

GOLDEN LEAF HOLDINGS LTD.

8089 SW Cirrus Dr, Building 19
Beaverton, Oregon, 97008

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

Date: November 5, 2018

General

Golden Leaf Holdings Ltd ("Golden Leaf" or the "Company") is a publicly traded corporation, incorporated in Ontario, 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, its U.S. corporate office is located at 8089 SW Cirrus Dr, Building 19, Beaverton, Oregon, 97008.

Unless otherwise indicated, all financial information in this Management's Discussion and Analysis ("MD&A") is reported in United States dollars, except share amounts. This MD&A was prepared with reference to National Instrument 51-102 – *Continuous Disclosure Obligations of the Canadian Securities Administrators*. This MD&A provides information for the three and nine months ended September 30, 2018 and up to and including November 5, 2018. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2018, together with the related notes, as well as the audited consolidated financial statements for the years ended December 31, 2017 and December 31, 2016, together with the related notes.

The unaudited interim condensed consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and were approved by the Company's Board of Directors on November 4, 2018. The accompanying interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and include the accounts of the Company and its wholly-owned subsidiaries as detailed in Note 5 to the annual consolidated 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 and significant accounting policies have remained substantially unchanged since the audited consolidated financial statements for the years ended December 31, 2017 and are still applicable to the Company unless otherwise indicated in Note 5 of the unaudited Interim Condensed Consolidated Financial Statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains “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: statements regarding increasing market share; 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 “Risk Factors”. 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

Golden Leaf signed a non-binding letter of intent to merge with Terra Tech

On November 5, 2018, the Company announced that it has signed a non-binding letter of intent to merge with Terra Tech Corp. (“Terra Tech”). The transaction is subject to several regulatory approvals, and the teams of both companies are collaborating in anticipation of joining forces.

Golden Leaf Launches Golden Fruit Chews into the Nevada Market

On November 5, 2018, the Company announced launch of four flavours of Golden Fruit Chews in Nevada, complementing the Company’s existing array of product offerings at the wholesale level. The Company currently distributes its existing products to approximately 40% of dispensaries in Nevada and expects to leverage its relationship to increase product market share.

Golden Leaf acquires cultivation license for Bald Peak facility in Oregon

On October 30, 2018, the Company announced that it received its cultivation license from the Oregon Liquor Control Commission (“OLCC”) for its much anticipated Bald Peak facility in Oregon. Construction of the facility is substantially complete, with the build-out of an adjacent shop and nursery scheduled for completion by the end of the first quarter and second quarter of 2019, respectively.

Golden Leaf’s subsidiary, Medical Marijuana Group Corp. receives Sales License from Health Canada

On September 21, 2018, the Company’s wholly-owned subsidiary, Medical Marijuana Group Corp. (“MMG”), received its Sales License from Health Canada, following MMG’s first cannabis harvest in early July 2018. Pre-sold inventory was immediately moved to wholesale buyers.

Golden Leaf renews its Oregon licenses

On September 21, 2018, the Company’s Oregon licenses for wholesale and processing were renewed with the OLCC.

Golden Leaf adds Chief Marketing and Sales Officer to business development team

On September 6, 2018, the Company announced that it named Jeff Yapp as its new Chief Marketing and Sales Officer. In his new role, Mr. Yapp will be responsible for setting the Company’s global retail and franchising strategy, and overseeing the Company’s wholesale revenue, marketing and public relations initiatives.

Golden Leaf signs agreement to acquire a combined cultivation, production and retail license in California

On August 16, 2018, the Company signed a definitive agreement to acquire a combined cultivation, production and retail license in California. Under the terms of the Contingent Asset Purchase Agreement (“Contingent APA”), upon closing Golden Leaf will acquire the multi-use combined cultivation, production and retail license in Northern California, dubbed a “Sweet 16” license, as well as certain assets of the seller, including cash, inventory, equipment and contractual rights, for US\$7.14M, consisting of US\$1.25M in cash at closing and US\$0.5M common shares of the Company, based on the VWAP for the 30 days immediately preceding the closing date. The balance of the purchase price of US\$5.39M is cash earn-out consideration to be paid over time based upon the net wholesale and net retail revenues generated from the Company’s San Jose facility. The lease is at market rates and the initial term of the lease agreement is for a period of five years. Closing of the transaction is subject to customary contingencies, including licensing approvals.

Golden Leaf operates a dispensary in Northern California

In conjunction with the Contingent APA above, the Company signed the Consulting Agreement effective September 1, 2018 through the close date of the acquisition. Under the terms of the Consulting Agreement, the Company provides working capital and business services to the retail cannabis operation in San Jose for a monthly compensation fee up to \$150,000 per month capped at income generated by the dispensary. Income from the dispensary in excess of \$150,000 monthly fee, if any, will be deposited into a joint bank account and is payable to Golden Leaf as a bonus upon termination of the Contingent APA or the close of the transaction. If the Company incurs losses from dispensary operations, such losses will be forgiven upon termination of the Contingent APA or the close of the transaction.

Golden Leaf signs agreement to acquire Tahoe – a leading Nevada producer

On August 10, 2018, Golden Leaf signed a definitive agreement to acquire the assets of Tahoe Hydroponics Company and 11T Corp (collectively, "Tahoe"). Tahoe is an award-winning world-class premium cultivator with strong brand recognition. Under the terms of the Asset Purchase Agreement, the Company will acquire all Nevada and California assets of Tahoe for a purchase consideration of \$8.5M in cash and common shares of the Company that would result in approximately 25% of the combined company being owned by Tahoe shareholders, based on a 20-day volume-weighted average price ("VWAP") for the 20 days prior to closing. The share consideration will be released over 18 months, with a portion subject to an earnout. The agreement remains subject to certain customary conditions, including the applicable regulatory approvals, as well as the approval of the Nevada Department of Revenue.

Golden Leaf Holdings receives city regulatory license for extraction facility in Portland

On August 2, 2018, Golden Leaf received its city regulatory license to operate its extraction facility in the city of Portland, Oregon. The required modifications to the extraction facility have been completed, and the facility was approved to extract cannabis oil. Immediately upon receipt of the city's licence, the Company's production team began operating the extraction equipment.

Golden Leaf introduces new cannabis concentrate products to Nevada and receives State of Nevada approval of the production facility

On July 16, 2018, the Company announced the introduction of several cannabis concentrate product lines in the state of Nevada through its wholly-owned subsidiary, Greenpoint Nevada. The product launch includes its Golden tinctures, offered in orange, cherry, mint, and strawberry flavors, and Golden Private Stash distillate vape cartridges. On September 27, 2018, State of Nevada approved the Company's menu, equipment and floorplan for Golden Fruit Chew production to begin.

Golden Leaf provides franchising update

In July 2018, the Company completed its franchising documents authorizing it to offer franchising in Canada for its Chalice Farms retail brand. Franchising documents for the United States have been prepared and are in process for approval. The Company no longer intends to partner with BlackShire Capital and is engaged in discussions with several other prospective franchising partners regarding the Chalice Farms franchise model.

Subsequent Events

Refer to Note 22 of the Interim Condensed Consolidated Financial Statements.

DESCRIPTION OF THE BUSINESS

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 GLHI, 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.” (“GLH”).

The registered and head office of the Company is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1, its U.S. corporate office is located at 8089 SW Cirrus Dr, Building 19, Beaverton Oregon, 97008, and its principal place of business is located at 13315 NE Airport Way STE 700, Portland, Oregon 97230.

Golden Leaf is a leading operator of consumer-conscious retail dispensaries and producer and supplier of cannabis products. The Company has subsidiaries involved in cultivation, production, supply chain, and medical consulting, 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, production, supply chain, wholesale and retail.

Cultivation

The Company has cultivation sites in Canada and Nevada, as well as one in Oregon which is under construction. The Company’s cultivation operations do not meet the Company’s needs for flower and trim and consequently, the Company purchases flower and trim from other growers as necessary in order to meet the demand for the Company’s oil and edibles products in each U.S. jurisdiction.

Production, Supply Chain and Wholesale

The Company has production infrastructure in Nevada and Oregon. The Company’s extraction facility in Portland is completed and licensed, and production is now underway. To support production needs for its oil and edibles products in Oregon, the Company will continue to source oil from third party processors, until production ramps up to a level that meets the market needs.

As of September 30, 2018, the Company produces three main types of products: cannabis flower, cannabis oils and cannabis edibles. The Company’s high-end cannabis oil distillate product is branded as Private Stash™ and its other oil and its edibles products are offered through the Golden™, Jackpot™, Chalice™ and the licensed RSO+GO™ brands. The oil for these products is provided by our production facilities and third-party processors 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 licensed dispensaries throughout Oregon, as well as several dispensaries in Nevada. The Company is also preparing to sell selective branded products in Canada. Currently, Medical Marihuana Group Corporation (MMG) cultivation sells harvested crops to wholesale buyers in Canada. 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 of which is branded as “Left Coast Connection”. Retail stores provide premium quality flower and a variety of locally-sourced extracts and edibles. With over 30 strains, all of the Company’s products are lab tested for tetrahydrocannabinol (“THC”), cannabidiol (“CBD”), pesticides, mold, mildew, and packaged to leave the store in child proof containers. Five of Chalice Farms retail dispensaries and Left Coast Connection are located in Portland Metropolitan area, and one Chalice Farms retail dispensary is in the heart of Yamhill County’s wine country.

Product Development and Marketing

The Company’s product development and marketing team focuses on developing high quality, scalable oil and edible products, supported by consumer-conscious branding that appeals to various market segments. The team has developed proprietary manufacturing processes for new products, such as Golden Fruit Chews, and have additional new products in the production pipeline. All of the Company’s products are independently lab tested and certified for pesticides, contaminants and potency before being packaged and labelled with detailed information about the levels of THC and CBD contained in each product. The Company’s manufactured oil products are sold under the brand names Golden™, Private Stash™, and Jackpot™.

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 an increasing number of players in the branded oil space. The Company and its competitors must rely upon sources of trim from licensed cannabis producers. Consumer preference is evolving and focused on more sophisticated products, such as high-quality oils and edibles. The Company is able to meet this consumer demand for its extracted product through its extraction licenses and facilities in Oregon and Nevada. 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 production as the market matures.

Low barriers for entering the cannabis industry in Oregon created oversupply, with state prices falling at a rate of a 50% annualized price decrease since 2016. According to Oregon-Idaho High Intensity Drug Trafficking Area’s *Initial Assessment of Cannabis Production, Distribution, and Consumption in Oregon 2018 - An Insight Report* published in August 2018, as of 2018, only 31% of available cannabis inventory was distributed putting a strain on cannabis cultivators.

The Company attempts to protect itself from adverse impact of cannabis price contraction in Oregon through its vertically integrated business model and presence in other geographic markets besides Oregon, including Nevada and Canada. Starting in Q3 2018, the Company is also operating a dispensary in Northern California under a transitional consulting agreement.

Economic Dependence

The Company is not substantially dependent on any single large contract. It serves a broad-based platform of dispensaries in Oregon and Nevada and receives wholesale and medical consulting revenues in Canada from a variety of customers and buyers. The Company is not dependent on any single contract for the purchase of raw materials that could affect the Company’s operations. During the period ending September 30, 2018 the Company depended heavily on a single supplier to process trim into distillate oil for its Oregon operations, however, in August

2018, the Company received its city regulatory license to operate its extraction facility in the city of Portland, Oregon, which mitigates the risk associated with this single supplier.

Employees and Management

At September 30, 2018, the Company had approximately 210 employees.

As of the date of this report, William Simpson serves as the Company's CEO, Craig Eastwood serves as the Company's CFO, Michael Genovese serves as COO, and Jeffrey Yapp is the Company's Chief Marketing and Sales Officer. Phillip Millar serves as President of Medical Marijuana Group Corp. and Medical Marijuana Group Consulting 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. 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 September 30, 2018, the Company's operations are in Canada and the United States.

Principal Markets

As of September 30, 2018, the Company operates in three cannabis jurisdictions: Canadian medical market, and Oregon and Nevada medical and recreational markets. As of September 30, 2018, a substantial portion of the Company's activities relate to its Oregon operations, as Canada and Nevada's adult-use market was either pending legalization or was in its early growth stages. The Company is licensed to distribute its products to wholesale dispensaries in Oregon and Nevada. In August 2018, the Company received its Sales License from Health Canada. In addition, the Company has seven retail dispensaries in Oregon.

Canadian Licenses

Through its subsidiaries, Golden Leaf Holdings is licensed for production (cultivation) of cannabis in the province of Ontario, Canada. Cannabis licenses in Canada are issued by Health Canada pursuant to section 35 of the Access to Cannabis for Medical Purposes Regulations. Health Canada has issued a single license to Medical Marijuana Group Corporation, a wholly owned subsidiary of Golden Leaf Holdings.

The production license allows Medical Marijuana Group Corporation (MMG) to cultivate immature, vegetative, and flowering cannabis plants within our licensed facility. Dried marijuana produced under this license may be sold, transferred and delivered to licensed dealers solely for the purpose of conducting analytical testing. The production license may receive bulk shipments of products from other Health Canada licensed producers for the purpose of using them as starting material to produce substances that are authorized under the license.

Health Canada production licenses are assigned a maximum storage capacity value based upon the security level of their respective safe. This license is restricted to a substances inventory that cannot exceed a maximum storage capacity value of \$1,250,000 at any given time.

On September 21, 2018, MMG received its Sales License from Health Canada.

Trends, Commitments, Events or Uncertainties

The District of Columbia ("D.C.") and 31 U.S. states, including the states of Oregon, Nevada and California, have legalized cannabis for medical use. D.C. and 9 U.S. states, including the states of Oregon, Nevada and California, have also legalized retail-recreational use of cannabis. Limited product offerings, including tinctures, edibles and flower/buds are available in Canada.

The Company intends to expand into other states within the U.S. that have legalized either medicinal or recreational cannabis use. The consumption and sale of 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. Under United States federal law, a Schedule I drug or substance is deemed to have a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. 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 September 2018, Congress approved the Medical Cannabis Research Act. This bill requires the Department of Justice and Attorney General Jeff Sessions to issue additional cultivation licenses to grow marijuana for research. The bill also clarifies that Department of Veterans Affairs (VA) doctors can discuss the medical marijuana with their patients and can refer them to participate in scientific studies on the drug's effects.

As discussed above, 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 441 banks and financial institutions doing business with MRB's.

The few credit unions who have agreed to service 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.

While there is no current legislation pending or in place that would allow secure banking for marijuana-related businesses, multiple attempts have been made in the past year to add amendments that would standardize federal banking regulation for marijuana businesses. The most notable is the Secure and Fair Enforcement Banking Act, or the SAFE Banking Act, put to the floor vote in March 2018. While it wasn't passed, the continuous effort to pass progressive banking reform for the U.S. cannabis industry indicates a positive trajectory for marijuana banking reform.

Currently, the Company utilizes four banks in Canada and three 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 has a Compliance Department that is responsible for adherence to regulations in every jurisdiction we operate in. In addition, the Compliance Department monitors, assesses, and takes a forward-facing position concerning changing state regulations, federal guidance, and banking challenges in all current and future jurisdictions.

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

Legal Proceedings

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC (“GRE”), 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 \$1,052,403, 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 in March 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 on April 17, 2018 the Plaintiffs filed an Amended Complaint revising their prayer for damage amount from \$1,052,403 USD to \$3,210,328 USD. On May 1, 2018, the Defendants filed an Amended Answer denying the allegations in the Amended Complaint and dropping Defendant’s \$42,931 counterclaim.

On August 31, 2018, Alex Wall and GRE (collectively, the “Plaintiffs”), filed a Complaint (the “Complaint”) and Motion for Temporary Restraining Order (“TRO”) against Daniel Berge (the “Defendant”) in the Circuit Court for the State of Oregon in Clackamas County, Oregon. Plaintiffs’ Complaint, alleges, among other claims, breach of contract and intentional interference with economic relations. The dispute essentially involves Plaintiffs’ lease rights to a portion of certain real property located at 19630 S. McCord Road, Oregon City, Oregon (the “Premises”). Defendant had threatened to disregard Plaintiffs’ lease rights and take other actions which would have interfered with Plaintiffs’ rights to possession of the Premises and the GRE business activities being conducted there.

The Motion for TRO was granted and issued by the Circuit Court Judge on August 31, 2018.

On September 7, 2018, GRE and the Defendant entered into a Stipulated Preliminary Injunction, restraining the Defendant from:

- a. Interfering with Plaintiff Alex Wall and GRE’s right to possession of the Premises.
- b. Interfering with the utilities provided to the Premises;
- c. Restricting Plaintiffs’ access to the Premises, including restricting Plaintiffs’ ability to ingress to and egress from the Premises from a certain driveway;
- d. Damaging the cannabis plants located in the Premises; and
- e. Removing any property from the Premises.

As part of the Stipulated Preliminary Injunction, Plaintiffs agreed to comply with State of Oregon medical marijuana laws at all times that Plaintiffs occupy the Premises with respect to their activities at the Premises.

There is no trial date set at this time for a hearing on the Plaintiffs’ underlying Complaint and the Company and GRE are confident that these issues will be resolved without the need to go to trial.

SELECTED FINANCIAL INFORMATION

(US\$, except share amounts)

	For the nine months ended	
	September 30, 2018	September 30, 2017
Total revenues	11,994,816	7,477,378
Gross profit	1,736,978	1,371,711
Total expenses	13,893,791	9,552,167
Comprehensive gain (loss)	5,836,616	(7,167,641)
Basic and diluted income (loss) per share	0.01	(0.04)
Weighted average number of common shares outstanding	563,832,540	203,386,663
	as of period ended	
	September 30, 2018	December 31, 2017
Total assets	84,221,124	75,784,781
Long-term financial liabilities	27,016,373	54,268,572

OVERALL PERFORMANCE

Three- and Nine- Months Comparison

The Company generated revenues of \$12.0M for the nine months ended September 30, 2018 compared to \$7.5M for the nine months ended September 30, 2017. The Company reported a comprehensive gain of \$5.8M for the nine months ended September 30, 2018 compared to a net loss of \$7.2M for the nine months ended September 30, 2017. This was driven primarily by the impact of revenue-generating retail entities acquired through the Chalice Farms acquisition, gain on change in fair value of debt and equity instruments, and third quarter sales in Canada under Sales License from Health Canada obtained in September 2018.

Gross profit increased to \$1.7M for the nine months ended September 30, 2018, up from \$1.4M for the nine months ended September 30, 2017. This is primarily due to the new sales generated by MMG and an increase in the value of biological assets.

The Company spent \$1.4M on sales and marketing (2017: \$0.9M), and \$9.2M on general and administration expenses (2017: \$7.0M). This increase is largely due to the increased headcount and respective employee expenses. The headcount additions are necessary to support the Company's rapid growth and expansion.

The Company's total assets were \$84.2M on September 30, 2018 (December 31, 2017: \$75.8M). The increase is largely attributable to the bought deal financing completed in January 2018 and proceeds from warrant exercises. The Company's long-term financial liabilities were \$27.0M on September 30, 2018 (December 31, 2017: \$54.3M). Shareholders' equity after the deficit was \$54.4M on September 30, 2018 (December 31, 2017: \$17.7M).

Revenues in the third quarter ended September 30, 2018 totaled \$5.1M, representing an increase of \$2.0M compared to the third quarter ended September 30, 2017. The increase in revenue is primarily attributable to new sales generated by MMG as mentioned above, 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 third quarter ended September 30, 2018, consistent with \$4.7M in the third quarter ended September 30, 2017.

Quarterly Results (US\$, except share amounts)

Profit and Loss	For the three months ended:							
	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018
	restated	restated	restated	restated		restated		
Product sales	434,968	2,259,094	2,089,393	3,078,891	2,983,854	3,182,989	3,671,738	5,104,251
Royalties	19,934	-	-	50,000	1,050,066	-	-	-
Consulting Revenue	-	-	-	-	-	17,278	9,898	8,662
Total Revenue	454,902	2,259,094	2,089,393	3,128,891	4,033,920	3,200,267	3,681,636	5,112,913
Inventory expensed to cost of sales	1,441,359	1,838,687	1,530,212	2,315,490	3,851,213	2,724,713	3,029,795	3,825,330
Production costs	185,999	182,008	157,057	181,213	-	297,474	113,753	476,512
Fair value changes in biological assets included in inventory sold	-	-	-	-	-	119,130	10,518	(91,672)
(Gain) loss on changes in fair value of biological assets	(1,915)	-	-	(99,000)	(99,000)	(293,897)	(412,360)	458,542
Cost of sales expense	1,625,444	2,020,695	1,687,269	2,397,703	3,752,213	2,847,420	2,741,706	4,668,712
Gross profit (loss)	(1,170,542)	238,399	402,124	731,188	281,707	352,847	939,930	444,201
Total expenses	3,863,076	2,155,139	2,657,911	4,652,062	2,611,608	4,599,826	4,637,494	4,656,471
Interest (income) expense, net	355,697	545,021	312,411	556,427	135,921	649,258	266,317	(31,280)
Accretion interest	76,004	-	-	-	-	-	-	-
Transaction costs	3,704,000	-	-	2,365,821	6,152,669	471,900	-	454,292
Loss on disposal of assets	-	-	-	25,500	470,071	-	5,000	-
Impairment of financing lease receivable	81,061	27,422	27,422	27,422	14,900,291	-	-	-
Other (income) loss	256,203	925	161,903	37,296	237,289	(159,126)	36,723	(12,410)
(Gain) loss on changes in fair value of warrant liability	609,143	(155,685)	(82,694)	(2,841,983)	10,794,940	(6,212,222)	(4,415,480)	1,372,824
(Gain) loss on change in fair value of liabilities	(4,234,000)	(44,693)	(1,541,097)	(1,148,020)	15,030,070	(7,128,616)	(2,841,987)	(506,686)
Gain (loss) before income taxes	(17,096,679)	(2,289,730)	(1,133,732)	(2,943,337)	(50,051,152)	8,131,827	3,251,863	(5,489,010)
Incomes tax expense (benefit)	74,136	-	-	219,587	143,230	-	8,434	3,842
Net gain (loss)	(17,250,510)	(2,289,730)	(1,133,732)	(3,162,924)	(50,194,382)	8,131,827	3,243,429	(5,492,852)
Other comprehensive (income) loss	530,000	-	-	-	(539,828)	19,117	34,146	(7,475)
Comprehensive gain (loss)	(17,780,510)	(2,289,730)	(1,133,732)	(3,162,924)	(49,654,554)	8,112,710	3,209,283	(5,485,377)
Basic and diluted gain (loss) per share	(0.19)	(0.02)	(0.01)	(0.01)	(0.12)	0.02	0.01	(0.01)
Weighted average number of common shares outstanding	98,115,626	118,346,097	143,604,908	345,710,474	435,334,457	534,900,058	575,776,971	580,321,291

In the third quarter of 2018, product sales of \$5.1M increased by \$2.0M or 66% as compared to the third quarter of 2017. Higher product sales in the third quarter of 2018 as compared to 2017 is attributable to addition of new stores in Oregon Retail (an increase of \$1.2M or 61%), ramping up operations in Nevada Wholesale (an increase of \$0.3M or 381%), and new sales generated by Canada Cultivation (an increase of \$0.6M or 100%) slightly offset by the decrease in sales by Oregon Wholesale (a decrease of \$0.4M or 36%). For more segmented information, refer to Note 21 of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2018.

In the third quarter of 2018, gross profit of \$0.4M decreased by \$0.3M or 39% as compared to the third quarter of 2017. The decrease is attributable to a net reduction in fair value of biological assets as fully grown harvested and dried plants were transitioned to inventory and cost of sales, and new grows were planted. As at September 30, 2018, the biological assets' stage of growth was on average at 2 weeks of the 16-week growth cycle.

Adjusted EBITDA

Adjusted EBITDA				
	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Income (loss) before income taxes	(5,489,010)	(2,943,337)	5,894,680	(6,748,054)
Adjustments:				
Net impact, fair value of biological assets	366,870	(99,000)	(209,739)	(99,000)
Depreciation and amortization	376,977	225,922	1,080,772	359,225
Fair value changes on debt and equity instruments	866,138	(3,990,003)	(19,732,167)	(5,814,172)
Share based compensation	539,758	792,606	2,183,179	1,336,666
Interest expense, net	(31,280)	556,427	884,295	1,413,859
Transaction costs	454,292	2,365,821	926,192	2,365,821
Impairments and other	(12,410)	64,718	(134,813)	282,390
Loss on disposal	-	25,500	5,000	319,700
Adjusted EBITDA	\$ (2,928,665)	\$ (3,001,346)	\$ (9,102,601)	\$ (6,583,565)

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 Measure” below for additional information.

For the three-month period ended September 30, 2018, the Adjusted EBITDA loss slightly improved at \$2.9M as compared to an Adjusted EBITDA loss of \$3.0M during the same period in 2017. This slight improvement is primarily attributable to an increase in product sales volume.

Non-IFRS Measure

Adjusted EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. In addition, Adjusted EBITDA as presented excludes impairment charges, all other non-cash items and one-time transaction fees. Management believes providing Adjusted EBITDA is useful to investors’ understanding and assessment of the Company’s ongoing continuing operations and prospects for the future and it is used by the financial community to evaluate the market value of companies considered to be in similar businesses. Since Adjusted EBITDA is not a measure of performance calculated in accordance with IFRS, it should not be considered in isolation of, or as a substitute for, measures of performance prepared in accordance with IFRS. Adjusted EBITDA, as calculated in the table above, may not be comparable to similarly titled measures employed by other companies. In addition, Adjusted EBITDA is not necessarily a measure of our ability to fund our cash needs.

Liquidity and Capital Resources

Cash used in operations was \$11.0M during the nine months ended September 30, 2018 compared to \$5.0M during the nine months ended September 30, 2017. Cash provided by financing activities was \$19.7M during the nine months ended September 30, 2018 compared to \$25.8M during the nine months ended September 30, 2017.

As of September 30, 2018, the Company had \$12.3M of cash on hand. During the first quarter of 2018 the Company completed its bought deal financing resulting in proceeds of C\$17.5M on January 31, 2018. The Company also received significant proceeds from warrant exercises, resulting in an ending cash balance of \$22.1M at the end of first quarter. With an appropriate level of capitalization, the Company is focused on strategic capital investment initiatives and optimization of its current operations.

The Company has financed its operations to date through the issuance of common shares and debt. 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 (\$5.8M).

The table below highlights the Company's key liquidity and capital resources information:

	September 30, 2018	December 31, 2017
Current assets	\$ 20,099,140	\$ 11,629,357
Current liabilities	2,463,163	3,380,158
Working capital	17,635,977	8,249,199
Long-term debt and notes payable	12,023,717	30,830,522
Share capital	138,249,400	108,552,681
Deficit	(91,041,392)	(97,047,515)

The Company's working capital is adequate to support the Company's near-term expansion into new geographical markets.

The Company has lease commitments related to office, production and retail facilities as follows:

2018	\$ 578,285
2019	2,620,634
2020	2,374,053
2021	1,980,889
2022	1,404,298
Thereafter	1,641,185
	\$ 10,599,344

Going Concern

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

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 nine months ended September 30, 2018.

Future accounting pronouncements

Refer to Note 5 of the interim condensed consolidated financial statements for the three- and nine- months ended September 30, 2018.

Financial Instruments

The Company carries a number of financial instruments as part of its operations. 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 September 30, 2018, 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 to the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 for information regarding the valuation techniques and inputs used to determine fair value of the warrants.

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 receivable. 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 and the credit worthiness of its customers.

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 may 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\$13.1M due 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.

Biological Assets

In October 2018, Canadian Securities Administrators ("CSA") published Staff Notice 51-357, *Staff Review of Reporting Issuers in the Cannabis Industry*. The new standard addresses best practices and guidelines for accounting policy and biological assets disclosure for the cannabis industry.

The Company adopted the new CSA guidelines and enhanced biological assets disclosure in its interim condensed consolidated financial statements for the three and nine months ended September 30, 2018. The enhanced disclosure describes the Company's policies in determining fair value of biological assets at different stages of plant growth for Nevada and Canada cultivations, separately names and quantifies each of the significant unobservable inputs including price per gram, stage of growth, yield by plant, wastage, and provides the sensitivity analysis that quantifies the impact of a 10% increase/decrease in each input on the fair value of biological assets.

On April 1, 2018, the Company adopted a production costs capitalization policy using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories*. A portion of production costs related to the transformation of biological assets from the point of recognition to the point of harvest are capitalized and included in the fair value measurement of biological assets. Previously, production costs were expensed as incurred. The adoption of this policy does not represent a change in an accounting policy under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, as production costs related to cannabis cultivation and grow activities were previously immaterial to the Company's financial results.

For more information on biological assets, refer to Note 7 of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2018.

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.

OVERVIEW OF UNITED STATES REGULATION OF CANNABIS

On February 8, 2018 the Canadian Standards Association (“CSA”) published a staff notice setting out the CSA’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States (“Staff Notice 51-352”). Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views Staff Notice 51-352 favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company’s ability to pursue further investment and opportunities in the United States.

The following chart is a summary of the Company’s material assets and investments. References to “Direct”, “Indirect” or “Ancillary” classifications of each asset or investment have the meanings ascribed thereto in the Staff Notice 51-352. All of the Company’s investments that give the Company “Direct”, “Indirect” and “Ancillary” involvement in the U.S. marijuana industry are included in the chart:

Asset Name, Date of Organization	Description	Type of Relationship, Jurisdiction, Classification
Greenpoint Holdings Delaware, Inc. <i>May 2014</i>	Greenpoint Holdings Delaware, Inc. is a holding company which acts as the parent to all U.S. based operating subsidiaries.	<u>Type of Relationship:</u> Greenpoint Holdings Delaware, Inc. is a wholly owned subsidiary of Golden Leaf Holdings, Inc. <u>Jurisdiction:</u> Oregon, California, Nevada <u>Classification:</u> Direct
Greenpoint Oregon Inc. <i>May 2014</i>	Greenpoint Oregon Inc. holds processor and wholesale licenses. The company’s primary facilities are located in Portland, Oregon.	<u>Type of relationship:</u> Greenpoint Oregon Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware, Inc. <u>Jurisdiction:</u> Oregon <u>Classification:</u> Direct
CFA Retail, LLC <i>January 2016</i>	CFA Retail, LLC is a network of cannabis retail dispensaries located in Oregon operating under “ <i>Chalice Farms.</i> ”	<u>Type of relationship:</u> CFA Retail, LLC is a wholly-owned subsidiary of Greenpoint Holdings Delaware, Inc. <u>Jurisdiction:</u> Oregon <u>Classification:</u> Direct
Greenpoint Nevada, Inc. <i>May 2017</i>	Greenpoint Nevada, Inc. is an indoor high-quality cannabis cultivation, production/manufacturing facility and a wholesale operation.	<u>Type of relationship:</u> Greenpoint Nevada Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.

	Greenpoint Nevada, Inc. is located in Sparks, Nevada.	<u>Jurisdiction</u> : Nevada <u>Classification</u> : Direct
Greenpoint Equipment Leasing LLC (Oregon) <i>January 2016</i>	Greenpoint Equipment Leasing (OR) is located in Portland, Oregon and will lease equipment to operating subsidiaries in Oregon and Nevada.	<u>Type of relationship</u> : Greenpoint Equipment Leasing (OR) is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction</u> : Oregon and Nevada <u>Classification</u> : Ancillary
Greenpoint Real Estate LLC (Oregon) <i>September 2015</i>	Greenpoint Real Estate (OR) leases real property from landlords and sublets to operating subsidiaries in Oregon and Nevada. The company is located in Portland, Oregon.	<u>Type of relationship</u> : Greenpoint Real Estate (OR) is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction</u> : Oregon and Nevada <u>Classification</u> : Ancillary
Greenpoint Workforce, Inc. <i>June 2017</i>	Greenpoint Workforce, Inc. employs all US employees and leases them back to operating subsidiaries in Oregon, California and Nevada. The company is located in Portland, Oregon.	<u>Type of relationship</u> : Greenpoint Workforce, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction</u> : Oregon, California, Nevada <u>Classification</u> : Ancillary
CF US Franchising, Inc. <i>January 2018</i>	CF US Franchising, Inc. manages franchising activities in the United States and is located in Portland, Oregon.	<u>Type of relationship</u> : CF US Franchising, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction</u> : Oregon, California, Nevada <u>Classification</u> : Ancillary

Through its subsidiaries, Golden Leaf is licensed by the Oregon Liquor Control Commission (“OLCC”) to process, distribute, and sell recreational and medicinal cannabis and cannabis products in the State of Oregon. The OLCC has issued the following licenses to the Golden Leaf Holdings wholly-owned subsidiaries:

Subsidiary	Licenses
Greenpoint Oregon Inc.	Processor: 030-1003213EDB2; 030-100384161D7
Greenpoint Oregon Inc.	Wholesale: 060-1003227DB77; 060-10046405D93
CFA Retail, LLC	Retail: 050-10079928B63; 050-1007989F581; 050-10079902125; 050-10079919CD9; 050-1007988A80E; 050-10025185011; 050-10086554F25

Compliance of United States Operations

Golden Leaf, via its subsidiaries, is compliant with all applicable licensing tenets and the regulatory framework that is in place within each U.S. state that it operates in. The Company is currently licensed to operate as a processor, wholesaler, and retailer in multiple jurisdictions within Oregon, and as a cultivator and product manufacturer at its

single site in Nevada. The Company has not experienced any compliance issues or instances of non-compliance on any of the above-mentioned licenses. The Company has likewise not been served any notices of non-compliance by any state regulatory body. The Company maintains multiple banking relationships in Oregon and Nevada. These relationships provide the Company the ability to safely and lawfully pay for any and all expenses that should arise from the day to day operations of its licenses, including maintaining underlying permits and approvals to keep the licenses compliant. The Company also engages armoured car services for cash pickup and management in all jurisdictions, further ensuring monetary compliance and safety.

The Company has a Compliance Department at its operating headquarters in Oregon. The Compliance Department is responsible for monitoring all licensed activities in all jurisdictions and does perform local site visits in order to validate compliance with local statutes. This monitoring includes but is not limited to: seed-to-sale records and accuracy, standard operating procedures, required signage and public health warnings, local permitting and zoning, license approvals and renewals, and all communication with regulatory bodies. The Compliance Department also conducts random audits of all licensed activities, as well as conducting training, process validation, and problem resolution when compliance questions arise.

Each employee is instructed on the most recent standard operating procedures. All sites where cannabis is cultivated, produced, stored or sold have 24-hour video surveillance of every square inch. This footage is maintained for a minimum of 90 days. The Company also utilizes the state mandated seed-to-sale system in all jurisdictions that it operates within. State inspections to date have not resulted in any compliance related issues.

U.S. Enforcement Proceedings

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. The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, the revocation removed the Department of Justice (“DOJ”) guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

In April 2018, as part of an agreement with Colorado Senator Cory Gardner, President Trump has publicly committed to respect states’ rights as it pertains to marijuana laws.

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 marking 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 30 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. The current version of the amendment was renewed in the FY 18 Appropriations process and expires on December 7, 2018, 2018 without additional action by Congress. The most important case involving the Rohrabacher-Farr amendment took place in the Federal 9th Circuit Court. In the August 2016 decision of U.S. vs. McIntosh, the court held that the

Rohrabacher-Farr Amendment prohibits the federal prosecution of conduct that is allowed by the state's medical cannabis law. In the opinion, Judge Diarmuid F. O'Scannlain wrote: "We therefore conclude that, at a minimum, Section 542 prohibits DOJ from spending funds from relevant appropriations acts for the prosecution of individuals who engaged in conduct permitted by the State Medical Marijuana Laws and who fully complied with such laws." The opinion remanded all of the cases that included in the appellate ruling back to the trial court. If federal prosecutors want to continue pursuing their cases against the defendants, they must prove at an evidentiary hearing that the defendant violated state law.

Although the Cole Memorandum has been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the "Leahy Amendment") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that, the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when FY 2019 begins. Legal professionals have interpreted these bills as being preventative on the federal government's ability to prosecute individuals when those individuals are compliant with state law. However, due to the continued federal prohibition, the courts have observed that if at any time congress chooses to fully fund prosecutorial proceedings in reference to the Controlled Substances Act, any individual or business could be prosecuted for violations of federal law, regardless of compliance with state law.

On January 4, 2018 US Attorney General Jeff Sessions issued a memorandum (the "Sessions Memorandum") that rescinded the Cole Memorandum. The Sessions Memorandum reversed previous guidance which directed United States Attorneys in reference to cannabis enforcement.

The U.S. Attorney for Oregon, Billy Williams responded by saying "I have significant concerns about the state's current regulatory framework and the resources allocated to policing marijuana in Oregon." However, "it would be an inappropriate abdication of my duties to issue any blanket proclamations on our marijuana enforcement strategy in light of federal law." In response to concerns regarding illicit cannabis grown and shipped out of Oregon, U.S. Attorney Williams called a summit of local and state government officials, industry experts, and law enforcement. At this summit in February 2018, Oregon governor Kate Brown proclaimed that Williams had assured members of her administration that "lawful Oregon businesses remain stakeholders in this conversation and not targets of law enforcement."

The U.S. Attorney for Nevada has issued no such proclamation. The Attorney General for the State of Nevada assured the industry, "Although I opposed the Question 2 ballot initiative proposing the legalization of recreational marijuana in Nevada, I also pledged to defend the measure were it approved by the voters. Since Questions 2's enactment, my office has vigorously defended it against two related lawsuits that threatened to slow or even halt the implementation of the law and has further assisted with the formulation and adoption of regulations to allow dispensaries to commence sales of recreational marijuana within just six months of the law's enactment. My office has expeditiously facilitated the implementation of the law in the face of considerable uncertainty about the status of federal enforcement activity."

As a result of rescinding the Cole Memorandum, federal prosecutors are now free to utilize their own discretion in prosecuting cannabis related crimes regardless of state level legalization measures. The Sessions Memorandum did not, however, direct prosecutors on how they should assign priority to cannabis activities. As a result, it is ultimately uncertain how U.S. Attorneys will respond. Due to this uncertainty there can be no assurance that the federal government will not move to prosecute cannabis businesses operating within state regulatory frameworks.

The Company has obtained legal services from lawyers with experience in cannabis in all jurisdictions, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.

Oregon Regulatory Summary

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority (“OHA”) after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators and processors. In November of 2014, Oregon voters passed Measure 91, “Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act”, creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed marijuana businesses.

The Oregon Health Authority licenses and regulates medical marijuana businesses and the Oregon Liquor Control Commission (“OLCC”) licenses and regulates adult-use marijuana businesses. There are six distinct license types available for medical and adult-use businesses: cultivation, manufacturing (“processing”), wholesaling, dispensing, testing and research. Vertical integration between cultivation, processing, and sales is permissible, but not required, for both medical and adult- use.

The law does not impose a limit on the number of licenses. Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

The Processor licenses carry endorsements that authorize Greenpoint Oregon to procure usable cannabis from OLCC licensed cultivators, or cannabinoid concentrates or extracts from other OLCC licensed processors, and to use that material to produce cannabinoid concentrates, extracts, and edibles. Those products may then be transferred to any OLCC licensed wholesaler for distribution to consumers. At the present time license number 030-1003213EDB2 carries an Extraction endorsement and license 030-100384161D7 carries Concentrate and Edible endorsements.

Under the wholesale licenses, Greenpoint Oregon is allowed to procure usable cannabis from any OLCC licensed producer, as well as cannabinoid extract, concentrate, or product from any OLCC licensed processor. The Wholesale license includes authorization to package and label these products for sale to consumers if they are not purchased pre-packaged. This includes the ability to fill cartridges with extract or concentrate procured from any OLCC licensed processor. These licensees are also responsible for submitting any packaging or labels to the OLCC for approval prior to marketing. Lastly, the wholesale license includes authorization to distribute these products to any OLCC licensed dispensary. The Company utilizes its wholesale licenses for supply chain management of its chain of dispensaries, as well as actively wholesaling to a large portfolio of other OLCC retail licensees

The Company’s Retail licenses allow the Company to sell recreational useable cannabis, extracts, concentrates and products directly to consumers, as well as selling medicinal cannabis and cannabis products to Oregon Medical Marijuana Program (OMMP) patients and their designated primary caregivers. Retail licensed facilities are responsible for compliance with Oregon law regarding customer age, required public safety notices, and educating

the public as to Oregon law surrounding cannabis. Customers must be age 21 or over or be registered with the OMMP as a patient or caregiver.

Regulatory Framework

Oregon Revised Statutes Chapter 475 B (Cannabis Regulation) provides the regulatory framework for both the recreational and medical cannabis industries in Oregon. The OLCC implementation of the recreational cannabis statutes are found in Oregon Administrative Rules Chapter 845, Division 25. The OMMP implementation of the medical cannabis statutes are found in Oregon Administrative Rules Chapter 333, Division 8. Chapter 333, Division 7 provides the packaging, labelling and dosage limits for both programs, and Chapter 333, Division 64 governs the accreditation of laboratories for testing.

Both the OLCC and the OMMP Rules include licensing requirements and materials, as well as criteria for denial or approval of license applications.

Licensing Requirements

Licenses issued by OLCC may be renewed annually so long as the licensee meets the requirements of the law and pays the renewal fee. There is no maximum number of licenses per owner, except for cultivation licenses located at the same address.

Applicants must demonstrate (and license holders must maintain) that: (i) They are registered with the Oregon Secretary of State to do business in Oregon, (ii) They have the operational expertise required by the individual license type, demonstrated by submission of an operation plan, (iii) They have the ability to secure the premises, resources, and personnel necessary to operate the license, (iv) They have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to-sale software to prevent diversion or unlawful access to these materials, (v) They have the financial ability to maintain operations for the duration of the license, (vi) All owners have passed background screening, inclusive of fingerprinting, (vii) That all local land use, zoning, and planning notices have been followed in the development of the licensed site.

Security Requirements

A licensee must maintain a fully operational alarm and video monitoring system at all times. Commercial grade, non-residential door locks are required on every external door. The alarm system must secure all entry points and be equipped with motion detectors and pressure activated panic alarms. The 24-hour video surveillance system must record at a high-resolution format approved by the OLCC and have camera coverage which covers all areas of the facility without any blackout areas. Video footage must be backed-up for a minimum of 30 days in hard-form, with a minimum of 90 days available on request. Additionally, the camera system must have the ability to print still photos.

Dispensaries are the only facilities allowing public access. These facilities must include a waiting area with sufficient space and seating to accommodate customers. This waiting area is separated from the consumer sales area by a locked door that is controlled by an employee within the secured area. All other facilities require signage advising that there is no public entry. Any vendors or contractors that must be on site have to be fully checked in through a visitor log and must be accompanied at all times by an employee.

Transportation and Storage Requirements

Recreational and medicinal cannabis and cannabis products must be stored in a secured, locked room or vault. Vaults that are large enough to allow a person to walk in must have cameras inside so that there is no blind spot. Smaller safes must be bolted to the floor. When products are transferred between licensees, they must first be fully manifested through the state mandated 'seed-to-sale' system. This written manifest must include: (i)

departure date and time, (ii) name, address, and license number of the originating licensee, (iii) name, address, and license number of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate number; and (vii) name and signature of the employee delivering the product. A copy of this manifest is provided to the receiving licensee for their verification. Upon receiving the transfer, the licensee must immediately verify the shipment versus the manifest and accept it electronically within the 'seed-to-sale' system. This completes the inventory transfer. OLCC licensees must maintain these records for a minimum of 3 years. During transport, all product is packaged individually by order, and maintained within a locked receptacle within the vehicle. All deliveries must be completed within 24 hours.

Department Inspections

The OLCC conducts announced and unannounced inspections of all licensed facilities to determine compliance with laws and rules. The OLCC will inspect a licensee upon receiving a complaint or notice that the licensee has violated any existing rules. The OLCC will also conduct an annual license renewal inspection at the time of application approval. Inspections can cover all records, personnel, equipment, security, and operational methodologies.

Nevada Regulatory Summary

Nevada has a medical marijuana program and passed adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioural Health licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. A second licensing window, specific to retail, was opened in September 2018. During this period, only operators with existing non-retail recreational licenses could apply, and the department of taxation intends to award up to 71 new retail licenses on or before December 5th, 2018. License applications in Nevada are merit based, and competitive. Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Under Nevada's adult-use marijuana law, the Department of Taxation licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.

In February 2017, the Nevada Department of Taxation announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana, and expired at the end of the year. Starting July 1,

2017, medical and adult-use marijuana have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis have incurred an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

On January 16, 2018, the Marijuana Enforcement Division of the Department of Taxation issued final rules governing its adult-use marijuana program, pursuant to which up to sixty-six (66) permanent adult-use marijuana dispensary licenses will be issued. Existing adult-use marijuana licensees under the “early start” regulations must reapply for licensure under the permanent rules in order to continue adult-use sales.

Through its subsidiaries, Golden Leaf Holdings is licensed for Cultivation and Cannabis Product manufacturing in the State of Nevada. Licenses in Nevada are issued by the Nevada Department of Taxation (“DOT”). The DOT has issued 1 Cultivation License and 1 Product Manufacturing License to Greenpoint Nevada, Inc., a wholly owned subsidiary of Golden Leaf Holdings.

The cultivation license allows Greenpoint Nevada to cultivate immature, vegetative, and flowering cannabis plants within our licensed facility. There is no cap to the total canopy size afforded under this license. Cannabis cultivated under this license can be transferred to any DOT Product Manufacturing licensee, or to DOT licensed retailers via a DOT licensed Distributor. The company currently transfers all cannabis cultivated under this license directly to our own DOT Product Manufacturing license.

The Product Manufacturing license allows Greenpoint Nevada to procure usable cannabis from any DOT licensed cultivator, and utilize that material to produce cannabis extracts, concentrates and products.

These products may be marketed directly to DOT licensed Retailers, or DOT licensed distributors. Currently Greenpoint Nevada utilizes cannabis flower from its own cultivation license as well as others as inputs to its extraction processing operations. The license produces a line of extracts and concentrates. The company employs wholesale professionals which sell these products directly to DOT licensed retailers.

Regulatory Framework

Nevada Revised Statutes Chapter 453D provides a regulatory framework that outlines the function of the DOT Marijuana program. Subsections of this chapter outline licensing and enforcement guidelines which guide the DOT.

Licensing Requirements

Licenses issued by the DOT can be renewed annually so long as the licensee continues to demonstrate compliance with local and state law and pays the renewal fee. The DOT places license caps on all license classifications, which are reassessed annually.

Applicants must demonstrate (and license holders must maintain) that: (i) They are registered with the Nevada Secretary of State to do business in Nevada, (ii) That they have contributed to the advancement of the State of Nevada via regular tax payments, (iii) That they do not have interests in the Casino or Alcohol industries, (iv) They have the operational expertise required by the individual license type, demonstrated by submission of an operation plan, (v) They have the ability to secure the premises, resources, and personnel necessary to operate the license, (vi) They have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to-sale software to prevent diversion or unlawful access to these materials, (vii) They have the financial ability to maintain operations for the duration of the license, (viii) All owners have passed background screening, inclusive of fingerprinting, (ix) That all local land use, zoning, and planning notices have been followed in the development of the licensed site.

Security Requirements

In terms of security requirements, a licensee must maintain a fully operational alarm and video monitoring system at all times. The alarm system must secure all points of ingress and egress and be equipped with motion detectors. The 24-hour video surveillance system must record at a high-resolution format approved by the DOT and have camera coverage which covers all areas of the facility without any blind spots. Video footage must be backed-up for a minimum of 30 days in hard-form.

Cultivation and product manufacturing sites are not open to the public. In the case of Greenpoint Nevada, both operations are housed within the same facility. This facility has ample signage advising no public admittance. Any vendor or contractor that needs access to the premises must be fully identified and sign into a vendor log. There is no access to non-employees unless there is an employee present.

Transportation and Storage Requirements

Cannabis and cannabis goods must be stored in a lockable safe or vault at any time that employees are not on location. Any storage container that is large enough to allow an employee to walk into it must have cameras placed inside. Goods to be transported to another licensee must be fully manifested via the state mandated seed-to-sale tracking system prior to being transported. Greenpoint Nevada utilizes a DOT licensed distributor as a partner in all shipments.

Department Inspections

The DOT conducts announced and unannounced inspections of all licensed facilities to determine compliance with laws and rules. The DOT will inspect a licensee in the event of a complaint indicating that the licensee has or is actively violating existing statute. The DOT will also inspect at the time of any premises modification, as well as at the time of annual renewal.

RISK FACTORS

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 faces a number of operational risks and 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; and 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; or adverse impacts on the Company's operation, costs, monetary losses, potential legal liability and adverse governmental action. Also, the Company may be affected by liability or may sustain loss for certain risks and hazards against which the Company cannot insure, or which the Company may elect not to insure. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Risks Specifically Related to the United States Regulatory System

Marijuana is illegal under U.S. federal law and enforcement of relevant laws is a significant risk.

The Company is expected to continue to derive a portion of its revenues from the cannabis industry in certain states of the United States, a country in which the consumption and sale of cannabis remains prohibited by federal law.

Marijuana is a Schedule I controlled substance under the U.S. Controlled Substances Act 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 execute our business plan.

While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. Golden Leaf is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defences to criminal prosecutions.

Golden Leaf has exposure to U.S. cannabis-related activities through 1) the (compliant licensed) production and sale of its cannabis consumer products to wholesale customers in the States of Oregon and Nevada, 2) the (compliant licensed) operation of retail dispensaries in the State of Oregon, 3) the (compliant licensed) cultivation of cannabis trim and flower in the State of Nevada, and 4) (compliant licensed) operation of a dispensary in Northern California under a transitional consulting agreement. The Company also operates wholly owned subsidiaries engaged in ancillary businesses such as equipment leasing, intellectual property management, employee leasing, and property leasing.

The enforcement of relevant United States laws related to cannabis is a significant risk.

The following table is a summary of Golden Leaf's balance sheet exposure to U.S. cannabis-related activities as of September 30, 2018:

	September 30, 2018
Current Assets	\$ 9,576,347
Non-current assets	60,287,795
Total assets	\$ 69,864,142
Current liabilities	1,143,946
Non-current liabilities	64,457
Total liabilities	\$ 1,208,403

Goodwill and intangibles related to the acquisition of U.S.-based subsidiaries are included within the non-current assets totals above.

The following represents the portion of certain assets on Golden Leaf's consolidated balance sheet that pertain to U.S. Cannabis activity as of September 30, 2018:

Inventory: 100%
Property plant & equipment: 81%
Intangible assets and goodwill: 77%

The following is a summary of operating losses from U.S. cannabis-related activities:

	For the three months ended September 30, 2018	% of consolidated total	For the nine months ended September 30, 2018	% of consolidated total
Revenue	\$ 4,254,397	83%	\$ 10,602,438	88%
Cost of sales	3,893,726	83%	9,961,701	97%
Gross profit	360,671	81%	640,737	37%
Less operating expenses	3,423,884	74%	8,855,439	64%
Net loss	\$ (3,063,213)	73%	\$ (8,214,702)	68%

U.S. Federal Regulation

Unless and until Congress amends the U.S. Controlled Substances Act 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 the Company may be deemed to be producing, cultivating or dispensing marijuana in violation of federal law or the Company 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.

Variation in State Regulations

Individual state laws do not always conform to the U.S. federal regulations 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. Nine U.S. states and the D.C. have legalized the recreational use of cannabis. Variations exist among states that have legalized, decriminalized or created medical marijuana exemptions. 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.

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. 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 comply with this changing legal landscape in this nascent industry, for the foreseeable future.

Banking

Since the use of marijuana is illegal under U.S. federal law, banks have commonly concluded that they 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.

Canadian Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical or recreational marijuana industry. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's ability to grow, store and sell medical marijuana in Canada is dependent on its Health Canada licences (the "Canadian Licenses"). The Canadian Licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of the Canadian Licenses or any failure to maintain the Canadian Licenses would have a material adverse impact on the business, financial condition and operating results of the Company. Although management believes the Company will meet the requirements of the ACMPR for future extensions or renewals of the Canadian Licenses, there can be no guarantee that Health Canada will extend or renew these Canadian Licenses or, if extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Canadian Licenses or should they renew the Canadian Licenses on different terms, the business, financial condition and results of the operation of the Company would be materially adversely affected.

The laws, regulations and guidelines generally applicable to the cannabis industry domestically and internationally may change in ways currently unforeseen by the Company. The Company's operations are subject to the ACMPR and various other laws, regulations and guidelines relating to the marketing, acquisition, manufacture, packaging/labelling, management, transportation, storage, sale and disposal of medical cannabis, as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. On June 30, 2016, the Federal Government established the Task Force to seek input on the design of a new system to legalize, strictly regulate and restrict access to cannabis. On December 13, 2016, the Task Force published a report outlining its recommendations. On April 13, 2017, the Federal Government released Bill C-45, which proposes the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use. On November 27, 2017, the House of Commons passed Bill C-45. Several recommendations from the Task Force reflected in the Cannabis Act, including, but not limited to, permitting home cultivation, potentially easing barriers to entry into the Canadian recreational cannabis market, and restrictions on advertising and branding, could materially and adversely affect the business, financial condition and results of operations of the Company. On October 3, 2017, the Parliamentary Standing Committee on Health (the "HESA") proposed amendments to the

Cannabis Act to provide, among other things, that edibles containing cannabis and cannabis concentrates would be added to the classes of cannabis an authorized person may sell. In addition, the HESA's proposed amendments provide that a framework for sale of edibles and cannabis concentrates would be implemented within a year of the Cannabis Act coming into force. The HESA's proposed amendments were incorporated into Bill C-45, which was passed by the House of Commons on November 27, 2017. Bill C-45 went before the Senate, and the Senate passed Bill C-45 on June 19, 2018. On June 20, 2018, Prime Minister Trudeau announced that marijuana would be legal by October 17, 2018. On June 21, 2018, Bill C-45 received Royal Assent. On November 10, 2017, the federal Department of Finance issued legislative and regulatory proposals for the taxation of cannabis. The proposed rules would effectively place cannabis producers within the existing rules that currently apply excise duties on tobacco, wine and spirits producers under the Excise Act, 2001 (Canada), with modifications as applicable. These rules include a new tax licensing regime for cannabis producers, stamping and marking rules, ongoing reporting requirements, and applicable excise duties payable by licensed cannabis producers, in addition to GST/HST. The cannabis excise duty framework is proposed to generally come into force on the date that legal cannabis for non-medical purposes becomes accessible for retail sale under the proposed Cannabis Act. The Cannabis Act came into force on October 17, 2019. On December 12, 2017, the Ontario government passed the Cannabis Act, 2017 (Ontario), which regulates the lawful use, sale and distribution of recreational cannabis. It did, among other things:

- set a minimum age of 19 to use, buy, possess and cultivate cannabis in Ontario; and
- ban the use of cannabis in public places, workplaces and motor vehicles in Ontario, as is the case with alcohol.

In August 2018, Ontario government officials indicated they will allow private retailers to sell recreational marijuana starting April 1, 2019. On October 17, 2018, Ontario government officials confirmed that cannabis will be up for sale at private retail stores by April 2019. The governments of Manitoba, Alberta, New Brunswick, Québec and British Columbia have also announced partial regulatory regimes for the distribution and sale of cannabis for recreational purposes in those provinces. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the growth opportunities that the Company currently anticipates.

Marketing Constraints

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

Competition

On October 17, 2018, the Canadian Federal Government passed the "Cannabis Act", outlining the framework for the legalization of adult use cannabis, as well as laws to address drug-impaired driving, protect public health and safety and prevent youth access to cannabis. The provincial and municipal governments have been given explicit authority by the Federal Government to provide regulations regarding retail and distribution, as well as the ability to alter some of the existing baselines, such as increasing the minimum age for purchase and competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better

financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Ability to Access Public and Private Capital

The Company has historically, and continues to have, access to capital in Canada in order to support its continuing operations. In addition, the Company has had success completing private offerings in the past, including the January 2018 private placement which raised C\$17.4 million of capital for the Company, and has an ongoing banking relationship with four banks in Canada. Although the Company has accessed private financing in the past, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. To date, the Company has not had to raise any capital through a prospectus financing and such financing may not be available to the Company.

The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations.

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network (“FinCEN”) of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to cannabis related businesses (the “FinCEN Memo”). The FinCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the U.S. Controlled Substances Act on the same day. It is unclear whether the current administration will follow the guidelines of the FinCEN Memo.

The Company's investments, and any proceeds thereof, are considered proceeds of crime since cannabis remains illegal federally in the United States. This restricts the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Reliance on third-party suppliers, manufacturers and contractors

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

The Company's investments in the United States may be subject to heightened scrutiny

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risks Related to the Company's Business."

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risks Related to the Company's Business."

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risks Related to the Company's Business."

The Company's investments operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company's investments incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company's investments and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavourable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company's investments and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government

levies, including taxes, could reduce the Company's investments' earnings and could make future capital investments or the Company's investments' operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

As described in *"Risks Specifically Related to the United States Regulatory System"*, the views between state legislatures and the federal government of the United States regarding cannabis are conflicting, and thus, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and 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, which would adversely affect the current and future investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators ("CSA") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("TMX MOU") with Aequitas NEO Exchange Inc., the Canadian Securities Exchange ("CSE"), the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company ("DTC") for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

As described in *"Risks Specifically Related to the United States Regulatory System"* and *"Canadian Regulatory Risks"*, the legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions. In the United States, Golden Leaf's investments have been focused in the states that have legalized the recreational use of cannabis, and in Canada, the Company's investments are focused in the legal medical cannabis industry. The activities of Golden Leaf's investments are, and will continue to be, subject to evolving regulation by governmental authorities.

There can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's investments in such businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

Golden Leaf's funding of the activities of investments involved in the medical and recreational cannabis industry through loans, royalties or other forms of investment, may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially averse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defence to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail in the annual information form filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers:

- The Company has several investments into businesses that operate in the U.S., where cannabis is federally illegal;
- The activities of the Company are subject to evolving regulation that is subject to changes by governmental authorities in Canada and the U.S.;

- Third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities;
- The Company's ability to repatriate returns generated from investments in the U.S. may be limited by anti-money laundering laws;
- Under Section 280E of the Internal Revenue Code, normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, the Company will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company will not be subject to 280E in the future, and accordingly, there is no certainty that the impact that 280E has on the Company's margins will ever be reduced;
- Federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company will be able to maintain its existing accounts or obtain new accounts in the future; and although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the 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 security firms 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. 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.

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. Note that in lieu of this report, the Company may file audited consolidated financial statements at December 31, 2017 and December 31, 2018. Due to this temporary non-compliance, 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 or audited consolidated financial statements, whichever is earlier. 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 September 30, 2018 of US\$91.0M. 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 and recreational 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 exposed to currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. The Company's revenue is earned in U.S. dollars and Canadian dollars, and its operating expenses are incurred in U.S. dollars and Canadian dollars, respectively. 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 September 30, 2018 are described in detail in Note 13 of the interim consolidated financial statements for September 30, 2018. Shares outstanding as of November 5, 2018 are 583,611,611.