GOLDEN LEAF HOLDINGS LTD.

13315 Airport Way Suite 700
Portland, OR 97230

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2018

Date: May 30, 2018

General

Golden Leaf Holdings Ltd (the "Company" or "Golden Leaf") is a publicly traded corporation, incorporated in Canada, and is traded on the Canadian Securities Exchange under the symbol "GLH" and on the OTCQB under the symbol "GLDFF". 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.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars, except share amounts. This MD&A provides information for the quarter ended March 31, 2018. The Annual Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors as of May 24, 2018. The Annual Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and include the accounts of the Company and its wholly-owned principal subsidiaries as detailed in Note 5 to the U.S. Annual Financial Statements. All inter-company balances and transactions have been eliminated on consolidation. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and annual information forms are available on-line at www.sedar.com and on our website at www.goldenleafholdings.com.

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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Certain forward-looking statements in this MD&A include, but are not limited to: assumptions and expectations described in the Company's critical accounting policies and estimates; the Company's expectations regarding the adoption and impact of any accounting pronouncements; the Company's expectations regarding legislation, regulations and licensing related to the cultivation, production and sale of cannabis products by the company’s wholly-owned subsidiaries; the expected number of users of cannabis or the size of cannabis markets in the jurisdictions in which the Company operates or plans to operate; the potential time frame for the passing of legislation to legalize recreational or medical cannabis use in the jurisdictions in which the Company operates or plans to operate, potential form that final legislation will take; the completion of construction of its cultivation facility in Oregon; the completion of facility improvements needed to obtain its extraction license in Oregon; investments and capital expenditures; the ability to enter and participate in international market opportunities; the timing of harvests; the launch of new products and markets; the Company’s expectations with respect to the company’s future financial and operating performance; product sales expectations; production capacity expectations; and the Company’s ability to achieve profitability without further equity or other forms of financing.

The words “believes”, “anticipates”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, or “intends”, or a variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results “may”, “could”, “would”, “might”, or “will” be taken, occur or to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled “RISKS AND UNCERTAINTIES”. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

RECENT HIGHLIGHTS

Multi-Unit Retail Franchising

On March 27, 2018, the Company announced it had signed a Letter of Intent with BlackShire Capital Corp. (“BlackShire”), a Canadian Private Equity firm focused on the cannabis sector, to launch the Chalice Farms franchise model.

The Company has completed the requirements to file Franchise Disclosure Documents in Canada and the U.S. and is working towards finalizing definitive agreements.

New Product Launch – Fruit Chews

On March 8, 2018, the Company launched a new line of cannabis-infused edible Fruit Chews in Oregon under the “Golden” label. Featuring a combination of premium cannabis oil, real fruit and restorative ingredients, the new vegan fruit chews offers four bold flavors for consumers to choose from. The Company expects to launch this product in Nevada in May 2018.

First Shipment of Genetics Arrives at Cultivation Facility in St. Thomas, Ontario, Canada

On January 25, 2018, the Company announced the arrival the first plants at its advanced indoor cultivation facility in St. Thomas, Ontario. The plants are growing well, and the first harvest is expected in late May 2018.

Golden Leaf Holdings opens new dispensary in downtown Portland, Oregon

On December 14, 2018, the Company opened a new Chalice Farms dispensary in the popular waterfront area of the Willamette River in downtown Portland, Oregon. The location was strategically selected because of proximity to tourism and in hopes of attracting a whole new clientele to the Company's brand.

Golden Leaf signs letter of intent to acquire California Cannabis operation

On April 24, 2018, the Company announced the signing of a letter of intent to acquire a cannabis dispensary currently in operation in Northern California. Under the terms of the LOI, Golden Leaf would pay $1.25 million USD in cash upfront and $500,000 in GLH stock, with additional earn-out payments up to $8 million USD based on future revenue thresholds.

Golden Leaf Holdings Opens New Chalice Farms Dispensary in Happy Valley, Oregon

On May 1, 2018 the Company announced the opening of it's long awaited Happy Valley location, which is the seventh dispensary location.

Golden Leaf signs letter of intent to acquire Nevada and California Cannabis Cultivation Facilities

On May 17, 2018 the Company announced the signing of a letter of intent acquire two large cannabis cultivation facilities and their associated licenses, one in Northern Nevada and another in Northern California, that are owned by the same operators. Under the terms of the LOI, Golden Leaf would pay US$8.5 million in cash at closing, plus an as of yet undetermined number of shares that equals 25% of the pro forma post acquisition total issued and outstanding shares of common stock of GLH on the closing date.

Subsequent Events

Refer to note 24 of the Consolidated Financial Statements.

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.

DESCRIPTION OF THE BUSINESS

Golden Leaf is a leading offering of consumer-conscious retail dispensaries and Cannabis products. The Company has investments in cultivation, production, and supply chain and sells its products through a combination of its own retail dispensaries, as well as in the wholesale market. It has business operations in Canada, Nevada and Oregon. The Company's operations include:

Cultivation

The Company has cultivation sites in Canada and Nevada, as well as one in Oregon which is under construction. It's Canadian cultivation facility is capable of producing approximately 40Lbs of flower per month. It's Nevada cultivation facility is capable of producing approximately 40Lbs of flower per month. Purchases of flower and trim from other growers is necessary in order to supplement the Company's demand for its oil and edibles products in each jurisdiction, and the Company leverages key relationships with high quality cultivators for this purpose.

Production and Supply Chain

The Company has production and supply chain infrastructure in Canada, Nevada and Oregon. Work on the Company's production facility in Portland is nearing completion, and approval for licensing is expected in June 2018. To support production needs for its oil and edibles products in Oregon, the Company will continue to source oil from third party processors, until licensing approval is granted.

As of Mar 31, 2018, the Company produces three main types of products: cannabis flower, cannabis oils and cannabis edibles. The Company's high-end distillate product is branded as Private Stash™ and its oil and edibles products are offered through the Golden™, Proper™, Jackpot™ and Chalice™ brands. The oil for these products is 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.

The Company's branded products are sold in over half of the licensed dispensaries in Oregon, as well as several dispensaries in Nevada. The Company is also preparing to sell selected branded products in Canada in anticipation of recreational legalization in 2018. As the adult-use market grows, the Company expects market share to increase with the growing preference for oils and edibles.

Retail

The Company owns and operates a network of seven retail dispensaries in Oregon, six of which are under the flagship dispensary brand "Chalice Farms" and one branded as "Left Coast Connection".

Product Development and Marketing

The company's Oregon operations include a Product Development and Marketing team which focuses on developing high quality, scalable oil and edible products, supported by consumer-conscious branding that appeals to various market segments. 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. This requires specialized skills in cultivation, extraction and refining. 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's oil products are sold under the brand names Golden™, Gold Label Reserve™, Private Stash™, Proper™, and Jackpot™

Specialized Skill & Knowledge

The Company leverages a strong management team with experience in cannabis, consumer packaged goods, as well as experience in large multinationals. Employees include 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 Nike, Walt Disney, Oracle, Cisco Systems, IBM, Daimler, Organically Grown Produce, Deloitte, Moss Adams, and KinderCare. Golden Leaf is dedicated to partnering with industries, communities and regulators.

Competitive Conditions

The market for flower and oil extraction products is rapidly evolving and many players continue to enter the market. In addition, the market for flower and trim is commoditizing in certain jurisdictions. Some fragmented business intelligence is available; however, the majority of the Company's competitors have been continuing to create downward price pressure as the market sees increasing players in the branded oil space. GPO and other competitors like Select Strains have to rely upon sources of trim from farmers. Consumer demand for high quality distillate oil is strong. The Company's only supplier of this product in Oregon is the primary supplier for many brands within the state and represents a concentration of risk. The Company will be able to mitigate this risk to some extent when its production license in Portland is approved. The Company continues to develop expertise to create products internally with a scalable methodology that focuses on controlling its supply chain and lowering 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, over 50% of the cost of a gram of oil is paid to contract process the trim into oil. As of March 31, 2018, the cost to produce 1 gram of distillate oil in finished good form is estimated at approximately $19. As much as $10 of this is trim and processing cost, depending on yields and trim quality. The remainder is labor related to packaging and filling cartridges, as well as the cost of cartridges and packaging for each finished good.

Economic Dependence

The Company is not substantially dependent on one single large contract. It serves a broad-based platform of dispensaries in Oregon and Nevada, and has medical consulting revenues in Canada. 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. The Company does depend heavily on a single supplier to process its trim into distillate oil. There are no reasons to believe this supplier relationship is at risk, and the Company maintains a quality relationship with this supplier.

Employees and Management

At Mar 31, 2018, the Company had approximately 166 employees after the acquisition of Chalice Farms, Medical Marihuana Group Corporation ("MMGC"), and Medical Marijuana Consulting Corporation, Ltd. ("MMCC").

As of the date of this report, William Simpson serves as the Company's CEO, Craig Eastwood serves as the Company's CFO, and Michael Genovese serves as COO. Phillip Millar serves as President of Medical Marihuana Group Corporation and Medical Marijuana Consulting Corporation, Ltd. in Canada. John Magliana serves at the Company's General Counsel. Ryan Purdy, VP of Operations oversees the Company's Product Development, Production and Supply Chain operations in all jurisdictions. Andrew Marchington, VP of Finance, oversees the finance, treasury and accounting operations of all business units. Erin Hills, VP of Retail operations, oversees the Retail dispensary network. Chris Frye, VP of Nevada Operations oversees the Company's Nevada operations.

Foreign Operations

As of Mar 31, 2018, the Company's operations are in Canada and the United States.

Principal Markets

As of Mar 31, 2018, the Company operates in three cannabis jurisdictions: Canadian Medical market, and Oregon and Nevada Recreational markets. As of Mar 31, 2018, a substantial portion of the Company's activities relate to its Oregon operations, as Canada and Nevada's adult use market is either pending legalization or is in its early growth stages. The Company is licensed to distribute its products to wholesale dispensaries in Oregon and Nevada. In Oregon, over 500 dispensaries are licensed to sell adult-use cannabis to medical patients and adult-use customers. In Nevada there will be a maximum of approximately 132 dispensaries licensed to sell adult-use cannabis to medical and adult-use customers.

Trends, Commitments, Events or Uncertainties

The District of Columbia ("**D.C.**") and 29 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 of federal resources to prosecute people with serious illnesses or their caregivers who are complying with state medical marijuana laws. In January 2018, the U.S. Attorney General, Jeff Sessions announced the rescission of the "Cole Memorandum" which escalated the need for policy reform at the Federal level. In April 2018, Colorado's Senator Cory Gardner struck a deal with President Trump agreeing to unblock DOJ nominations in Colorado in exchange for Federal congressional efforts to protect States that have legalized marijuana.

The Rohrabacher-Farr amendment was 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.

Marijuana remains a Schedule I substance under U.S. federal law. However, 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 "MRB's", 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). This guidance was published on February 14, 2014 and requires banks providing such services to monitor strict compliance with FinCEN's guidance. This requires investment in monitoring and compliance staff, and large national banks don't appear to want to make such an investment, nor expose themselves to potential risk of prosecution from non-compliant businesses they might serve. FinCEN last reported 368 Banks and financial institutions doing business with MRB's. There has been no change in U.S. federal banking laws notwithstanding that 29 states and D.C. have legalized medical marijuana and Colorado, Washington, Alaska, Oregon, D.C, California, Nevada, Maine, and Massachusetts have legalized retail-recreational marijuana use.

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.

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 operates through four banks 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 recently hired a Director of Compliance to ensure the Company is always monitoring, assessing, and taking a forward-facing position concerning changing state regulations, federal guidance, and banking challenges in all current and future jurisdictions.

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 Markets*" and "*Risk Factors*". Readers are strongly encouraged to carefully read all of the risk factors described herein.

Legal Proceedings

Subsequent to the balance sheet date the Company settled an employment related claim which arose during 2017 by paying $45,000 of cash which has been accrued for at December 31, 2017.

The Company is currently finalizing a settlement with a former employee for an employment related claim which was made during 2017. The Claim alleges damages of $376,003, not including penalties or attorney's fees. The Company denies any liability to the employee but expects to settle the claim by transferring to the former employee excess production equipment valued at $220,000. This amount has been accrued for at December 31, 2017.

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC, an Oregon limited liability company (collectively, the "Defendants"), were sued in the Circuit Court of the State of Oregon in Lane County on November 7, 2017 by the plaintiff, 3590 West 3rd Owner, LLC, an Oregon limited liability company ("Plaintiff"). The claims made by Plaintiff arise out of a lease between the parties and are breach of contract, foreclosure of landlord's lien and foreclosure of security interest. The amount of damages claimed are $3,210,327, plus interest and certain other fees and costs. The Defendants deny all of the claims made and are preparing an Answer to file in response to the Plaintiff's Complaint against the Defendant's. The parties participated in a judicial settlement conference on Wednesday, March 14, 2018 in Portland, Oregon, for the purpose of attempting to reach a mutually agreeable settlement to resolve this matter. This attempt to settle was unsuccessful and Plaintiff filed an Amended Complaint on April 17, 2018. The Company filed an Amended Answer on May 1, 2018. The Company assesses the likelihood of a potential lawsuit as neither remote nor probable, and therefore has not recorded a provision for this loss at March 31,2018.

Selected Financial Information (US$)

	For the 3 months ended	
	March 31, 2018	March 31, 2017
Total revenues	3,200,267	2,259,094
Gross profit	352,847	238,399
Total expenses	4,599,826	2,100,719
Comprehensive gain (loss)	8,112,710	(2,235,310)
Basic and diluted loss per share	0.02	(0.02)
Weighted average number of common shares outstanding	534,900,058	118,346,097
	as of period ended	
	March 31, 2018	December 31, 2017
Total Assets	92,559,892	75,784,781
Long-Term Financial Liabilities	21,948,748	35,360,225

Overall Performance

Three-Month Comparison

The Company generated revenues of $3,200,267 for the three months ended March 31, 2018 compared to $2,259,094 for the three months ended March 31, 2017. The Company reported a net gain of $8,112,710 for the three months ended March 31, 2018 compared to a net loss of $2,235,310 for the three months ended March 31, 2017.

Gross margin increased to $352,847 for the three months ended March 31, 2018, up from $238,399 for the three months ended March 31, 2017. The Company spent $383,301 on sales and marketing (2017: $278,923), and $2,795,794 on general & administration (2017: $1,598,273).

The Company's total assets were $92.6M on March 31, 2018 (December 31, 2017: $75.8M). The Company's total liabilities were $39.3M on March 31, 2018 (December 31, 2017: $58M). Shareholders' equity after the deficit was $53.3M on March 31, 2017 (December 31, 2017: $17.8M).

Commentary

During the first quarter of 2018 the Company completed its bought deal financing resulting in proceeds of C$17.5M on January 31, 2018, in addition to receiving significant proceeds from warrant exercises, resulting in an ending cash balance of $22.1M. With an appropriate level of capitalization, the Company turned its sights to strategic capital investment initiatives and optimization of its current operations.

Key initiatives during the first quarter:

- Revenue growth and cost optimization for the Company's 6 retail dispensary locations
- Strategic planning for 2018-2019 corporate initiatives
- Continued branding refreshment initiatives with the Company's third-party marketing firm
- Continued progress on the build out of the Company's Oregon oil processing facility
- Targeting strategic opportunities in existing and new jurisdictions

Revenues in the first quarter ended March 31, 2018 totaled $3.2M, an increase of $0.9M compared to the first quarter ended March 31, 2017. The increase in revenue is primarily attributable to the addition of the Chalice farms retail revenue stream, the addition of the Company's medical consulting revenues, and the Company's Nevada wholesale operations, offset by declines in wholesale revenues in Oregon.

Operating expenses were $4.7M for the first quarter ended March 31, 2018 compared to $2.2M in the first quarter ended March 31, 2017, largely driven by the addition of a large retail business unit which incurs proportionally more operating expenses than the wholesale business unit which was operating during the first quarter of 2017, as well as a large non-recurring stock compensation expense.

The Company's current assets increased to $28.4M at March 31, 2018 compared to $11.6M at December 31, 2017, largely as a result of the bought deal financing which was completed on January 31, 2018 in addition to proceeds from warrant exercises. Total assets increased to $92.6M at March 31, 2018 compared to $75.8M at December, 31 2017, also due primarily to the bought deal financing completed in January.

The Company's long-term financial liabilities decreased to $21.9M at March 31, 2018, compared to $35.3M at December 31, 2017 due primarily to gains on the fair market value of debt liabilities of convertible debentures.

Quarterly Results ($)

The Company's revenue growth over the fourth quarter of 2017 is primarily driven by the addition of the medical consulting revenues from the Company's medical consulting subsidiary in Canada to the Company's consolidated results as of January 1, 2018.

Increase in gross margins is primarily attributable to the addition of gains on fair market value of biological assets from the Company's cultivation subsidiary.

Total expenses have increased due primarily to increased wages included in G&A expense.

Profit and Loss	For the three months ended:							
	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018
	restated	**restated**		**restated**	**restated**	**restated**		
Product sales	2,298,303	2,191,596	434,968	2,259,094	2,089,393	3,078,891	2,983,854	3,200,267
Royalties	160,000	240,000	19,934	-	-	50,000	1,050,066	-
Total Revenue	2,458,303	2,431,596	454,902	2,259,094	2,089,393	3,128,891	4,033,920	3,200,267
Cost of sales expense	2,241,003	1,914,923	1,625,444	2,020,695	1,687,269	2,343,083	3,752,213	2,847,420
Gross profit	217,300	516,673	(1,170,542)	238,399	402,124	785,808	281,707	352,847
Total expenses	2,534,469	2,280,711	3,863,076	2,155,139	2,657,911	4,243,343	2,611,608	4,599,826
Interest expense	424,185	307,179	355,697	545,021	312,411	556,427	135,921	649,258
Accretion interest	273,925	295,109	76,004	-	-	-	-	-
Impairment of BMF related assets	81,060	81,060	81,061	27,422	27,422	27,422	14,900,291	-
Other loss (income)			256,203	925	161,903	37,296	237,289	(159,126)
(Gain)/Loss on changes in fair value of warrant liabilities	(1,608,647)	(414,615)	609,143	(155,685)	(82,694)	(2,841,983)	10,794,940	(6,212,222)
(Gain)/Loss on changes in fair value of liabilities	-	-	(4,234,000)	(44,693)	(1,541,097)	(1,148,020)	15,030,070	(7,128,616)
Loss before income taxes	(1,487,692)	(2,401,772)	(17,096,679)	(2,289,730)	(1,133,732)	(2,454,498)	(50,051,152)	8,131,827
Incomes tax expense (benefit)	-	-	74,136	-	-	-	143,230	-
Net income / (loss)	(1,084,807)	(2,622,335)	(17,250,510)	(2,289,730)	(1,133,732)	(2,454,498)	(50,194,382)	8,131,827
Other Comprehensive (Income)/Loss	-	-	530,000	-	-	-	(539,828)	-
Comprehensive Income/(Loss)	(1,084,807)	(2,622,335)	(17,780,510)	(2,289,730)	(1,133,732)	(2,454,498)	(49,654,554)	8,131,827
Basic and diluted earnings / (loss) per share	(0.01)	(0.03)	(0.19)	(0.02)	(0.01)	(0.01)	(0.12)	0.02
Weighted average number of common shares outstanding	95,248,704	95,965,147	98,115,626	118,346,097	143,604,908	345,710,474	435,334,457	534,900,058

Adjusted EBITDA

Adjusted EBITDA		
	For the three months ended March 31,	
	2018	2017
Revenue	$ 3,200,267	$ 2,259,094
Cost of sales expense	2,847,420	2,020,695
Less Inventory adjustments	-	-
Gross profit	$ 352,847	$ 238,399
Total operational expenses	4,599,826	2,155,139
Less Non-cash expenses of dep and amort	(345,279)	(62,175)
Less non-recurring stock compensation expense	(1,075,452)	-
Adjusted total operational expenses	$ 3,179,095	$ 2,092,964
Adjusted EBITDA operational Loss	$ 2,826,248	$ 1,854,565

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

For the three-month period ended March 31, 2018, the Adjusted EBITDA loss increased to $2.8M as compared to an Adjusted EBITDA loss of $1.9M during the same period in 2017. This increase is primarily attributable to increased wages expense within G&A.

Non-IFRS Disclosures

Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation, amortization, less certain 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 IFRS 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 IFRS.

Summary of G&A detail

	General & Administrative Expense Summary	
	Q1 2018	Q1 2017
Wages and Benefits*	1,336,316	518,271
Consulting	342,279	62,630
Legal	256,819	355,587
Bad Debt	65,833	-
Rents	153,349	46,690
Travel & Entertainment	94,602	52,719
Audit	74,733	18,781
Investor Relations	87,566	40,894
All Other	384,299	502,700
G&A	2,795,794	1,598,272
Professional fees paid with equity instruments	-	54,420
Share-Based Compensation	1,075,452	161,348
G&A Including Other G&A equity instruments and Listing Fees	3,871,246	1,814,040

* Includes certain non-legal employee consultants in wages

Liquidity and Capital Resources

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

	March 31, 2018	March 31, 2017
Current assets	28,409,986	6,142,205
Current liabilities	3,979,929	11,274,494
Working capital (deficit)	24,430,057	(5,132,289)
Long-term debt and notes payable	35,297,876	8,683,459
Share capital	135,905,669	40,970,021
Deficit	(88,915,688)	(43,800,202)

The Company has funded its deficit primarily through the issuance of share capital and convertible debt. A portion of the deficit relates to both warrant reserves ($4.1M) and warrant liabilities ($8.8M).

The company has lease commitments related to office, production and retail rents as follows:

2018	$	1,102,958
2019		1,461,940
2020		1,159,590
2021		873,150
2022		347,515
Thereafter		1,051,734
	$	5,996,887

Going Concern

The Company wishes to emphasize the importance of the going concern assumption which can be referenced at note 2 of the Consolidated Financial Statements for the year ended December 31, 2017.

Liquidity, Financing and Capital Resources

Cash used in operations was $3.7M during the three months ended March 31, 2018 compared to $2.7M during the three months ended March 31, 2017. Cash provided by financing activities was 20.2M in financing during the three months ended March 31, 2018 compared to cash used in financing activities of .5M of during the three months ended March 31, 2017.

As of March 31, 2018, the Company had $22.1M of cash on hand. The Company's authorized share capital is an unlimited number of common shares which 568,724,061 common shares were issued and outstanding at March 31, 2018. The Company received C$17.5M of proceeds from its most recent bought deal financing.

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 18 of the interim condensed consolidated financial statements for the three months ended March 31, 2018.

Future accounting pronouncements

Refer to note 5 of the Condensed Consolidated Financial Statements for the twelve months ended December 31, 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.

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 December 31, 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 – Quoted 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 Fair Value Through Profit or Loss 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 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:

(a) Credit risk

The Company's principal financial assets are cash held at a highly rated financial institutions 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.

(b) 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.

(c) 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.

(d) Default Risk

As of the date of this report the Company has convertible debentures of C$14.1M due on from its latest placement in November 2017. The Company anticipates that all of these debentures will convert within their maturity periods but cannot guarantee it will have sufficient cash reserves to settle these obligations when due given current projections.

Restriction on Additional Indebtedness

The secured convertible debentures issued by the Company in November 2017 restrict the Company and its subsidiaries from incurring or assuming additional indebtedness or creating, assuming or permitting to exist any lien or encumbrance on any assets or property of the Company or its subsidiaries, subject to limited exceptions.

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 29 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 significant 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. Eight states, Colorado, Washington, Oregon, California, Nevada, Massachusetts, Alaska 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 Company's jurisdictions is dynamic and reflects the uncertainty and search for novel solutions in the highly-regulated cannabis industry. There can also be no assurance that local governments will not 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.

Risk Related to the Common Shares of the Company

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.

In connection with the Company's acquisition of Chalice Farms, the Company was required to file a business acquisition report by September 23, 2017. The Company has yet to file this report. Due to this, the Company is in default of Canadian securities laws by the Canadian securities commissions in the provinces where the Company is a reporting issuer, until the Company files the report. This could have an adverse effect on the Company.

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.

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 December 31, 2017 of US$97.4M. 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. The majority 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 March 31, 2018 are described in detail in Note 13 of the Consolidated Financial Statements for March 31, 2018. Shares outstanding as of May 30, 2018 are 576,338,334.