**GOLDEN LEAF HOLDINGS LTD.**
**13315 Airport Way Suite 700**
**Portland, OR 97230**

**Management's Discussion & Analysis of Financial Condition and Results of Operations for the Six Months Ended June 30, 2017**

**Date: August 29, 2017**

## 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 unaudited financial statements and accompanying notes for the three and six months ended June 30, 2017. The unaudited 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 unaudited 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 August 28, 2017. The information contained within this MD&A is current to August 29, 2017.

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.

## 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 82 Richmond Street East, Toronto, Ontario, M5C 1P1 and its principal place of business is located at 13315 NE Airport Way STE 700, Portland, Oregon 97230.

**Business of the Company**

The Company is a 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 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.

The Company's products are sold in over half of the dispensaries in Oregon. As the adult-use market grows, the Company expects market share to increase with the growing preference for oils and edibles.

**Recent History**

**JuJu Joints**

On March 16, 2017, the Company announced it had signed a binding Letter of Intent (LOI) to acquire the assets and business of JuJu Joints (the "JuJu Transaction"). JuJu Joints is a leading disposable cannabis oil vape e-joint product that utilizes proprietary vape technology and has established strong brand equity and market penetration in Washington State, Oregon, Nevada, California and Canada. Pursuant to the JuJu Transaction, JJ 206, LLC ("JuJu Co") will receive cash consideration of CDN 3.0 (US$2.25) million and, subject to adjustment in certain circumstances, an aggregate of CDN $3.0 (US$2.25) million of common shares of GLH on the closing date of the Transaction. The Company is currently deciding whether this acquisition fits into its new business strategy.

**Aurora property**

The Company put its Aurora property for sale in Q1 2017 and received and accepted an offer of $2.2M. An impairment of $1.6M has been recorded in the financial statements. As of the date of this report the Company is in near finalizing this transaction and expects it to close on September 5, 2017. The closing of this transaction is contingent upon the successful conversion of the debentures which are secured by this property.

**Eugene facility**

In February 2017, the Company entered into a lease for 23,000 sf in Eugene, Oregon for 3 years at $1.10 per sf. The facility was expected to become the primary production facility for GPO. The facility in Portland would be kept and used primarily for distribution. In June 2017 the Company opted to break this lease in favor of consolidating all processing and distribution operations in Portland. The abandonment of these assets resulted in a loss on disposal of $294,200 recorded in profit and loss.

**Private Placement**

On June 2, 2017 the Company closed on its recently announced C$35M financing transaction. The Company satisfied all outstanding conditions for release of escrow funds of the transaction on July 12th, 2017 and converted 125,892,857 subscription receipts into 125,892,857 units, each unit composed of one common share and one-half purchase warrant. The Company also issued 83,418,687 shares to the former shareholders of Chalice Farms.

**Acquisition of NevWa, LLC**

On June 6th, 2017 the Company closed on C$2.5M of the previously announced C$5.25M subscription receipts, the proceeds of which were used primarily to fund the acquisition of the assets of NevWa, LLC. The Company owes an additional $200,000 of penalty consideration for this acquisition as well as $100,000 to Peter Saladino which was an escrow deposit made on behalf of the Company.

**MMGC Acquisition**

On June 27, 2017 the Company signed a definitive agreement to consummate the previously announced acquisition of all of the issued and outstanding shares of Medical Marihuana Group Corporation ("MMGC") and Medical Marihuana Group Consulting Ltd. ("MMCC"). MMGC has filed an application with Health Canada for a cultivation license. MMGC does not currently have any substantial operations and it will not be able to engage in the production of marijuana until it receives the cultivation license.

In connection with the Acquisition, (i) GLH will acquire all of the outstanding shares of MMGC for consideration of C$10,000,000, which will be satisfied through the issuance of 35,714,286 common shares of the Company ("Common Shares") at a price of C$0.28 per share; and (ii) GLH will indirectly acquire all of the outstanding shares of MMCC for consideration of up to C$5,000,000 (the "Contingent Consideration"), which amount will be payable in the event that certain gross sales targets are met within 18 months of marketing efforts commencing in Canada of GLH branded products (the "Earn-in Period"). The Contingent Consideration is payable in Common Shares at a price of C$0.28 per share. Initial consideration was provided via placement of note for C$2,062,080 to fund construction and working capital needs.

**Subsequent Events**

Refer to note 21 of the interim condensed consolidated financial statements.

**DESCRIPTION OF THE BUSINESS**

***Cultivation***

The Company had no cultivation operations as of the balance sheet date. Subsequent to the balance sheet date the Company has acquired two small grows associated with Chalice Farms and is in the process of building out a large scale light deprivation greenhouse facility just outside of Portland which should supply all the existing Chalice retail stores with high quality flower and allow for excess distribution through the Company’s wholesale distribution channels.

***Production & Sales - Oil Extraction***

The Company aims to be a leading cannabis oil brand in north America and as such owns significant capital assets for the purposes of $CO_2$, BHO and distillate oil processing and refinement. These assets have been largely inactive since Q4 2016 due to the Marion County referendum vote followed by the inability to receive city licensing to process at the Company’s north Portland location due to multiple building code and regulatory complications.

**Products**

As of the balance sheet date the Company distributes two main types of products; cannabis flower and cannabis oils. All of the Company’s products are independently lab tested and certified for pesticides, contaminates and potency before being packaged and labelled with detailed information about the levels of THC and CBD contained in each product. The Company has been building strong market demand for two new high end distillate products profiles branded as Gold Label Reserve™ and Private Stash™. These products are produced by a third party oil processor in bulk and then filled into cartridges, packaged and distributed by the Company to its wide distribution network. These products built strong market demand as consumers grew to accept the higher price point and embraced the flavor and purity of this product. The Company sources flower from third parties and distributes to its network of retail customers primarily in 1 lb bags.

The Company's oil products are sold under the brand names Golden™, Gold Label Reserve™, Private Stash™ and Proper™ through a number of delivery systems; e-pens, cartridges and dabs.

## Sales, Marketing and Distribution

***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. 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. As of December 28, 2016 Left Coast Connections received final approval by the City of Portland to sell under its recently received OLCC retail license. Sales through the new OLCC regulated channel began on January 3, 2017, allowing it to sell to anyone over the age of 21, as well as medical card holders who are exempt from the sales tax levied by local jurisdictions.

Subsequent to the balance sheet date, through the acquisition of Chalice Farms, the Company has added an additional four retail stores in the Portland, OR area to its portfolio.

***Wholesale Distribution***

Greenpoint Oregon, Inc. ("GPO") employs ten 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. Prior to the balance sheet date and the close of the Chalice Farms transaction, the team also began to sell products manufactured by Chalice Farms, consisting primarily of $CO_2$ oils and edibles.

GPO sells its products almost exclusively for cash on delivery to over 300 dispensaries in the state of Oregon. GPO has stringent policies and processes in place to ensure that all cash collected is safeguarded and monitored at all times.

The primary sales and marketing goals for the retail market in Oregon are 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 and dominant merchandising 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) leveraging LCC's retail-recreational sales directly to customers to understand emerging trends and consumer preferences.

## Specialized Skill & Knowledge

From the time GPO 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.

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, Cisco Systems, Organically Grown Produce, and Mighty Leaf Tea.

**Competitive Conditions**

The market for flower and oil extraction products is fragmented. In addition, the market for flower and trim is commoditizing. The Company is one of the largest operators in Oregon. Little business intelligence is available at this time, however, the majority of the Company's competitors focus primarily on using carbon dioxide extraction to extract oil for their products. GPO and other competitors like Select Strains have to rely upon sources of trim from farmers. In the first half of 2017, the Company has noticed an increasing consumer demand for high quality distillate oil. The Company's only supplier of this product is the primary supplier for many brands within the state and represents a concentration of risk. The Company will be undertaking a project to develop the expertise to create these products internally to focus on controlling it's supply chain and lower its cost of manufacturing.

**Components**

Currently the Company sources raw materials from external parties. Using an internal production process, trim is generally the largest component of the cost of oil, however under its current third party processing model, nearly 50% of the cost of a gram of oil is paid to process the trim into oil. As of the balance sheet date, the cost to produce 1 gram of distillate oil in finished good form is estimated at approximately $19, including the cost of trim. Trim cost per gram of oil is roughly $6 of this total. The remainder is labor related to packaging and filling cartridges, as well as the cost of packaging for each finished good.

Premium oil extract products such as Golden™, Golden Gold Label Reserve™, Proper™ and Private Stash™ 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.

**Intellectual Properties**

The Company has certain proprietary intellectual property ("**IP**"), including but not limited to brands, trademarks, tradenames, recipes and proprietary processes. 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).

**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 credit without executive management approval. There is a strong focus on cash collections and control of the number of days of sales outstanding.

**Employees and Management**

At the balance sheet date the Company had approximately 60 employees. Shortly after the balance sheet date the Company completed the previously announced acquisition of Chalice Farms, adding approximately 80 employees for a total of approximately 130.

As of the date of this report, William Simpson serves as the Company's CEO, Eugene Hill serves as the Company's CFO, and Michael Genovese serves as COO. Bliss Dake is the Company's CMO, overseeing marking, public relations and investor relations. Andrew Marchington, VP of Finance, oversees the finance, treasury and accounting operations of all business units. Andreas Moppin, VP of Sales oversees all wholesale sales in Oregon. Erin Hills, VP of Retail operations, oversees the Chalice Farms retail chain as well as Left Coast Connection. Sue Skogg, VP of Manufacturing, oversees the Company's oil processing, edibles manufacturing, distribution, logistics and cultivation.

**Foreign Operations**

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. On July 27th, the Company signed a definitive agreement with Medical Marihuana Group ("MMG") to support its operations and the build out of its cultivation facility. Upon receipt of its cultivation license which is expected prior to the end 2017, this acquisition will close and the Company will have operations in Canada.

**Principal Market**

As of the balance sheet date, the Company operates in two recreational cannabis markets: Oregon and Nevada. As of the balance sheet date substantially all of activities relate to its Oregon operations as Nevada is currently in the process of rolling out its newly regulated adult-use market. In Oregon, over 400 dispensaries are licensed by the OLCC to sell adult-use cannabis to medical patients and adult-use customers. The Nevada market is nascent, however with early adult-use sales commencing during July 2017, the Company is excited for the opportunities to participate in this market due to the significant tourism market in Nevada, particularly in Las Vegas. The Company is currently navigating a series of regulatory steps to reach full Nevada distribution and is anticipating this to be completed before the end the third quarter, allowing near full statewide distribution of its Jackpot and Liberty Reach brands.

**Trends, Commitments, Events or Uncertainties**

The District of Columbia ("**D.C.**") and 28 U.S. states, including the state of Oregon, have legalized cannabis for medical use. Colorado, Washington, Alaska, Oregon, D.C, California, Nevada, Maine, and Massachusetts have also legalized retail-recreational use of cannabis.

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 to deprioritize the 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.

The Rohrabacher-Farr amendment was finally passed by the U.S. House of Representatives in May 2014 after six failed attempts since 2003. The bill prohibits the Department of Justice, which includes the Drug Enforcement Administration, from using funds to interfere with state medical marijuana laws. The amendment was then included in the federal spending bill passed on December 15, 2014 and 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 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 28 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, the Company operations 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.

The Company takes regulatory compliance 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 Oregon define the regulatory compliance guidelines, and if violated could potentially have a serious impact on the business. The Company regularly reviews the rules and communicates changes to employees as appropriate.

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

There are no unresolved legal proceedings at the time of this report.

### Interest Of Management And Others In Material Transactions

See related note 17 of the interim condensed consolidated financial statements for the three and six month periods ending June 30, 2017.

### Selected Financial Information (US$)

| | For the financial period: | |
|---|---|---|
| | Six months ended June 30 2017 | Six months ended June 30, 2016 |
| Total revenues | 4,348,487 | 4,774,991 |
| Gross profit | 640,523 | 719,752 |
| Total expenses | 5,194,305 | 6,042,427 |
| Comprehensive loss | (4,004,717) | (1,456,973) |
| Basic and diluted loss per share | (0.03) | (0.01) |
| Weighted average number of common shares outstanding | 143,604,908 | 82,112,479 |
| | as of period ended | |
| | June 30, 2017 | March 31, 2017 |
| Total Assets | 23,037,005 | 23,128,507 |
| Long-Term Financial Liabilities | 85,197 | 12,241,905 |

### Overall Performance

### Three-Month Comparison

The Company generated revenues of $2,089,393 for the three months ended June 30, 2017 compared to $2,298,303 for the three months ended June 30, 2016. The Company reported a net loss of $1,714,987 for the three months ended June 30, 2017 compared to a net loss of $1,084,803 for the three months ended June 30, 2016.

Gross margin increased to $402,124 for the three months ended June 30, 2017, up from $217,300 for the three months ended June 30, 2016. The Company spent $287,289 on marketing and sales (2016: $307,535), $2,058,257 on general & administration (2016: $2,065,193), $113,071 (2016: $70,315) on professional fees related to equity instruments.

### Six-Month Comparison

The Company generated revenues of $4,348,487 for the six months ended June 30, 2017 compared to $4,774,991 for the six months ended June 30, 2016. The Company reported a net loss of $4,004,717 for the six months ended June 30, 2017 compared to a net loss of $1,456,973 for the six months ended June 30, 2016.

Gross margin decreased to $640,523 for the six months ended June 30, 2017, down from $719,752 for the six months ended June 30, 2016. The Company spent $566,212 on marketing and sales (2016: $610,405), $3,656,530 on general & administration (2016: $3,957,821), $167,491 (2016: $599,116) on professional fees related to equity instruments.

The Company's total assets were $23,037,005 on June 30, 2017 (December 31, 2016: $24,841,792). The Company's total liabilities were $16,892,521 on June 30, 2017 (December 31, 2016: $27,777,689). Shareholders' equity after the deficit was $6,460,875 on June 30, 2017 (December 31, 2016: deficiency of $2,935,897).

**Commentary**

After a difficult 2016, the Company set out to re-establish market share in the Oregon market during the first half of 2017. Strong flower sales in January were followed by continued flower sales and the launch of two premium product offerings: the new Gold Label Reserve brand and the re-launch of Private Stash. Due to reliance on a third party to create its oil products during the first quarter, costs per gram were significantly elevated relative to costs when processing in-house and as such, margins suffered. In addition, the Company temporarily deployed the majority of its production staff in support of the new wholesale distribution process in anticipation of launching its new processing facility, a decision which further led to decreased margins but retained valuable industry and company knowledge. During the second quarter gross margin improved to 20% due mostly due to timing of labor incurred to build inventory during the first quarter as well as product mix which included more oils and less flower.

Since the fourth quarter of 2016 the Company’s regulatory and supply chain environment has stabilized as reliable new sources of raw materials have opened up in the new recreational market. Testing infrastructure has also risen to meet the new demand in accordance with new compliance rules.

The Company’s total revenue for the six months ended June 30, 2017 was decreased $0.3M from the six months of 2016 at $4.3 million. This decrease is primarily attributed to depleted inventory levels resulting from working capital shortages.

Gross margin increased 85% to $402,124 for the three months ended June 30, 2017. This was driven primarily by a larger proportion of sales of oils versus flower and less upfront inventory build labor related costs to restart the pipeline.

The Company’s operating expenses for the three-month period ended June 30, 2017 totaled $3,039,166, an increase of $0.2M compared to the three months ended June 30, 2016 operating expenses of $2,534,466. See adjusted EBITDA section for figures and commentary as adjusted for non-cash charges. The primary driver of increase is legal costs related to acquisition activity during the quarter.

The Company’s current assets decreased to $5,379,718 at June 30, 2017 compared to $8,720,279 at December 31, 2016, largely as a result of continued operating losses.

The Company’s current financial liabilities increased to $16,807,324 at June 30, 2017 compared to $15,535,784 at December 31, 2016 due to the conversion of debt to equity, offset by previously long-term liabilities moving to current liabilities as they approach maturity.

The Company’s long-term financial liabilities decreased to $85,197 at June 30, 2017 compared to $12,241,905 at December 31, 2016 due to the conversion of debt to equity.

## Quarterly Results ($)

| Profit and Loss | For the three months ended: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sep 2015 | Dec 2015 | Mar 2016 | June 2016 | Sep 2016 | Dec 2016 | March 2017 | June 2017 |
| | | | restated | restated | restated | | | |
| Product sales | 2,771,193 | 2,877,074 | 2,316,688 | 2,298,303 | 2,191,596 | 434,968 | 2,259,094 | 2,089,393 |
| Royalties | - | - | - | 160,000 | 240,000 | 19,934 | - | - |
| Total Revenue | 2,771,193 | 2,877,074 | 2,316,688 | 2,458,303 | 2,431,596 | 454,902 | 2,259,094 | 2,089,393 |
| Cost of sales expense | 2,048,016 | 2,469,833 | 1,814,236 | 2,241,003 | 1,914,923 | 1,625,444 | 2,020,695 | 1,687,269 |
| Gross profit | 723,176 | 407,242 | 502,452 | 217,300 | 516,673 | (1,170,542) | 238,399 | 402,124 |
| Total expenses | 4,295,616 | 4,354,889 | 2,868,743 | 2,534,469 | 2,280,711 | 3,862,911 | 2,155,139 | 3,039,166 |
| Interest expense | 29,454 | 73,562 | 129,525 | 424,185 | 307,179 | 355,697 | 545,022 | 312,411 |
| Accretion interest | - | - | 41,088 | 273,925 | 295,109 | 55,650 | - | - |
| Impairment of financing lease receivable | | | - | 81,060 | 81,060 | 81,060 | 27,422 | 27,422 |
| Other loss (income) | 219,334 | (33,883) | 10,489 | 3,187 | 113,612 | 128,915 | 925 | 161,905 |
| (Gain)/Loss on changes in fair value of warrant liabilities | 149,500 | (4,474,737) | (2,737,958) | (1,608,647) | (414,615) | 609,143 | (155,685) | (82,694) |
| (Gain)/Loss on changes in fair value of liabilities | - | - | (76,488) | (406,072) | 106,950 | (3,858,391) | (44,693) | (1,541,097) |
| Loss before income taxes | (3,970,727) | 487,411 | (372,165) | (1,084,807) | (2,622,335) | (17,324,646) | (2,289,730) | (1,514,989) |
| Incomes tax expense (benefit) | 296,936 | 157,055 | - | - | - | 74,136 | - | - |
| Net income / (loss) | (4,267,663) | 330,356 | (372,165) | (1,084,807) | (2,622,335) | (17,250,510) | (2,289,730) | (1,514,989) |
| Other Comprehensive (Income)/Loss | - | - | - | - | - | 530,000 | - | - |
| Comprehensive Income/(Loss) | (4,267,663) | 330,356 | (372,165) | (1,084,807) | (2,622,335) | (17,780,510) | (2,289,730) | (1,514,989) |
| Basic and diluted earnings / (loss) per share | (0.07) | 0.01 | (0.01) | (0.01) | (0.03) | (0.19) | (0.02) | (0.01) |
| Weighted average number of common shares outstanding | 57,810,620 | 61,532,660 | 68,976,253 | 95,248,704 | 95,965,147 | 91,207,720 | 118,346,097 | 143,604,908 |

The Company's sales grew quickly through the quarter ended September 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. The recreational oil market was legal in Oregon as of June 2, 2016 which helped to drive some revenue growth, however the turbulence in the regulatory environment and supply chain during 2016 severely inhibited the Company's ability to grow as it spent significant time and resources responding to on the ground changes in the Oregon market.

The Company once again experienced a working capital and inventory shortage during the end of the 2nd quarter 2017, leading to decreased revenues. This working capital shortage continues to affect supply, however at the date of this report the Company has a broadened based of product in inventory due to the acquisition of Chalice Farms which has added a small pipeline of high quality $CO_2$ oils and Chalice's full line of edibles.

| Adjusted EBITDA | For the three months ended June, 2017 | |
|---|---|---|
| | 2017 | 2016 |
| Revenue | $ 2,089,393 | $ 2,458,303 |
| Cost of sales expense | 1,687,269 | 2,241,003 |
| Gross profit | $ 402,124 | $ 217,300 |
| Total operational expenses | 3,039,166 | 2,534,466 |
| Less Non-cash expenses of dep and amort | 71,128 | 72,661 |
| Less loss on disposal | 294,200 | - |
| Adjusted total operational expenses | $ 2,673,838 | $ 2,461,805 |
| Adjusted EBITDA operational Loss | $ 2,271,714 | $ 2,244,505 |

** Adjusted EBITDA is a non-GAAP financial measure and does not have any standardized meaning prescribed by the Company's GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-GAAP Disclosures" below for additional information.*

For the three month period ended June 30, 2017, the Adjusted EBITDA loss increased to $2,271,714 as compared an Adjusted EBITDA loss of $2,244,505 during the same period in 2016. This was primarily driven by increases in legal costs incurred related to acquisition activity during the quarter, offset almost fully by reductions in other costs.

**Non-GAAP Disclosure**

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, less all non-cash equity compensation expenses, including impairments, one-time transaction fees and all other non-cash items. Adjusted EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the Company's GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. The Company considers this adjusted EBITDA an important figure to show the true day to day operational picture of the business. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with the Company's GAAP. Please refer to the Company's management's discussion and analysis for the year ended December 31, 2016 for further information on the Company's use of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net earnings.

Current assets have generally risen as the Company has invested in working capital related to growth, peaking at December 31, 2016 due to the cash generated by the debentures placed in that quarter and the movement of the Aurora property to assets held for sale. Intangible assets increased significantly with the purchase of assets from BMF Washington. 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 and the more recent rounds of convertible debt financing. Share capital has increased as a result of the Company's fund raising activities and stock portion of the BMF acquisition as well as warrant exercises and convertible debenture conversions.

**Summary of G&A detail**

| General & Administrative Expense Summary | Q2 2017 | Q2 2016 |
|---|---|---|
| Wages and Benefits* | 671,249 | 755,747 |
| Consulting | 149,522 | 301,702 |
| Legal | 434,801 | 120,595 |
| Bad Debt | 275,699 | 161,174 |
| Security | 25,648 | 53,507 |
| Travel & Entertainment | 91,131 | 68,166 |
| Audit | 33,051 | 7,003 |
| Investor Relations | 25,270 | 64,706 |
| All Other | 351,885 | 427,810 |
| G&A | 2,058,257 | 1,960,411 |
| Professional fees paid with equity instruments | 113,071 | - |
| Share-Based Compensation | 215,221 | 215,662 |
| G&A Including Other G&A | 2,386,549 | 2,176,073 |
| equity instruments and Listing Fees | | |

* Includes non-legal employee consultants in wages

The Company incurred significant legal costs related to acquisition activity during the 2nd quarter of 2017 and when adjusted for these items has made progress reducing general and administrative costs.

**Liquidity and Capital Resources**

The Company has financed its operations to date through the issuance of common shares and debt.

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Current assets | 5,379,718 | 8,720,279 |
| Current liabilities | 16,807,324 | 15,535,784 |
| Working capital (deficit) | (11,427,606) | (6,815,505) |
| Long-term debt and notes payable | 85,197 | 12,241,905 |
| Share capital | 47,428,491 | 34,282,314 |
| Deficit | (45,515,189) | (41,510,472) |

The Company has funded its deficit primarily through the issuance of share capital and convertible debt, and in addition financed the purchase of the Aurora Property through the issuance of long-term debt and convertible notes. A portion of the deficit relates to both warrant reserves ($3.4 million) and warrant liabilities ($0.2 million).

**Revisions to forward guidance presented in April 2017. See forecast details on next page.**

The Company has revised its revenue and EBITDA guidance for 2017, 2018 and 2019 from that presented earlier in the year as a result of new information and regulatory changes that have been further clarified since the disclosure of the previous forecasts:

a) Since disclosure of the prior revenue and EBITDA guidance, the regulatory environment has become increasing difficult with respect to residency rules in Washington, as such the Company has not included any revenue (other than royalty revenue) attributable to Washington for the 2017-19 revenue and EBITDA estimates. Receipt of any revenues (other than royalty revenue) from BMF is dependent on the residency rules in Washington changing thus allowing the Company to have full ownership and consolidation of its operations with BMF Washington, LLC. Given the amount of time remaining in 2017 and the Company's experience with the pace of regulatory change, management determined not to include any revenue projections for Washington (other than royalty revenue) for these projections. There is no certainty that the rules regarding residency in Washington will change in 2018 or 2019.

b) No revenue is included in the revised revenue and EBITDA guidance for 2017, 2018 or 2019 with respect to JuJu, as the Company has not completed that acquisition and there can be no certainty that such acquisition will be completed.

c) The delay in the Company's receipt of its extraction license has also contributed to a decrease in the 2017 forecast of revenue and EBITDA.

d) The Company experienced a delay in the completion of its acquisitions primarily as a result of regulatory matters, such delay resulted in a strain on the Company's working capital which in turn affected the Company's ability to maintain production at prior levels and to execute on its business plan within the timeframe previously anticipated. This has impacted the Company's prior forecast of revenue and EBITDA for 2017, 2018 and 2019

The information presented above as to estimated revenue and EBITDA is presented on the following basis:

2017 Wholesale business forecasted no internal extraction runs in 3Q - all outsourced $CO_2$ and Distillate and sell through of existing $CO_2$ inventory

a) 2017 estimated revenue and EBITDA is presented on an annualized basis and includes pro forma revenue and EBITDA of Chalice Farms as if the acquisition was completed on January 1, 2017.
    1. Two new retail locations expected to open January 1, 2018 with each location at 66% of total projected revenue during optimal quarterly performance; will ramp up by 40% in the second quarter open and 30% in third quarter open. Retail stores take an entire year to reach operation potential
    2. 40% gross margin assumed
    3. 2017 estimated revenue and EBITDA assume the recognition of previously unrecognized royalties due from BMF Washington for the fiscal years ended December 31, 2016 and 2017. Forecast assumes $1.5M of royalties in 4Q 2017, and for 2018 assumed royalty of $300K/quarter based off standard license agreement.

b) 2017 estimated revenue and EBITDA includes projected revenue related to Nevada for the third and fourth quarter of 2017 using a single extraction machine.

Risks to the forecast:

a) The Company could experience unforeseen delays in receiving a processing license in Portland which will delay the ramp of Revenue and EBITDA for the Wholesale segment
b) The Canadian entity may experience difficulties obtaining its cultivation license which could delay the consolidation of this entity and delay Revenue growth
c) There has historically been a credit risk related to the royalty stream from BMF Washington which could delay the collection of these royalties. Risk of $1.2M in 2018 & 2019
d) Without adequate working capital, the Company may not be able to fully execute on all planned capital expenditures which will affect its ability to achieve its Revenue and EBITDA targets
e) The regulatory structure in Nevada is still evolving and previous experience in other jurisdictions suggests risk of regulatory difficulties which could create supply chain constrictions leading to Revenue and EBITDA shortfalls throughout the forecast period

| $ in Millions USD | FY 2017 Q1 | FY 2017 Q2 | FY 2017 Q3 | FY 2017 Q4 | Forecast FYE 2017 | FY 2018 Q1 | FY 2018 Q2 | FY 2018 Q3 | FY 2018 Q4 | Forecast FYE 2018 | FY 2019 Q1 | FY 2019 Q2 | FY 2019 Q3 | FY 2019 Q4 | Forecast FYE 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | | | | | | | | |
| Greenpoint (Wholesale) | $ 1.6 | $ 1.6 | $ 1.6 | $ 2.3 | $ 7.1 | $ 3.3 | $ 3.9 | $ 4.3 | $ 4.7 | $ 16.3 | $ 5.8 | $ 6.2 | $ 7.0 | $ 7.2 | $ 26.1 |
| Distillate | $ 1.3 | $ 1.3 | $ 0.8 | $ 0.8 | $ 4.3 | $ 1.1 | $ 1.5 | $ 1.6 | $ 1.9 | $ 6.1 | $ 2.5 | $ 2.8 | $ 3.4 | $ 3.4 | $ 12.1 |
| Co2 | $ - | $ - | $ 0.7 | $ 1.0 | $ 1.7 | $ 1.6 | $ 1.6 | $ 1.7 | $ 1.8 | $ 6.6 | $ 2.2 | $ 2.2 | $ 2.3 | $ 2.4 | $ 9.1 |
| Flower | $ 0.2 | $ 0.2 | $ - | $ 0.3 | $ 0.7 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.3 |
| Pre-rolls | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.1 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.1 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.1 |
| Edibles | $ - | $ - | $ 0.1 | $ 0.2 | $ 0.3 | $ 0.4 | $ 0.6 | $ 0.6 | $ 0.7 | $ 2.3 | $ 0.8 | $ 0.8 | $ 0.9 | $ 1.0 | $ 3.6 |
| Chalice (Retail)[1] | $ 1.9 | $ 2.1 | $ 2.1 | $ 2.2 | $ 8.4 | $ 2.8 | $ 2.8 | $ 3.3 | $ 3.3 | $ 12.3 | $ 3.9 | $ 4.4 | $ 4.9 | $ 5.1 | $ 18.2 |
| Washington[2] | $ - | $ - | $ - | $ 1.5 | $ 1.5 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.2 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.2 |
| Canada | $ - | $ - | $ - | $ - | $ - | $ - | $ 0.2 | $ 0.3 | $ 0.4 | $ 0.9 | $ 0.4 | $ 0.5 | $ 0.5 | $ 0.6 | $ 2.0 |
| Nevada | $ - | $ - | $ 0.2 | $ 0.4 | $ 0.5 | $ 0.5 | $ 0.6 | $ 0.9 | $ 1.0 | $ 3.0 | $ 1.0 | $ 1.1 | $ 1.2 | $ 1.2 | $ 4.5 |
| Total Revenue | $ 3.5 | $ 3.7 | $ 3.9 | $ 6.4 | $ 17.5 | $ 7.0 | $ 7.8 | $ 9.1 | $ 9.8 | $ 33.8 | $ 11.4 | $ 12.5 | $ 13.9 | $ 14.4 | $ 52.1 |
| COGS | | | | | | | | | | | | | | | |
| Greenpoint (Wholesale) | $ 1.2 | $ 1.2 | $ 1.0 | $ 1.6 | $ 5.0 | $ 2.2 | $ 2.5 | $ 2.7 | $ 2.9 | $ 10.2 | $ 3.5 | $ 3.7 | $ 4.0 | $ 4.1 | $ 15.3 |
| Chalice (Retail)[1] | $ 1.3 | $ 1.4 | $ 1.4 | $ 1.4 | $ 5.4 | $ 1.8 | $ 1.8 | $ 2.2 | $ 2.2 | $ 8.0 | $ 2.3 | $ 2.6 | $ 2.9 | $ 3.1 | $ 10.9 |
| Washington[2] | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Canada | $ - | $ - | $ - | $ - | $ - | $ - | $ 0.1 | $ 0.2 | $ 0.3 | $ 0.6 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.4 | $ 1.2 |
| Nevada | $ - | $ - | $ 0.1 | $ 0.2 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.5 | $ 0.6 | $ 1.8 | $ 0.6 | $ 0.7 | $ 0.7 | $ 0.7 | $ 2.7 |
| Total COGS | $ 2.5 | $ 2.6 | $ 2.5 | $ 3.2 | $ 10.8 | $ 4.3 | $ 4.8 | $ 5.6 | $ 6.0 | $ 20.7 | $ 6.7 | $ 7.3 | $ 8.0 | $ 8.3 | $ 30.3 |
| Gross Profit | | | | | | | | | | | | | | | |
| Greenpoint (Wholesale) | $ 0.3 | $ 0.3 | $ 0.6 | $ 0.8 | $ 2.0 | $ 1.2 | $ 1.5 | $ 1.6 | $ 1.8 | $ 6.1 | $ 2.3 | $ 2.5 | $ 2.9 | $ 3.0 | $ 10.8 |
| Chalice (Retail)[1] | $ 0.7 | $ 0.7 | $ 0.7 | $ 0.8 | $ 2.9 | $ 1.0 | $ 1.0 | $ 1.2 | $ 1.2 | $ 4.3 | $ 1.5 | $ 1.7 | $ 2.0 | $ 2.1 | $ 7.3 |
| Washington[2] | $ - | $ - | $ - | $ 1.5 | $ 1.5 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.2 | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.2 |
| Canada | $ - | $ - | $ - | $ - | $ - | $ - | $ 0.1 | $ 0.1 | $ 0.2 | $ 0.3 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.7 |
| Nevada | $ - | $ - | $ 0.1 | $ 0.1 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.4 | $ 0.4 | $ 1.2 | $ 0.4 | $ 0.4 | $ 0.5 | $ 0.5 | $ 1.8 |
| Total Gross Profit | $ 1.0 | $ 1.1 | $ 1.4 | $ 3.2 | $ 6.7 | $ 2.7 | $ 3.0 | $ 3.5 | $ 3.9 | $ 13.1 | $ 4.7 | $ 5.2 | $ 5.8 | $ 6.1 | $ 21.8 |
| Operating Expenses | | | | | | | | | | | | | | | |
| Sales and Marketing | $ 0.4 | $ 0.4 | $ 0.4 | $ 0.4 | $ 1.6 | $ 0.4 | $ 0.4 | $ 0.4 | $ 0.4 | $ 1.7 | $ 0.4 | $ 0.4 | $ 0.4 | $ 0.4 | $ 1.8 |
| CHQ | $ 0.7 | $ 0.7 | $ 0.7 | $ 0.7 | $ 3.0 | $ 0.7 | $ 0.7 | $ 0.7 | $ 0.7 | $ 3.0 | $ 0.7 | $ 0.7 | $ 0.7 | $ 0.7 | $ 3.0 |
| Retail G&A | $ 0.3 | $ 0.3 | $ 0.3 | $ 0.3 | $ 1.2 | $ 0.3 | $ 0.4 | $ 0.4 | $ 0.4 | $ 1.4 | $ 0.5 | $ 0.5 | $ 0.5 | $ 0.5 | $ 2.0 |
| Prod & Mfg | $ 0.5 | $ 0.5 | $ 0.5 | $ 0.5 | $ 1.8 | $ 0.5 | $ 0.5 | $ 0.6 | $ 0.6 | $ 2.0 | $ 0.6 | $ 0.6 | $ 0.6 | $ 0.6 | $ 2.2 |
| Other G&A | $ 0.1 | $ 0.1 | $ 0.1 | $ 0.1 | $ 0.5 | $ 0.1 | $ 0.1 | $ 0.2 | $ 0.2 | $ 0.6 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.2 | $ 0.7 |
| Total Operating Expenses | $ 2.0 | $ 2.0 | $ 2.0 | $ 2.0 | $ 8.2 | $ 2.1 | $ 2.1 | $ 2.2 | $ 2.2 | $ 8.6 | $ 2.4 | $ 2.4 | $ 2.4 | $ 2.4 | $ 9.6 |
| EBITDA | $ (1.0) | $ (1.0) | $ (0.6) | $ 1.1 | $ (1.5) | $ 0.6 | $ 0.9 | $ 1.3 | $ 1.7 | $ 4.5 | $ 2.3 | $ 2.8 | $ 3.4 | $ 3.7 | $ 12.2 |

## Going Concern

The Company wishes to emphasize the importance of the going concern assumption which can be referenced at note 2 of the Interim Condensed Consolidated Financial Statements for the three and six months ending June 30, 2017.

## Liquidity, Financing and Capital Resources

Cash used in operations was $2,518,607 during the six months ended June 30, 2017 compared to $3,666,550 during the six months ended June 30, 2016. The Company raised $1,338,140 in financing activities during the six months ended June 30, 2017 compared to a raise of $5,762,209 during the six months ended June 30, 2016.

Asset purchases and deposits paid totalled $2,663,687 during the three months ended June 30, 2017 compared to $2,128,776 during the three months ended June 30, 2016.

As of June 30, 2017, the Company had $96,309 of cash in hand. The Company’s authorized share capital is an unlimited number of which 157,264,094 were issued and outstanding at June 30, 2017. Shortly after the balance sheet date the Company received excess proceeds of its recently completed private placement subscription receipts totalling $3.4M.

As previously mentioned, the Company has primarily used share capital and debt 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, Q2 2016, Q3 2016 and Q4 2016 used to replenish cash and fund operational needs.

## 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

Refer to note 17 of the Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2017.

## Future accounting pronouncements

Refer to note 5 of the Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2017.

## 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

The carrying amounts of cash, accounts receivable, accounts payable, and accrued liabilities 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 June 30, 2017, 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 13 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 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.

(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.

(e) Default Risk

The Company has three debt obligations due in September of 2017. The first is a secured promissory note in the amount of USD $1,500,000 which is secured by the Aurora property. The second is a secured debenture in the amount of USD $1,540,000 the Aurora property. The third is a senior unsecured convertible debenture in the amount of CAD 4.8M. At this time, The Company does not have the capital to settle these obligations. However, The Company believes that through the sale of the Aurora property for USD 2.2M and the conversion to equity of the remaining USD $1.1M the company will be able to meet the debt requirements of the first debenture. (Note the conversion of $1.1M will require an issuance of common shares at a 10 day VWAP prior to closing on August 30th. These debenture holders will also get a make whole provision in cash that will be settled in 12 months. The Company is working diligently to modify all existing debt obligations in order to continue meeting its obligations into the future.

**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 28 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. Six states, Colorado, Washington, Oregon, California, Nevada, Massachusetts, and the District of Columbia, 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.

***Operation 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 could 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 June 30, 2017 of US$45,515,189. The Company cannot assure that it can achieve profitability 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, 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 pursue select strategic acquisitions 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***

A 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 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 to 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.

***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.

**Outstanding share data**

Common shares issued and outstanding as at June 30, 2017 are described in detail in Note 16 to the condensed consolidated financial statements for the six months ended June 30, 2017. Shares outstanding as of August 29, 2017 are 369,535,696.