuana products in liquid form to other adults. The purchase limit from licensed facilities will be one ounce, or the amount set by the liquor commission, whichever is lower. During the period between October 1, 2015 and the date in which the recreational program is fully implemented, expected to be during the Q4 of 2016, recreational sales in OHA regulated medical dispensaries will be limited to a quarter ounce of flower or four immature plants per customer per day. Extracts and edible will be permitted to be sold beginning on June 2, 2016 to recreational users in low dosage (15mg of THC) or in single container packages for extracts. Once the recreational program is deployed by the OLCC, the early start program regulated by the OHA will end (no later than January 1, 2017).

GLH has applied for multiple licenses in the recreational space. A producer license (to grow), a processor license (to extract and produce edibles), a wholesaler license (to distribute) and a retail license (to sell products to the public). The licenses for marijuana businesses will be allowed and regulated by the Oregon Liquor Control Commission. "Marijuana producers" will cultivate marijuana for wholesale. "Marijuana processors" will produce marijuana extracts and edible products. "Marijuana wholesalers" may purchase marijuana and marijuana products to sell to marijuana retailers. Lastly, "marijuana retailers" are allowed to sell marijuana and related items to individuals 21 years and older. GLH is also considering the option of applying for a research license and a testing license.

The OLCC has the authority to decide how many licenses to allow in a specific area or location and may, refuse granting a license if there are reasonable grounds to believe there are sufficient licenses in the area or if the granting of a license is "not demanded by public interest or convenience." It is not clear how the OLCC will decide between competing applications (such as by merit or lottery). The OLCC may disqualify applicants for a number of reasons, including for lacking a good moral character, for lacking sufficient financial resources or responsibility, for relevant past convictions, and for using marijuana, alcohol, or drugs "to excess."

Once the recreational program is implemented, adults over the age of 21 may have up to eight ounces of usable marijuana and up to four marijuana plants per household instead of a quarter ounce. Marijuana plants and flower must not be visible from public property. The unlicensed production of marijuana extracts is prohibited and such extracts may only be purchase from an authorized licensed retailer. Oregon state law prohibits Marijuana from being consumed in public or while driving. The OLCC is tasked with making recommendations to the legislature about possible revisions to driving under the influence laws.

Trends, Commitments, Events or Uncertainties

The District of Columbia ("**D.C.**") and 23 U.S. states, including the state of Oregon, have legalized cannabis for medical use. Colorado, Washington, Alaska, Oregon and D.C. have also legalized retail-recreational use of cannabis.

Currently the Company operates in the state of Oregon and has a strategic partnership agreement for operations in Washington. The Company intends to expand into other states within the U.S. that have legalized either medicinal or recreational cannabis use. Cannabis and cannabis extracts remain illegal under U.S. federal law and cannabis is listed as a Schedule I substance under the U.S. Controlled Substances Act. However, in 2009 the U.S. federal government adopted guidelines no longer making it a priority to use federal resources to prosecute people with serious illnesses or their caregivers who are complying with state medical marijuana laws. Additionally, in 2014 the Deputy U.S. Attorney General, James Cole, publicly announced that the federal government would generally not pursue the prosecution of cannabis producers that are in compliance with state law. The "Cole memorandum" is the guiding principle that many cannabis businesses, regulators and legislators use to establish policies to operate in this space.

Passage of the federal spending bill on December 15, 2014 marked the first time in history that the United States Congress eased up on the potential federal prosecution of medicinal cannabis cultivators, sellers and patients. The bill includes an amendment that prohibits the Department of Justice, which includes the Drug Enforcement Administration, from using funds to interfere with state medical marijuana laws. The U.S. House of Representative finally approved the bill in May of 2014 as an amendment to the *Commerce, Justice, Science, and Related Agencies Appropriations Act*. This federal spending bill also prohibits the U.S. Justice Department from interfering with state-level cannabis laws. The bill works to protect the medical marijuana programs in the 23 states that have legalized marijuana for medical purposes, as well as 11 additional states that have legalized CBD oils, a non-psychoactive ingredient in cannabis which, among other things, has shown to be beneficial in some severe cases of epilepsy.

As marijuana remains a Schedule I substance under U.S. federal law, U.S. federal law also makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy, in appropriate circumstances. There has been no change in U.S. federal banking laws notwithstanding that 23 states and D.C. have legalized medical marijuana. Colorado, Alaska,

Washington, Oregon and D.C. have legalized retail-recreational marijuana use.

Due to banks' fears of being implicated in, or prosecuted for, money-laundering, marijuana businesses are often forced into becoming "cash-only" businesses. As banks and other financial institutions in the United States are generally unwilling to risk a potential violation of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to marijuana businesses. The Treasury Department's *Financial Crimes Enforcement Network* ("**FinCEN**") has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks that serve marijuana-related businesses, so long as that business is legal in the bank's respective state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The guidance also lays out a process for financial institutions to provide services to marijuana businesses, but makes it clear that they are doing so at their own risk. Despite the attempt by FinCEN to legitimize marijuana banking, in practice this guidance has generally not made banks more willing to provide services to marijuana businesses. This is because the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business it takes on as a client. Recently, some banks that have been servicing marijuana businesses have been closing accounts operated by marijuana businesses and are now refusing to open accounts for new marijuana businesses as they are unwilling to take on the associated risks or conduct the proper due diligence that would be required to ensure none of the federal priorities are being violated.

The few credit unions who have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the needs of their other customers.

A small number of credit unions in Washington have announced they will serve marijuana-related business but they are limiting their services to only those at the front end of the market; producers and processors whose sales are limited to licensed distributors and can easily be tracked by the state (relieving the banks of the burden to do so directly). However, these credit unions will not service dispensaries because the required due diligence is too cumbersome when marijuana is being sold by a licensed dispensary to the public.

To solve the current banking problem, a bill has been tabled in the U.S. Congress to create the *Marijuana Business Access to Banking Act*. If passed, this legislation would grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business is in compliance with state law. The legislation would also prohibit the Treasury Department from requiring banks to report a transaction as suspicious solely because it came from a marijuana-related business that operates in compliance with state law. Additionally, the bill would prohibit regulators from terminating a bank's depository insurance because it services marijuana businesses in compliance with state law. This bill has not been passed and there can be no assurance that it will be passed in its current form or at all.

Currently, Golden Leaf operates through a bank in Canada and two banks in the United States. The Company maintains close ties and strong relationships with its current bankers and continues to build relationships with other banks and credit unions servicing the marijuana industry.

GLHI takes regulatory compliance very seriously and has included the Cole Memorandum at the beginning of the employee handbook to ensure all employees understand and acknowledge these rules and understand their importance.

Although civil in nature, administrative rules in Washington and Oregon define the regulatory compliance guidelines, and if violated could potentially have a serious impact on the business. GLHI regularly reviews the rules and communicates changes to the employees as appropriate. Regular internal audits are conducted as well to monitor compliance related issues.

There are significant risks associated with Golden Leaf's business, as described above and under the headings "*Principal Market*" and "*Risk Factors*". Readers are strongly encouraged to carefully read all of the risk factors described herein.

Legal Proceedings

As of the date of this MD&A, there are no legal proceedings material to the Company to which the Company is a party or of which any of their respective property is the subject matter. However, a former employee of GLHI was terminated, and this employee has engaged legal counsel and threatened to bring various claims, including wrongful termination and breach of his employment agreement. As a result of such former employee's failure to provide certain services, GLHI cancelled 3.9 million GLHI Shares and 853,000 fully vested GLHI Warrants previously issued to the former employee. If the former employee was to sue the Company and prevail on the employment claim, the damages could be material. Further, if the former employee were to sue the Company for the cancelled GLHI Shares and GLHI warrants and prevail, the number of Common Shares and Warrants restored to the former employee could be material. To date, no legal action has been filed and the Company intends to vigorously defend any action which this former employee may bring.

Interest Of Management And Others In Material Transactions

On May 12, 2014 GLHI entered into an asset purchase agreement (the "**APA**") with Andy Hartogh to acquire certain cannabis cultivation and processing assets for total consideration of $680,800, paid by way of a promissory note in the amount of $212,500 (which has now been fully repaid), the issuance of 2,925,000 GLHI Shares, and the issuance of 1,500,000 GLHI Warrants exercisable into GLHI Shares at a price of C$0.02 per Common Share. Mr. Hartogh and GPO entered into a non-competition, non-disclosure and non-solicitation agreement dated May 12, 2014 for a period of five years following the closing of the APA.

On September 15, 2015, GLHI entered into a subscription agreement with Rick Miller, the former Chairman and a director of the Company, (the "**Miller Subscription Agreement**") pursuant to which Mr. Miller may acquire one million GLHI Shares and three million special warrants (the "**Special Warrants**"). Each Special Warrant is exercisable for one unit at a price of $1.00 per unit until September 30, 2018 (the "**Units**"). Each Unit is comprised of one GLHI Share and one half of one GLHI Warrant (each whole GLHI Warrant referred to herein as the "**Underlying Warrant**"). Each Underlying Warrant is exercisable into one additional GLHI Share at an exercise price of $0.50 for a period of three years from the issuance of the Underlying Warrant. In connection with the RTO and in accordance with their respective terms Mr. Miller will receive Common Shares in lieu of GLHI Shares upon exercise of the Special Warrants and the Underlying Warrants.

On September 30, 2015, Mr. Miller acquired 1,000,000 GLHI Shares for an aggregate purchase price of $1,000,000. Mr. Miller also participated in the convertible debenture offering referenced in "Significant Acquisitions and Dispositions and developments since RTO", purchasing C$664,000 of debentures.

On September 28, 2015, Sam Pillersdorf, a director of GLH, represents La Prima Investments Limited which purchased a convertible debenture in the principal amount of US$1,000,000 and received 59,171 of the 100,000 GLHI Bonus Warrants that were issued to holders of the GLHI Convertible Debentures. In connection with the RTO, the GLH Bonus Warrants are exercisable into Common Shares at a price of $1.00 per Common Share for a period of three years from issuance. The proceeds of the GLHI Convertible Debentures were used to finance the purchase of the Aurora Property. Mr Pillersdorf also provided a short-term loan of US $90,000 to the Company in February, 2016 which was repaid in March 2016 shortly after completion of the 1st tranche of convertible debt financing, for consideration of 20,000 warrants with an exercise price of $.42 (pending issuance)

Don Robinson, CEO of GLH participated in the convertible debenture offering referenced in "Subsequent Events", purchasing C$1,000,000 of debentures. Pursuant to the BMF asset acquisition referenced in the same section, Mr. Robinson also provided a personal guarantee of the $1.5 million promissory note between GLH and BMF/Peter Saladino.

Michael Cohl, a director of GLH, participated in the convertible debenture offering referenced in "Significant Acquisitions and Dispositions and developments since RTO", purchasing C$500,000 of debentures.

Selected Annual Information (US$)

	For the financial period:	
	Year ended December 31, 2015	April 4, 2014 to December 31, 2014
Sales	9,925,137	1,310,155
Gross profit	2,035,646	98,411
Total expenses	14,062,212	3,288,368
Net Loss and comprehensive loss	(17,455,695)	(3,202,053)
Basic and diluted loss per share	(0.31)	(0.14)
Weighted average number of common shares outstanding	55,679,926	23,209,606
Total Assets	9,178,241	2,857,018
Long-Term Financial Liabilities	3,293,456	75,121

Overall Performance

The Company generated revenues of $9,925,137 for the year ended December 31, 2015 compared to $1,310,155 for the year ended December 31, 2014 and revenues for the three months ended December 31, 2015 of $2,877,074 compared to $1,025,996 for the three months ended December 31, 2014. The Company reported a net loss of $(17,455,695) for the year ended December 31, 2015 compared to a net loss of $(3,202,053) for the year ended December 31, 2014, and net income of $330,356 for the three months ended December 31, 2015 compared to a net loss of $(1,570,104) for the three months ended December 31, 2014.

Gross profits improved to $2,035,646 for the year ended December 31, 2015, up from $98,411 in 2014. The gross margin for the year ended December 31, 2015 was 21% and 14% for the three months ended December 31, 2015 compared to 8% and 16% for the comparable periods in 2014. The Company spent US$1,407,121 on marketing and sales (2014: $404,857), $8,260,735 on general & administration (2014: $2,853,820), $2,831,995 (2014: $Nil) on professional fees related to warrants, $830,179 (2014: $Nil) on listing expenses, and $458,582 (2014: $21,615) on research & development.

The Company's total assets were US$9,178,241 on December 31, 2015 (2014: $2,857,018). The Company's total liabilities were $11,007,252 on December 31, 2015 (2014: $1,051,552). Shareholders' equity after the deficit was $(1,829,011) on December 31, 2015 (2014: $1,805,466).

Commentary

The Company grew significantly during 2015 compared to 2014 as it began to ramp up operations from its incorporation in April 2014, making annual comparisons not meaningful. The focus of management's discussion will be general trends and business drivers.

Total sales for 2015 were $9.9 million. The Company's sales grew quickly in 2015 to $3.0 million in Q2 2015, and then stabilized with revenues in Q3 and Q4 comparable to Q2. GLH believes its share of the cannabis oils market in Oregon to have grown to 20-30% by mid-2015 and then maintained during the balance of 2015. The market, limited by regulation, appears to have remained relatively steady overall. The Company's revenues were comprised of approximately $7.1 million wholesale oils and derivatives, $1.1 million wholesale flower, and $1.7 million for its retail dispensary

The Company's revenues for the three months ended December 31, 2015 (Q4 2015) were $2,877,074, a slight increase vs Q3 2015. In Q4 2015, cannabis flower became recreationally legal on October 1, 2015 in Oregon and the annual

harvest also occurs, both factors in a mix shift within the Company's product portfolio towards flower. Wholesale flower sales were approximately 14% of revenues compared to the full year of approximately 11%. In addition, the Company shifted its wholesale oil sales focus towards dispensaries and less towards patient-to-patient sales. While oils dropped to approximately 58% of revenue vs. full year of approximately 72%, wholesale dispensary sales increased approximately $200k vs Q3 2015. The Company's retail dispensary grew approximately $125,000 vs Q3 2015, with transactions more than tripling versus Q3 to over $24,000 offsetting an average sale per transaction decrease to $34 vs Q3 from $92 (a function of the buying behavior of the recreational market customer).

GLH gross margins were 21% during 2015. The Company purchased trim at an average of $264 per lb, and had average extraction yields of 8.4% during 2015. The Company produced 496,560 grams of oil during 2015.

Margins were 22% when excluding the effect of the Company's growing operations which operated at a slight loss for the year as GLH invested in its infrastructure in Aurora and incurred start-up growing costs.

The Company's gross margins were 14% during Q4 2015. The Company purchased trim at $253 per lb, with yields of 8.8% and produced 123,202 grams of oil. The Company brought two new CO2 machines on line during the quarter. The lower margin compared to trends stemmed from the production/grow costs to complete the harvest (with the gain on biological assets having been recorded in Q3), with a negative impact on gross margin of 9%.

The Company's operating expenses for the year totalled $14,062,212. Included were $2,831,995 in non-cash professional fees paid for with the issuance of warrants and other equity instruments, and $830,179 in listing fees largely comprised of non-cash share issuance costs. The balance of operating expenses reflected costs to build out the Company's infrastructure, support operations, and enable its RTO and subsequent public listing. Also of note, the Company incurred a warrant liability and corresponding other expense of $4,334,099 related to mark-to-market fair values of the issuance of warrants to the Company's early investors.

In Q4 the Company's operating expenses were $4,354,889, flat to Q3, as the Company's professional fees paid for with equity instruments were reduced but offset by the listing expenses, share-based compensation and audit fees. Also of note, the revaluation of the Company's warrant liability (referenced above) contributed other income of $4,474,737 in Q4.

The Company's current assets increased to $2,852,692 at December 31, 2015 compared to $2,106,228 at December 31, 2014 due to increases in working capital requirements related to business growth.

The Company's Property, Plant, and Equipment increased to $6,179,710 at December 31, 2015 compared to $710,790 at December 31, 2014 due to the purchase of the Aurora Property and purchases of additional extraction equipment.

The Company's Long-Term Financial Liabilities increased to $3,293,456 at December 31, 2015 compared to $75,121 at December 31, 2014 due to the loans and convertible debentures used to finance the purchase of the Aurora Property.

Quarterly Results ($)

Profit and Loss	For the three months ended:						
	Jun 2014	Sep 2014	Dec 2014	Mar 2015 (as restated)	Jun 2015 (as restated)	Sep 2015 (as restated)	Dec 2015
Sales	-	284,159	1,025,996	1,319,201	2,957,670	2,771,193	2,877,074
Cost of sales expense	-	349,785	861,959	960,311	2,411,331	2,048,016	2,469,833
Gross profit	-	(65,626)	164,037	358,890	546,338	723,176	407,242
Total expenses	460,811	1,055,804	1,771,753	1,471,362	3,940,346	4,295,616	4,354,889
Interest expense	4,101	7,917	3,253	7,509	20,840	29,454	73,562
Other loss (income)	115,690	(107,385)	(43,682)	4,426	(26,905)	219,334	(33,883)
Loss on change in fair value of w arrant liability	-	-	-	8,837,465	(178,129)	149,500	(4,474,737)
Loss before income taxes	(580,602)	(1,021,962)	(1,567,287)	(9,961,873)	(3,209,813)	(3,970,727)	487,411
Incomes taxes	-	29,385	2,817	137,455	209,248	296,936	157,055
Net income / (loss)	(580,602)	(1,051,347)	(1,570,104)	(10,099,327)	(3,419,061)	(4,267,663)	330,356
Basic and diluted earnings / (loss) per share	(0.03)	(0.05)	(0.03)	(0.19)	(0.06)	(0.07)	0.01
Weighted average number of common shares outstanding	20,257,397	22,312,666	49,059,178	52,489,288	52,881,276	57,810,620	61,532,660
Summary effect of restatement:							
Net income / (loss) - as originally issued	(580,602)	(1,051,347)	(1,570,104)	(9,861,235)	(2,786,998)	(3,127,358)	330,356
Net income / (loss) - as restated	(580,602)	(1,051,347)	(1,570,104)	(10,099,327)	(3,419,061)	(4,267,663)	330,356
Net effect of restatement on net income / (loss) -	-	-	-	(238,092)	(632,063)	(1,140,305)	-

Balance Sheet	For the period ended:						
	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015 (restated)	Jun 30, 2015 (restated)	Sep 30, 2015 (restated)	Dec 31, 2015
Assets							
Total current assets	138,723	2,320,397	2,106,228	1,747,116	6,109,374	4,593,873	2,852,698
Property, plant and equipment	650,975	760,916	710,790	1,110,569	1,781,863	6,234,228	6,179,710
Intangible assets	-	-	40,000	40,000	35,000	30,000	145,833
Long-term assets	-	-	-	-	-	-	-
Total assets	789,698	3,081,313	2,857,018	2,897,686	7,926,237	10,858,101	9,178,241
Liabilities							
Total current liabilities	479,911	626,021	468,824	1,216,432	1,333,150	2,539,347	2,872,090
Convertible note payable - long term	-	-	-	-	-	1,690,000	1,690,000
Long term debt	-	-	75,121	71,600	139,729	1,609,201	1,603,456
Warrants liability	-	-	507,607	9,351,211	9,171,969	9,324,370	4,841,706
Total liabilities	479,911	626,021	1,051,552	10,639,242	10,644,849	15,162,918	11,007,252
Shareholders' Equity							
Share capital	832,953	3,964,178	4,747,153	4,891,745	11,869,560	13,953,908	15,481,051
Warrant reserve	57,435	123,062	260,366	583,064	2,009,221	2,497,376	2,968,655
Share Option Reserve	-	-	-	25,073	63,109	172,064	319,091
Contributed surplus	-	-	-	59,940	59,940	59,940	59,940
Deficit	(580,601)	(1,631,948)	(3,202,053)	(13,301,379)	(16,720,441)	(20,988,105)	(20,657,748)
Total shareholders' equity	309,786	2,455,292	1,805,466	(7,741,557)	(2,718,611)	(4,304,816)	(1,829,011)
Total liabilities and shareholders' equity	789,698	3,081,313	2,857,018	2,897,686	7,926,237	10,858,101	9,178,241

The Company's sales grew quickly through the quarter ended June 30, 2015 as it garnered significant market share in the medicinal cannabis oils market, then stabilized as market share was maintained and the market remained relatively flat. Margins have remained somewhat consistent, except for the recognition of the net gain on changes in fair value of biological assets of $72,000 in the quarter ended September 30, 2015 which preceded the annual harvest in the most recent quarter. Expenses have grown substantially as the Company invested in infrastructure to prepare for both the growth anticipated with the legalization of recreational oils and derivatives in Oregon and the RTO in October, and to execute the RTO in October.

Current assets have generally risen as the Company has invested in working capital related to growth, peaking in the quarter ended June 30, 2015 due to the cash generated by the share capital raised in that quarter. Much of the cash was used to fund operations in the two subsequent quarters, resulting in a reduction in current assets in the most recent two quarters. Property, Plant and Equipment has increased due to the acquisition of the Aurora property, as well as the purchase of additional extraction equipment. Current liabilities have increased in concert with the Company's general growth in revenues and expenses. Long-term financial liabilities increased due to the debt financing of the Aurora Property purchase. Share capital has increased as a result of the Company's fund raising activities.

Restatement of Interim Results for 2015

In the course of preparing the financial statements for the December 31, 2015 audit, various accounting issues were identified. The correction of these issues affected the previously issued financial statements for the first three quarters of 2015. The following is a brief explanation of the issues identified and the impact they had on the financial data presented above.

- The Company performed a detailed review of the entire accounts receivable population. The review identified various errors including, but not limited to, unprocessed sales returns, misapplication of payments, and missing documentation. The impact of these errors was as follows: Q1 2015 revenue decreased by $164,219; Q2 2015 revenue decreased by $442,762; and Q3 2015 revenue decreased by $179,667.
- As part of the accounts receivable review process mentioned in the previous bullet point, the Company also identified issues related to how bad debt expense was booked throughout the year. As such, the Company recorded changes to bad debt expense (a component of operating expense) as follows: Q1 2015 bad debt expense increased by $109,461; Q2 2015 bad debt expense increased by $196,941; and Q3 2015 bad debt expense decreased by $351,929.
- The Company performed a detailed review and recalculation of the average standard costs of inventory items. The review identified that the average standard costs used during the first three quarters of 2015 were too low for certain inventory items. The impact of the changes to average standard costs was as follows: Q1 2015 cost of sales increased by $111,106; Q2 2015 cost of sales increased by $238,261; and Q3 2015 cost of sales increased by $328,333.
- Shares of the Company's stock that were issued to two consultants and an employee during Q2 and Q3 were not properly recorded. Although the shares themselves were properly reflected in the financial statements, the cost of those shares was not recorded. The impact of recording the cost of those shares to the appropriate income statement line items (all components of operating expense) was as follows: Q2 2015 share based compensation increased by $55,555; Q3 2015 share based compensation increased by $166,665; and Q3 consulting expense increased by $899,850.
- The Company settled a legal matter during Q3 that required a payment to be made during Q4. As the settlement was reached, and the amount was known, prior to the conclusion of the 3rd quarter, the cost should have been accrued at that time. The total settlement amount was $208,950 of which $25,000 was properly accrued in Q3 and the remaining $183,950 adjustment has now been properly recorded in the "other loss" line item in Q3.
- The cumulative income statement impact of the adjustments outlined above created a change in the Company's current income tax expense as follows: Q1 income tax expense decreased by $105,805; Q2 income tax expense decreased by $261,519; and Q3 income tax expense decreased by $146,206.
- In addition to the items described above, certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications had no effect on the reported results of operations.
- The total impact of the restated quarters was as follows: Q1 - $(238,092) or $(.005) per share; Q2 - $(632,063) or $(.012) per share; Q3 – $(1,140,305) or $(.02) per share. The cumulate impact of the restarted quarters was $(2,010,460) or $(0.04) per share for the annual period 2015.

Summary of G&A detail

	General & Administrative Expense Summary	
	2015	Q4
Wages and Benefits 1/	2,049,094	792,663
Consulting	881,666	340,605
Legal	977,574	445,205
Share-Based Compensation	918,275	220,562
Bad Debt	381,635	(46,355)
Security	576,535	192,656
Travel & Entertainment	396,696	116,317
Audit	459,068	210,663
Investor Relations	209,435	143,141
All Other	1,410,757	491,056
G&A	8,260,735	2,906,512
Professional fees paid with equity instruments	2,831,995	-
Listing Statement	830,179	830,179
G&A Including Professional Fees paid with equity instruments and listing statement	11,922,909	3,736,691

1/ Includes non-legal employee consultants

The Company incurred $2,049,094 in wages and benefits for 2015. The Company incurred significant costs in 2015 for various professional services as the Company began to invest in infrastructure and ultimately the RTO and public listing, including consulting, legal, and audit, in addition to various services paid for in equity instruments cited in the financial statements and the predominantly share-based costs within the listing expenses.

Liquidity and Capital Resources

The Company has financed its operations to date through the issuance of Common Shares and debt.

	December 31, 2015	December 31, 2014
Current Assets	$ 2,852,698	$ 2,106,228
Current Liabilities	2,872,090	468,824
Working capital (deficit)	(19,392)	1,637,404
Long-term Debt and Notes Payable	3,293,456	75,121
Share Capital	15,481,051	4,747,153
Deficit	(20,657,748)	$ (3,202,053)

The Company has funded its deficit primarily through the issuance of share capital, and in addition financed the purchase of the Aurora Property through the issuance of long-term debt and convertible notes. The Company has also managed down working capital to further fund deficits. A portion of the deficit relates to both warrant reserves ($3.0 million in total of which $2.7 million was expensed in 2015) and warrant liabilities ($4.8 million of which $4.3 million was expensed in 2015) and as such is non-cash.

Going Concern

As of December 31, 2015 the Company's cash balances were $263,695. Despite raising funds in Q1 and Q2 2016, the Company's burn rate, including certain earmarked uses such as tax payments and the acquisition costs for BMF Washington in addition to unanticipated regulatory delays and disruption to the Company's core business, has largely exhausted those funds as of the issuance of this report. The date for legalization in Oregon of the recreational oils and edibles market (in which the Company has been approved to participate and intends to operate), as an extension of its existing medical oils and edibles business, is now firm at June 2, 2016. The Company is extremely encouraged by the realization of this long-awaited development.

The Company is actively engaged in additional capital raising efforts to ensure the continued operations of the enterprise and capitalize on the imminent market expansion of its core activities. These efforts include, but may not be limited to, filling the remaining balance of the C$10 million convertible debenture financing previously initiated. However, although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to us or the Company will be able to generate sufficient cash flow from operations.

These circumstances indicate the existence of material uncertainty that casts substantial doubt as to our ability to meet our business plan and our obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis that assumes we will be able to continue to realize our assets and discharge our liabilities in the normal course of business, and do not reflect the adjustments to assets and liabilities that would be necessary if we were unable to obtain adequate financing. If we are unable to raise funds and execute our business plan, we may not be able to continue as a going concern.

Liquidity, Financing and Capital Resources

Cash used in operations was $7,447,200 during 2015 compared to $3,638,019 in 2014. The Company raised $9,794,676 of Common Share capital and debt during 2015 compared to $4,896,139 during 2014. Fixed asset purchases totalled $2,683,859 during 2015 compared to $658,042 in 2014.

As of December 31, 2015 the Company had $263,695 of cash in hand. The Company's authorized share capital is an unlimited number of which 62,324,236 were issued and outstanding as at December 31, 2015.

As previously mentioned, the Company has primarily used share capital to fund operating activities including capital expenditures. The Company funded the purchase of the Aurora Property almost entirely with debt financing. The Company initiated convertible debt financing in Q1 2016 and Q2 2016 *(see "Subsequent Events")* used to replenish cash and fund operational needs subsequent to December 31, 2015.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the year ended December 31, 2015 includes the following expenses:

		2015		2014
Salaries, commissions, bonuses and benefits	$	931,577	$	69,940
Consulting fees paid to officers of the Company		473,332		306,908
Stock compensation, including warrants and shares for officers and directors		412,827		-
	$	1,817,736	$	376,848

These transactions occurred in the normal course of operations of the Company and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the first and second quarters of 2015 respectively, loans for $150,000 and $155,000 were received from an employee. The loans were repaid during the same quarters in which the loans were made. The employee was issued 5,000 warrants and 21,000 warrants respectively for the loans. No additional interest was charged.

On May 28 and June 8, 2015, two advances were provided to a member of the executive team to facilitate the payment of significant raw material purchases of trim in the southern region of the State of Oregon. Trim is the by-product of a harvested cannabis plant and is the raw material used in the production process to extract cannabis oils. The advances were $245,000 and $200,000, respectively. The advances were settled within the second and third quarter, respectively.

In the 1st tranche of the convertible debt offering *(see "Subsequent Events" and "Interest of Management and Others in Material Transactions*") which closed in March, 2016, Don Robinson, CEO, purchased C$1,000,000 of debentures and Rick Miller, former Board Chairman purchased C$664,000 of debentures. In the 2nd Tranche which closed April 2016, Michael Cohl, Board Member, purchased C$500,000 of debentures.

Subsequent to year end and pursuant to the BMF asset acquisition *(see "Subsequent Events" and "Interest of Management and Others in Material Transactions")*, Don Robinson, CEO provided a personal guarantee of the US $1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director.

In February 2016, Sam Pillersdorf, Board Member, provided a short-term loan of US $90,000 to the Company in February, 2016 which was repaid in March 2016 shortly after completion of the 1st tranche of convertible debt financing, for consideration of 20,000 warrants with an exercise price of US $0.42 *(see "Interest of Management and Others in Material Transactions*").

Proposed Transactions

The Company does not currently have any proposed transactions approved by the Board of Directors. All current transactions are fully disclosed in the audited financial statements for the year ended December 31, 2015.

New accounting standards and interpretations not yet adopted

The Company has identified new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment

of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018.

In May 2014, the IASB issued IFRS 15 Revenue from contracts with customers, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2018 and allows early adoption. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

The IASB has published amendments to IAS 16 Property, Plant and Equipment, and IAS 41 Agriculture that change the accounting for bearer plants. The amendments specify that because the operation of bearer plants are similar in nature to manufacturing, they should be accounted for under IAS 16 rather than IAS 41. The produce growing on the bearer plants will continue to be within the scope of IAS 41. The amendments are effective for annual periods beginning January 1, 2016 with early adoption permitted. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

In January 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard (IAS 17 Leases) and required the recognition of most leases as finance leases for lessees by removing the classification of leases as either finance or operating leases. Finance lease exemptions exists for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same, which provides the choice of classifying a lease as either a finance or operating lease. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

The IASB published Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to address depreciation and amortization methods which are based on revenue. Both standards currently require that a depreciation or amortization method reflect the expected pattern of consumption of the future economic benefits of the asset. The amendments prohibit the use of depreciation and amortization methods which are based on revenue as this does not reflect the expected pattern of consumption of the economic benefits of the asset. The Company is currently assessing the impact of these amendments.

Financial Instruments

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

(a) Fair value

Cash, accounts receivable, sales taxes recoverable, accounts payable and accrued liabilities, and subscriptions payable approximate their fair values because of the short-term maturities of these financial instruments.
The carrying value of long-term debt approximates fair value upon initial recognition. At December 31, 2015, its carrying value approximates fair value based on current market rates for similar instruments.
The following classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are as follows:
Level 1 – Quotes prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 – Inputs for the asset or liability that are not based on observable market data

The Company recognizes the warrants associated with the initial private placements during the year as financial liabilities designated as FVTPL where changes to fair value based on changes to the inputs are recognized in profit or loss. The estimated fair value of the warrants is categorized within Level 2 of the fair value hierarchy. Refer to note 12 and 14 for information regarding the valuation technique and inputs used to determine fair value.
The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(b) Credit risk

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at December 31, 2015.

The Company's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment.

The Company does not have significant exposure to any individual customer and has estimated bad debts of $459,493 and $84,374 at December 31, 2015 and December 31, 2014, respectively.

(c) 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 Company is not subject to any interest rate volatility as its long-term debt instruments are carried at a fixed interest rate throughout their term.

(d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue Common Shares and debt in the future.
The following table summarized the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2015						
Trade and other payables	1,750,580	1,750,580	1,750,580			
Loans and other borrowing	1,635,304	1,947,252	165,636	1,685,291	76,451	19,874
Convertible debt	2,190,000	2,387,050	509,764	1,877,286		
	5,575,884	6,084,882	2,425,980	3,562,577	76,451	19,874

Risks Related to the Company's Business

The following are certain risk factors relating to the business carried on by the Company. The Company will continue to face a number of challenges in the development of its business. Due to the nature of and present stage of the Company's business, the Company may be subject to significant risks. The following is a summary of the principal risk factors affecting the Company.

Operational Risks

The Company will be affected by a number of operational risks and the Company may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's properties, grow facilities and extraction facilities, personal injury or death, environmental damage, adverse impacts on the Company's operation, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition. Also, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which the Company cannot insure or which the Company

may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

U.S. Federal Regulation

Currently, there are 23 states of the United States plus the District of Columbia that have laws and/or regulations that recognize, in one form or another, legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. Many other states are considering similar legislation. Conversely, under the U.S. Controlled Substance Act (the "**CSA**"), the policies and regulations of the Federal government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. Unless and until Congress amends the CSA with respect to medical marijuana, as to the timing or scope of any such potential amendments there can be no assurance, there is a risk that federal authorities may enforce current federal law, and we may be deemed to be producing, cultivating or dispensing marijuana in violation of federal law or we may be deemed to be facilitating the selling or distribution of drug paraphernalia in violation of federal law with respect to our current or proposed business operations. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect the Company's future cash flows, earnings, results of operations and financial condition. The risk of strict enforcement of the CSA in light of Congressional activity, judicial holdings and stated federal policy remains uncertain.

Variation in State Regulations

Individual state laws do not always conform to the federal standard or to other states' laws. A number of states have decriminalized marijuana to varying degrees, other states have created exemptions specifically for medical cannabis, and several have both decriminalization and medical laws. Three states, Colorado, Washington and Oregon, have legalized the recreational use of cannabis. Variations exist among states that have legalized, decriminalized or created medical marijuana exemptions. For example, Alaska and Colorado have limits on the number of marijuana plants that can be home grown. In most states, the cultivation of marijuana for personal use continues to be prohibited except for those states that allow small-scale cultivation by the individual in possession of medical marijuana needing care or that person's caregiver. Active enforcement of state laws that prohibit personal cultivation of marijuana may indirectly and adversely affect the Company's future cash flows, earnings, results of operations and financial condition.

Marijuana remains illegal under US Federal law

Marijuana is a schedule-I controlled substance under the CSA and is illegal under U.S. federal law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of U.S. federal law. Since U.S. federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in our inability to proceed with our business plan.

Change of Cannabis laws

Local, state and U.S. federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require the Company to incur substantial costs associated with compliance or alter certain aspects of its business plan. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to certain aspects of the Company's businesses. The Company cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the Company's business. The legislative and regulatory environment in the state of Oregon, is dynamic and reflects the uncertainty and search for novel solutions in the highly-regulated cannabis industry. Recently, both the Oregon Liquor Control Commission (OLCC), which is responsible for adopting rules to regulate Oregon's recreational marijuana program, and the Oregon Health Authority (OHA) which regulates the medical marijuana program, released proposed rules. Certain provisions in the proposed rules could be problematic for the Company if adopted in their present form, including but not limited to those relating to the size of growing operations. If these proposed rules are adopted in their present form, they could have a negative impact on the Company's financial performance and business operations. The status of these proposed rules are

uncertain as there are possibilities for further revision before becoming final and effective. There can also be no assurance that local governments, such as counties within Oregon, could take regulatory action which may negatively affect the Company's cannabis business. Management expects that the legislative and regulatory environment in the cannabis industry will continue to be dynamic and will require innovative solutions to try to comply with this changing legal landscape in this nascent industry, for the foreseeable future.

Supply of Trim

The Company does not cultivate sufficient cannabis to supply itself with enough cannabis leaves and small flowers ("**Trim**") to operate its oil extraction business. Currently, the Company acquires Trim from third parties in amounts sufficient to operate its oil extraction business. However, there can be no assurance that there will continue to be a supply of Trim available for the Company to purchase in order to operate its oil extraction business. Additionally, the price of Trim may rise which would increase the Company's cost of goods. If the Company were unable to acquire the Trim required to operate its oil extraction business or if the price of Trim increased it could have a material adverse impact on the business of the Company, its financial condition and results from operations.

Security Risks

The business premises of the Company is a target for theft. While the Company has implemented security measures and continues to monitor and improve its security measures, its cultivation, processing and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and the Company fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of the Company.

As the Company's business involves the movement and transfer of cash which is collected from dispensaries and used to purchase Trim or deposited into its bank, there is a risk of theft or robbery during the transport of cash. The Company has engaged a security firm to provide armed guards and security in the transport and movement of large amounts of cash. Sales representatives sometimes transport cash and/or products and each sales representative has a panic button in their vehicle and, if requested, may be escorted by armed guards. While the Company has taken robust steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Risks Associated with New Cultivation Facility.

The Company has purchased a 96 acre property near Aurora, in Marion County, Oregon on which it intends to build and develop a new and expanded cultivation facility. The Marion County Commissioners "opted out" of participating in Oregon's recreational marijuana program and referred the measure to the County voters for the November 2016 election. If the "opt out" is upheld by the Marion County voters, the Aurora facility will not be useable by the Company for the recreational marijuana program and will have limited continuing use under the present medical marijuana program. Consequently, there can be no assurance that the Company will be able to build out this facility in the manner intended. The build out of the facility will require extensive capital resources before it becomes fully operational. Although it is intended that the facility become operational within the next six months, there can be no assurance that it will become operational in this timeframe or at all. There are many factors that could delay the build out of the new facility or that could prevent the new facility from becoming operational at all. A failure to have this new facility operational within six months or at all, or the failure of the Marion County voters to overturn the "opt out" of the Marion County Commissioners, would require management to execute on contingency plans for production locations which in turn could also have an impact on the business, financial condition and results from operations.

Operational Permits and Authorizations.

Although the Company has applied for various recreational marijuana licenses, it may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its medical marijuana and recreational business. In addition, it may not be able to comply fully with the wide variety of laws and regulations applicable to the medical and recreational marijuana industry. Failure to comply with or to

obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on the Company's ability to operate the medical and recreational marijuana business, which could have a material adverse effect on the Company's business.

Liability, Enforcement Complaints etc.

The Company's participation in the medical and recreational marijuana industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against these subsidiaries. Litigation, complaints, and enforcement actions involving these subsidiaries could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Banking

Since the use of marijuana is illegal under U.S. federal law, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. The inability to open bank accounts may make it difficult to operate the Company's medical and recreational marijuana business.

Resale of Shares

There can be no assurance that the publicly-traded stock price of the Company will be high enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company's shares would be diminished.

As well, the continued operation of the Company will be dependent upon its ability to procure additional financing in the short term and to generate operating revenues in the longer term. There can be no assurance that any such financing can be obtained or that revenues can be generated. If the Company is unable to obtain such additional financing or generate such revenues, investors may be unable to sell their shares in the Company and any investment in the Company may be lost.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility.

Undertaking With the Ontario Securities Commission

The Company is a party to an undertaking with the Ontario Securities Commission under which the Company agreed to notify the Ontario Securities Commission at least 60 days prior to conducting material operations in recreational marijuana and the Company also agreed to deliver an opinion with respect to the legality of recreational marijuana operations in connection with this notification. If the Company is unable to obtain a satisfactory legal opinion as to the legality of recreational marijuana operations, the Ontario Securities Commission could take administrative action or impose restrictions on the Company's operations which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

The Company's Limited Operating History Makes Evaluating Its Business and Prospects Difficult

The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and

difficulties frequently encountered by companies in the early stage of development. As the Company is in an early stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. The Company has had limited experience in addressing the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving industries such as the medical and recreational marijuana industries. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Need for Funds

In the short term, the continued operation of the Company may be dependent upon its ability to procure additional financing. The Company must obtain such financing through a combination of equity and debt financing and there can be no assurance that the Company can raise the required capital it needs to build and expand its current grow and extraction facilities, nor that the capital markets will fund the business of the Company. Without this additional financing, the Company may be unable to achieve positive cash flow and earnings as quickly as anticipated or to meet its obligations as they become due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost. The raising of equity funding would also result in dilution of the equity of the Company's shareholders.

Dividends

The Company has not paid dividends to shareholders in the past and does not anticipate paying dividends in the foreseeable future. The Company expects to retain its earnings to finance growth, and where appropriate, to pay down debt.

The Company Has a History of Net Losses, Which Might Occur Again in the Future with No Assurance of Profitability

The Company incurred a net loss for the period from incorporation on April 8, 2014 to December 31, 2015 of US$(20,657,748). The Company cannot assure that it can remain profitable or avoid net losses in the future or that there will not be any earnings or revenue declines for any future quarterly or other periods. The limited operating history makes it difficult to predict future operating results. The Company expects that its operating expenses will increase as it grows its business, including expending substantial resources for content and product development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses. In addition, the Company is subject to the risks inherent in the operation of a new business enterprise in an emerging and uncertain business sector, and there can be no assurance that the Company will be able to successfully address these risks

The Company May be Exposed to Infringement or Misappropriation Claims by Third Parties, Which, if Determined Adversely to the Company, Could Subject the Company to Significant Liabilities and Other Costs

The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of marijuana without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

The Company May Need to Incur Significant Expenses to Enforce its Proprietary Rights, and if the Company is Unable to Protect Such Rights, its Competitive Position Could be Harmed

The Company regards proprietary methods and processes, domain names, trade names, trade secrets, recipes and other intellectual property as critical to its success. The Company's ability to protect its proprietary rights is critical for the success of its business and its overall financial performance. The Company has taken certain measures to protect its intellectual property rights. However, the Company cannot assure that such measures will be sufficient to protect its proprietary information and intellectual property. Policing unauthorized use of proprietary information and intellectual property is difficult and expensive. Any steps the Company has taken to prevent the misappropriation of its proprietary technology may be inadequate. The validity, enforceability and scope of protection of intellectual property in the medical marijuana industry is uncertain and still evolving. In particular, the laws and enforcement procedures in some developing countries are uncertain and may not protect intellectual property rights in this area to the same extent as do the laws and enforcement procedures in Canada, the United States and other developed countries.

The Company is Dependent Upon its Existing Management, its Key Research and Development Personnel and its Growing and Extraction personnel, and its Business May be Severely Disrupted if it Loses Their Services.

The Company's future success depends substantially on the continued services of its executive officers and its key grow and extraction personnel. If one or more of its executive officers or key personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose know-how, key professionals and staff members. These executive officers and key employees could compete with and take customers away from the Company.

Available Talent Pool

As the Company grows, it will need to hire additional human resources to continue to develop the business. However, experienced talent in the areas of medical and recreational marijuana research and development, growing marijuana and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.

Unforeseen Competition

Although the Company has been and is currently a leader in the medical marijuana and extraction industry in the state of Oregon, there can be no assurance that the Company will continue to remain an industry leader. There can be no assurance that significant competition will not enter the marketplace and offer some number of similar products and services or take a similar approach. Such competition could have a significant adverse effect on the growth potential of the Company's business by effectively dividing the existing market for its products.

Potential Future Acquisitions and/or Strategic Alliances May Have an Adverse Effect on the Company's Ability to Manage its Business

As part of the Company's overall business strategy, the Company may pursues select strategic acquisition to acquire technologies, businesses or assets that are complementary to its business and/or enter into strategic alliances in order to leverage its position in the medical and recreational marijuana and extraction markets. These would include but not be limited to acquisitions to provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on the Company's ability to manage its business. In addition, any proposed acquisitions may be subject to regulatory approval.

Management of Growth

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

General Economic Trends

The worldwide economic slowdown and tightening of credit in the financial markets may impact the business of the Company's customers, which could have an adverse effect on the Company's business, financial condition, or results of operations. Adverse changes in general economic or political conditions in any the United States or any of the states within the United States and especially the State of Oregon could adversely affect the Company's business, financial condition, or results of operations.

Asset Location and Legal Proceedings

Substantially all of the Company's assets are located outside of Canada and many of its officers and directors are resident outside of Canada and their assets are outside of Canada. Serving process on the directors and officers may prove to be difficult or excessively time consuming. Additionally, it may be difficult to enforce a judgment obtained in Canada against the Company, its subsidiaries and any directors and officers residing outside of Canada.

Market Acceptance

The Company's ability to gain and increase market acceptance of its medical marijuana products depends upon its ability to educate the public, physicians and other healthcare professionals on the benefits of medical marijuana products. Similarly, the Company's ability to gain and increase market acceptance of its recreational marijuana products depends upon its ability to educate the public, promote its products and compare them other available alternatives. It also requires the Company establish and maintain its brand name and reputation. In order to do so, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful and their failure may have an adverse effect on the Company's.

Electronic Communication Security Risks

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Insurance Coverage

The Company will require insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage. Although the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

Tax Risk

The provisions of Internal Revenue Code section 280E are being applied by the Internal Revenue Service ("**IRS**") to businesses operating in the medical and recreational marijuana industry. Section 280E provides:

No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any

trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

Even though several states have medical and recreational marijuana laws, the IRS is applying section 280E to deny business deductions to businesses involved with medical and recreational marijuana. Businesses operating legally under state law argue that section 280E should not be applied because Congress did not intend the law to apply to businesses that are legal under state law. The IRS asserts that it was the intent of Congress to apply the provision to anyone "trafficking" in a controlled substance, as defined under federal law (as stated in the text of the statute). Thus, section 280E is at the center of the conflict between federal and state laws with respect to medical marijuana which applies to the business conducted by the Company.

Currency Fluctuations

Due to the Company's present operations in the United States, and its intention to continue future operations outside Canada, the Company is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All or substantially all of the Company's revenue will be earned in US dollars, but a portion of its operating expenses are incurred in Canadian dollars. The Company does not have currency hedging arrangements in place and there is no expectation that the Company will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the US dollar and the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Other MD&A Disclosure Requirements

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

Disclosure by venture issuer
An analysis of the material components of the Company's general and administrative expenses is disclosed in the financial statements to which this MD&A relates.

Outstanding share data
Common shares issued and outstanding as at December 31, 2015 are described in detail in Note 13 to the audited financial statements for the year ended December 31, 2015. Shares outstanding as of May 26, 2015 are 95,356,506.