



Golden Leaf Holdings Ltd.

is a leading vertically integrated cannabis company with operations in multiple jurisdictions including Oregon, Nevada, and Canada. Golden Leaf's cultivation, production and retail operations are built around recognized brands.

Golden Leaf distributes its products in the United States through its branded Chalice Farms retail dispensaries, as well as through third-party dispensaries. Golden Leaf's United States cannabis retail operations and products are designed with the customer in mind, focused on superlative in-store experience and quality products.



Highest Quality

of cannabis in a wide array of flower, extractions, oils, edibles and full body care with optimal efficacy



Accessible Retail Stores

that create a positive experience for cannabis users of all kinds



Educated and Experienced

product specialists to align products with individual needs



Lead the Industry

with forward thinking research and development as well as innovative delivery systems



Seed to Sale

production chain for optimal quality control

Golden Leaf is an industry leader for both medical and recreational cannabis use, with state-of-the-art farming practices, retail excellence, and innovative products.

Golden Leaf's foundation for success:



Create Fans



Corporate Responsibility



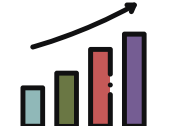
Global Brand



Organizational Agility



Best Product



Expanding Geographic footprint



Product Inspiration & Innovation



New Technology



Regulatory Gains



Greater Margin Across the Entire Chain

INTERNATIONAL AND MULTI-STATE OPERATOR



CANADA



OREGON



NEVADA

Vertically Integrated

CULTIVATION

Location	Ontario	Yamhill County	Sparks
Capacity * (lbs of dry cannabis flower/yr)	> 600 lbs/yr	> 2,000 lbs/yr	TBD
Type	Indoor	Greenhouse	Indoor
Status	Operating	Operating **	Under construction

PRODUCTION – EXTRACTION AND POST-PROCESSING

Location	Ontario	Portland	Sparks
Status	Under construction	Operating	Operating

RETAIL

Active and Operating Stores		7 stores	
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MEDICAL CONSULTING

Location	Ontario		
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WASHINGTON

The Company has an option to purchase BMF Washington, LLC, if and when legislation allows cannabis business ownership by non-residents in the state of Washington. Refer to *Principal Markets*.

* These figures are considered forward-looking information. Golden Leaf defines cultivation capacity as the capacity of each licensed grow facility, based on the Company's experience in cultivating cannabis, annualized expected harvests at maturity, targeted historical yields per cannabis plant and expected wastage per year. Refer to the Cautionary Note Regarding Forward-Looking Statements section of this Management Discussion and Analysis.

** Construction of the facility is substantially complete, with the build-out of an adjacent shop completed in Q1 2019 and nursery scheduled for completion by the end of Q2-2019, respectively.



Cultivation

High-quality high-yield low-cost and maximum efficiency

Our newest cultivation facility is located in the heart of Oregon's wine country, up in the Chelahem Mountains. This premier facility has 10,000 sq. ft. of flowering canopy space with an estimated annual yield of 2,000 Lbs of cannabis flower. Transfer of plant stock was completed in Q4 2018, and the Company expects its first harvest by Q4 2019, at which time it will be at full flowering capacity. At over 1,600 ft elevation, this expertly designed and superb location offers seclusion from urban and farm pollution, has abundant airflow and sunshine with high water quality, and is above the valley fog line. The facility has high levels of automation, monitoring and control, inspired by a mix of best practice and proprietary cultivation methods that help prevent cross contamination with minimal labor and maximum efficiency.



Production *Extraction and Post-processing*

Cannabis Reimagined

Golden Leaf operates extraction and post-processing facilities in Oregon and Nevada. The Company is proud of its deep roots in the markets it serves and the role Golden Leaf played in pioneering oil extraction.

Edibles, extracts, and topicals are expected to become legal in Canada by October 2019. Golden Leaf is developing an additional production facility in Ontario to benefit from a strong first-to-market and early mover advantage. The Company expects this facility to be completed and operating by October 1, 2019.

Golden Leaf offers a broad range of craft cannabis for a diversity of cannabis users.

The Company sources the finest raw materials from local growers and producers to curate and create innovative, high quality products from premium cannabis distillate vaporizer cartridges in top line hardware to nutrient-infused fruit chew edibles made from organic ingredients utilize uncut cannabis oil extracts and developed flavorful terpenes.

In Q4 2018, Golden Leaf launched four flavors 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.



Retail

Golden Leaf owns a network of seven retail dispensaries, located in Oregon.

Chalice has established itself as a trusted and premium brand for health and wellness, as well as for recreational enjoyment. The Company is focused on expanding its retail segment of business and perfecting its Chalice Farms store model that is replicable across different markets. Golden Leaf is dedicated to enhancing customer experience and optionality that results in high customer retention and repeat customers.



Medical Consulting

Medical Marijuana Group Consulting Ltd. ("MMC") is a trusted expert legal and medical organization that provides a comprehensive service package to completely manage patients' clinical and litigation needs associated with cannabinoid therapy. As a result of the need for litigation-sensitive, cannabis patient assessment, treatment, product delivery and long-term patient management, MMC offers a suite of services to assist lawyers, rehab professionals, case managers, social workers, life care planners, psychologists, family physicians, physiotherapists and 3rd party insurance companies manage their respective patient populations and case file requirements.

In 2018, MMC served 4,450 patients.

Our Brands

Owned Brands



Management Change

In December 2018, Golden Leaf hired William Kulczycki as its new CEO and President. Mr. Kulczycki brings over 40 years of experience to Golden Leaf as an executive with public and private companies involved in the outdoor industry, where he has successfully built strong management teams, improved profitability, and provided support and advice on acquisitions as well as distribution strategies. Mr. Kulczycki's experience includes 28 years as Vice President of Patagonia Inc./Lost Arrow Corp.; four years as CEO/President of C.C. Filson of Seattle; four years as Brand President of Gregory Mountain Products, and V.P. of Black Diamond Inc., a publicly traded outdoor company; and two years as Executive Director of Mountain Khakis of Jackson, WY. While at Patagonia, Mr. Kulczycki was responsible for Global Sales and Marketing, as well as Product Development.

In February 2019, the Company appointed Karyn O. Barsa as its new Chief Financial Officer. Ms. Barsa brings over 30 years of progressive financial leadership in a career marked by conquering business challenges for profitable and ethical growth. Ms. Barsa's experience includes service as a Director, CEO, CFO and COO for multi-million and billion-dollar privately held and public companies across consumer products, financial services and other industries, including Deckers Outdoor Corporation, Performance Sports Group Ltd., Coyuchi, Inc., Investors' Circle, Smith & Hawken, Ltd. and Patagonia Inc. Ms. Barsa focuses on strategic growth, process improvements, financial accountability, operations turnaround and developing corporate culture.

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; 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; 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.

GOLDEN LEAF HOLDINGS LTD.

**13315 NE Airport Way STE 700
Portland, Oregon 97230**

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

FOR THE YEAR ENDED DECEMBER 31, 2018

Date: April 30, 2019

GENERAL

Golden Leaf Holdings Ltd ("Golden Leaf" or the "Company") is a publicly traded corporation, incorporated in Ontario that is traded on the Canadian Securities Exchange under the symbol "GLH" and on the OTCQB under the symbol "GLDF". The registered office of the Company is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1, and its principal U.S. corporate office is located at 13315 NE Airport Way STE 700, Portland, Oregon 97230.

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 year ended December 31, 2018 and up to and including April 30, 2019. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017, together with the related notes (the "Consolidated Financial Statements").

The 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 April 30, 2019. The 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 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 is 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 are disclosed in the notes to the audited Consolidated Financial Statements for the years ended December 31, 2018 and 2017.

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, GLHI completed a reverse takeover of Longacre (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 office of the Company is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1, its U.S. corporate office and principal place of business is located at 13315 NE Airport Way STE 700, Portland, Oregon 97230.

Golden Leaf is a leading United States operator of consumer-conscious retail dispensaries and a 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, Nevada, and a new facility in Oregon, which was completed and licensed in the fourth quarter of 2018. Currently, 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 current U.S. jurisdiction.

Production, Supply Chain and Wholesale

The Company has production infrastructure in Nevada and Oregon.

As of December 31, 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™, and Chalice™ brands. The oil for these products is provided by our production facilities and by third-party processors in bulk, and then filled into cartridges, packaged and distributed by the Company through its wide distribution network.

The Company’s branded products are sold in licensed dispensaries throughout Oregon, as well as in several dispensaries in Nevada. The Company is also preparing to sell selected branded products in Canada. Currently, Medical Marihuana Group Corporation (“MMG”) 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 operate under the flagship dispensary brand “Chalice Farms” and one of which is branded as “Left Coast Connections”. 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 are packaged to leave the store in child proof containers. Five of Chalice Farms retail dispensaries and Left Coast Connections are located in the Portland Metropolitan area, while one Chalice Farms retail dispensary is in Dundee, 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 has 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. 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.

United States federal regulations provide that cannabis and cannabis products are federally illegal to possess and may not cross state lines. Thus, in states which have enacted their own cannabis legislation permitting consumption even though this continues to be a violation of federal law, all cannabis consumed in a state must be cultivated and produced in that same state. In Oregon, low barriers for entering the cannabis industry created oversupply. The Company attempts to protect itself from adverse impact of cannabis price contraction in Oregon through its vertically integrated business model, organic growth, and presence in other geographic markets besides Oregon, including Nevada and Canada.

Economic Dependence

The Company is not substantially dependent on any single 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.

For the first half of 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 December 31, 2018, the Company had 226 employees.

As of the date of this report, William Kulczycki serves as the Company's CEO and President, Karyn Barsa 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 and Secretary. Erin Hills, VP of Retail and Wholesale Operations, oversees the Company's product development, production and supply chain operations and the retail dispensary network.

Foreign Operations

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

Principal Markets

As of December 31, 2018, the Company actively operates in three cannabis jurisdictions: Canada, Oregon and Nevada medical and recreational markets. As of December 31, 2018, a substantial portion of the Company's activities relate to its Oregon operations, as Canada and Nevada's operations were in the early growth stages. The Company is licensed to distribute its products to wholesale dispensaries in Oregon and Nevada. The Company has seven retail dispensaries in Oregon.

The Company has an option to purchase BMF Washington, LLC ("BMF"). The option agreement provides the Company with the right to buy the shares of BMF for \$10,000 when the laws in Washington are changed to allow non-resident ownership of companies in the cannabis industry. The option agreement expires on January 1, 2021 but the Company will have up to two years from December 31, 2020 to purchase the shares if the laws change by this date.

Legal Proceedings

In 2018, the Company finalized a settlement with a former employee for an employment-related claim that was made during 2017. The claim alleged damages of \$376,003, not including penalties or attorney's fees. The Company settled the claim by transferring to the former employee excess production equipment valued for an immaterial amount. This amount was accrued in full at December 31, 2017.

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC, an Oregon limited liability company, 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. On February 1, 2019, subsequent to December 31, 2018 balance sheet date, the parties settled the case. The settlement did not have a material impact on the Company's financial statements and the amount was accrued in full in the 2018 financial statements.

Greenpoint Real Estate LLC, a wholly-owned subsidiary of the Company, was sublessee of certain real property located at 19630 S. McCord Rd., Oregon City, Oregon. On August 30, 2018, Greenpoint as plaintiff filed a complaint against the owner of the property, Dan Berge, as defendant, in Clackamas County Circuit Court, captioned Greenpoint Real Estate LLC, and Alex Wall v. Dan Berge, Case No.

18CV38386. On September 18, 2018, the court entered a preliminary injunction against Berge. The Court case remains pending, but the parties are engaged in settlement negotiations and the Company believes the case will likely be settled soon.

SELECTED FINANCIAL INFORMATION

(US\$, except share amounts)

	For the year ended	
	December 31 2018	December 31, 2017 (Restated)
Total revenues	\$ 16,452,327	\$ 11,511,298
Gross profit	2,191,266	1,708,038
Total expenses	23,070,448	11,668,001
Comprehensive gain (loss)	(4,434,583)	(55,942,854)
Basic and diluted income (loss) per share	\$ (0.01)	\$ (0.21)
Weighted average number of common shares outstanding	568,877,327	262,011,877
	as of	
	December 31 2018	December 31, 2017 (Restated)
Total assets	\$ 73,477,025	\$ 75,049,808
Long-term financial liabilities	\$ 14,548,105	\$ 54,333,855

OVERALL PERFORMANCE

The Company generated revenues of \$16.5M for the year ended December 31, 2018 compared to \$11.5M for the year ended December 31, 2017, an increase of 43% year-over-year. The increase in revenue is primarily due to additional revenue streams from the acquisition of Chalice Farms in 2017, the sales of cannabis from the Company's Canadian operations, and the addition of two new Chalice Farms stores in Oregon.

Excess of cultivation capacity in Oregon exerts downward pressure on the retail prices for the products the Company sells. Even though the retail prices in Oregon have decreased, the Company's retail revenues grew quarter over quarter due to improved efficiency of the Company's operations, higher volume and lower vendor pricing that includes volume discounts.

Gross profit was \$2.2M, or 13% of revenue, for the year ended December 31, 2018, compared with \$1.7M, or 15% of revenue, for the year ended December 31, 2017. In 2018, the cost of sales included the impact of operating costs from the construction of a cultivation facility in Oregon, which was completed in the fourth quarter of 2018.

The Company expensed \$2.2M on sales and marketing (2017: \$1.1M), and \$14.4M on general and administration expenses (2017: \$8.6M). Increased sales and marketing expenses represent investment into brand recognition initiatives that management believes will have a long-term benefit.

The Company's management initiated significant efficiency measures intended to improve the financial performance of the Company, including reductions in compensation and other expenses. Through this

process, in January 2019, headcount was reduced by 19% throughout the Company. These measures were implemented to lower the Company's costs, improve cash flows and otherwise increase operational efficiency, with the objective of increasing shareholder value over the long term.

The Company reported a comprehensive loss of \$4.4M or \$0.01 per basic and diluted share for the year ended December 31, 2018 compared to a comprehensive loss of \$55.9M or \$0.21 per basic and diluted share for the year ended December 31, 2017. This improvement is primarily attributable to non-operational gains on the change in fair value of warrant and debt liabilities. In the year ended December 31, 2017, changes in these fair values resulted in recognition of losses.

The Company's total assets were \$73.5M on December 31, 2018 (December 31, 2017: \$75.0M). The Company's long-term financial liabilities were \$14.5M on December 31, 2018 (December 31, 2017: \$54.3M). Shareholders' equity after the deficit was \$46.6M on December 31, 2018 (December 31, 2017: \$17.3M).

Quarterly Results (US\$, except share amounts)

Profit and Loss	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018
	restated	restated	restated	restated				
Product sales	2,259,094	2,089,393	3,078,891	2,983,854	3,182,989	3,671,738	5,104,251	4,388,580
Royalties	-	-	50,000	1,050,066	-	-	-	-
Consulting Revenue	-	-	-	-	17,278	9,898	8,662	68,931
Total Revenue	2,259,094	2,089,393	3,128,891	4,033,920	3,200,267	3,681,636	5,112,913	4,457,511
Cost of sales expense	2,020,695	1,687,269	2,397,703	3,697,593	2,847,420	2,741,706	4,668,712	4,003,223
Gross profit (loss)	238,399	402,124	731,188	336,327	352,847	939,930	444,201	454,288
Total expenses	2,100,719	2,712,331	4,243,343	2,611,608	4,599,826	4,637,494	4,656,471	9,176,657
Interest (income) expense, net	545,021	312,411	556,427	546,261	649,258	266,317	(31,280)	1,337,619
Transaction costs	-	-	2,365,821	6,152,669	471,900	-	454,292	760,233
Loss on disposal of assets	-	-	-	470,071	-	5,000	-	-
Loss on impairment	27,422	27,422	27,422	14,900,291	-	-	-	9,930,589
Other (income) loss	925	161,903	37,296	237,289	(159,126)	36,723	(12,410)	(2,463,553)
(Gain) loss on changes in fair value of warrant liability	(155,685)	(82,694)	(2,841,983)	10,794,940	(6,212,222)	(4,415,480)	1,372,824	(5,739,113)
(Gain) loss on change in fair value of liabilities	(44,693)	(1,541,097)	(1,148,020)	15,030,070	(7,128,616)	(2,841,987)	(506,686)	(2,165,933)
Gain (loss) before income taxes	(2,235,310)	(1,188,152)	(2,509,118)	(50,406,872)	8,131,827	3,251,863	(5,489,010)	(10,382,211)
Incomes tax expense (benefit)	-	-	-	143,230	-	8,434	3,842	70,535
Net gain (loss)	(2,235,310)	(1,188,152)	(2,509,118)	(50,550,102)	8,131,827	3,243,429	(5,492,852)	(10,452,746)
Other comprehensive (income) loss	-	-	-	539,828	(19,117)	(34,146)	7,475	181,547
Comprehensive gain (loss)	(2,235,310)	(1,188,152)	(2,509,118)	(50,010,274)	8,112,710	3,209,283	(5,485,377)	(10,271,199)
Basic and diluted gain (loss) per share	(0.02)	(0.01)	(0.01)	(0.12)	0.02	0.01	(0.01)	(0.02)
Weighted average number of common shares outstanding	118,346,097	143,604,908	345,710,474	435,334,457	534,900,058	575,776,971	580,321,291	583,847,178

In the fourth quarter of 2018, product sales increased by \$1.4M or 48% to \$4.4M, as compared to the fourth quarter of 2017. Higher product sales in the fourth quarter of 2018 as compared to 2017 are attributable to additional revenue streams from new retail stores in Oregon (a quarter-over-quarter increase of \$1.0M or 54%), ramping up wholesale operations in Nevada (a quarter-over-quarter increase of \$0.1M or 30%), new sales generated by cultivation in Canada (a quarter-over-quarter increase of \$0.2M or 100%) and consulting revenue in Canada (a quarter-over-quarter increase of \$0.2M or 100%). These were slightly offset by a decrease in wholesale sales in Oregon Wholesale (a quarter-over-quarter decrease of \$0.1M or 10%). For more segmented information, refer to Note 29 of the consolidated financial statements for year ended December 31, 2018.

In 2018, the Company did not generate royalty revenues.

In the fourth quarter of 2018, gross profit increased by \$0.1M or 35% to \$0.5M, as compared to the fourth quarter of 2017. The increase is attributable to higher quarter-over-quarter revenues.

Adjusted EBITDA

Adjusted EBITDA		
	For the year ended December 31,	
	2018	2017 Restated
Income (loss) before income taxes	(4,487,531)	(56,339,452)
Adjustments:		
Net impact, fair value of biological assets	(73,604)	(198,000)
Depreciation and amortization	1,856,814	572,695
Fair value changes on debt and equity instruments	(27,637,213)	20,010,838
Share based compensation	4,616,448	1,239,670
Interest expense, net	2,221,914	1,960,120
Transaction costs	1,686,425	8,518,490
Impairments and other	7,332,223	15,419,970
Loss on disposal	5,000	470,071
Adjusted EBITDA	\$ (14,479,524)	\$ (8,345,598)

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 2018, the Adjusted EBITDA loss was at \$14.5M, compared with \$8.3M for 2017. This decline was primarily due to higher sales and marketing, general, and administration expenses.

Non-IFRS Measure

Adjusted EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined by the Company 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 and reconciled 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 during the year ended December 31, 2018 was \$16.9M compared to \$15.6M used during the year ended December 31, 2017. Cash provided by financing activities during year ended December 31, 2018 was \$25.0M compared to \$38.6M provided during the year ended December 31, 2017.

In November 2018, the Company completed a private placement of debenture units and received net offering proceeds of C\$7.9M. In January 2018, the Company completed its bought deal private placement financing resulting in gross proceeds of C\$17.5M.

As of December 31, 2018, the Company had \$12.3M of cash on hand. With an appropriate current level of capitalization, the Company is focused on strategic capital investment initiatives and optimization of its current operations. As mentioned above, the Company's management has instilled stringent efficiency measures to reduce general and administrative expenses and to improve the Company's performance cross-board. Additionally, in order to better its inventory to working capital ratio, the Company manages its inventory turns at the SKU level and is implementing new processes throughout the supply chain.

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 (\$0.6M).

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

	December 31,	
	2018	2017 Restated
Current assets	\$ 20,033,842	\$ 11,629,357
Current liabilities	12,339,785	3,380,158
Working capital	7,694,057	8,249,199
Long-term debt and notes payable	5,355,158	30,830,522
Share capital	138,511,038	108,552,681
Deficit	(100,686,006)	(97,457,855)

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

2019	\$ 1,649,216
2020	1,300,462
2021	962,256
2022	386,108
2023	278,433
Thereafter	792,598
	\$ 5,369,073

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, 2018.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the years ended December 31, 2018 and 2017 includes the following expenses:

	2018	2017
Salaries, commissions, bonuses and benefits	\$ 1,243,458	\$ 1,249,778
Consulting fees	93,000	-
Stock Compensation, including warrants and shares	1,232,553	936,571
	<u>\$ 2,569,011</u>	<u>\$ 2,186,349</u>

Don Robinson, former CEO, provided a personal guarantee of the \$1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director. This note was settled in full as of December 31, 2017 as part of an offset agreement between Saladino, BMF and GLH.

The Company was engaged in a licensing and leasing arrangement with BMF in connection with the assets purchased in January 2016. BMF Washington is 100% owned by Peter Saladino, Director. During the year ended December 31, 2017, the Company recorded \$1,100,006 of royalty revenues from BMF Washington, LLC, a related party and strategic partner, under its brand licensing arrangement which was deemed terminated as of February 9, 2018.

Consideration payable with face value of \$9,527,350, related to Chalice Farms acquisition, is owed to William Simpson, former CEO, Michael Genovese, COO, and Gary Zipfel, Director (Note 21 of the Consolidated Financial Statements for the year ended December 31, 2018).

On September 5, 2017, the Company converted C\$447,000 and C\$819,000 debentures held by Peter Saladino and Michael Cohl, respectively, at a conversion price of C\$0.21 in exchange for 6,144,132 common shares.

As part of the Company's Bridge Loan financing in September 2017, Gary Yeoman, a former Director, Gary Zipfel, Director, and Phillip Millar, President of MMG and MMCC, placed notes of C\$50,000, C\$750,000 and C\$50,000 respectively. These amounts were all subsequently extended as part of the debenture unit placement on November 2, 2017. The same individuals also received 47,600, 714,000 and 47,600 common share purchase warrants respectively.

On October 27, 2017, as consideration for the acquisition of Medical Marijuana Group Corporation, Gary Yeoman, a former Director, received 2,171,428 common shares as consideration.

On November 13, 2017, as compensation for share pledges made to facilitate the placement of additional financing, Gary Yeoman and Phillip Millar were awarded 937,500 and 2,812,500 warrants exercisable for up to 24 months at an exercise price of C\$0.21.

On November 15, 2017, the Company remitted \$467,049 to BMF for a variety of expenses incurred to support the assets of NevWa, LLC prior to the acquisition close in June 2017.

On November 20, 2017, the Company remitted \$267,845 to Peter Saladino, Director, for various costs incurred in support of financing efforts and the NevWa, LLC assets.

On December 29, 2017, as consideration for the acquisition of Medical Marijuana Group Consulting Ltd., Gary Yeoman, a former Director and Phillip Millar, President of MMG and MMCC, received 1,785,714 and 5,357,143 common shares, respectively, as consideration.

The Company leases both its corporate headquarters in Portland and its grow facility outside of Portland, which is currently under construction, from CPPOR LLC (“CPP”), of which Gary Zipfel, Director, is the sole member. During 2017, the Company paid total rents of \$114,600 and \$96,000, respectively, for these properties. In 2018, in an effort to support the Company, CPP entered into a rent abatement agreement with the Company for grow facility under construction for the entire 2018 year. Rent payments for the grow facility resumed upon completion of construction in January 2019.

Refer to Note 24 of the Consolidated Financial Statements for the year ended December 31, 2018.

Future Accounting Pronouncements

Refer to Note 5 of the Consolidated Financial Statements for the year ended December 31, 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. Refer to Note 28 of the Consolidated Financial Statements for the year ended December 31, 2018.

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date. Refer to Note 5 of the Consolidated Financial Statements for the year ended December 31, 2018.

Fair value

The carrying amounts of cash, accounts receivable, accounts payable, and accrued liabilities approximate their fair values because of the short-term maturities of these financial instruments.

The carrying value of long-term debt approximates fair value upon initial recognition. At December 31, 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 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 14 to the consolidated financial statements for the year ended December 31, 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:

Credit Risk

The Company's principal financial assets are cash held at highly-rated financial institutions and accounts receivable. 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.

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.

Foreign Currency Exchange Rate Risk

The exchange rate of the Canadian dollar relative to the U.S. dollar is an important financial driver for the Company because the Company reports its financial results in United States dollars, while a portion of its revenues and operating costs are denominated in Canadian dollars. There are no exchange rate contracts in place to hedge the Company's exposure to fluctuations on the value of the Canadian dollar versus the United States dollars.

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.

Default Risk

As of the date of this report the Company has convertible debentures with the face value of C\$8.1M due from its placement in November 2018 and C\$13.0M due from its placement in November 2017, respectively. The Company cannot guarantee it will have sufficient cash reserves to settle these obligations when due given current projections. Note that terms of the convertible debentures dated November 2017 permit the Company to issue common shares to repay the principal amount upon advance notice to the debenture holders.

Biological Assets

In October 2018, the Canadian Securities Administrators (the "CSA") published Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry*. The notice addresses best practices and guidelines for accounting policies with respect to biological asset disclosure for the cannabis industry. The

Company has taken the guidance into account and enhanced its biological asset disclosure. The enhanced disclosure describes the Company's policies in determining fair value of biological assets at different stages of plant growth for its Nevada and Canada cultivation operations, 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 9 of the consolidated financial statements for year ended December 31, 2018.

Revenue

The Company adopted all requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The IFRS 15 model contains the following five-step contract-based analysis of transactions guiding revenue recognition:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

The Company assessed the impact of IFRS 15 on its financial statements. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date, and the adoption of this new standard does not have a material impact on the Company's consolidated financial statements. Refer to Note 5 of the consolidated financial statements for year ended December 31, 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 CSA published a revised 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 favorably, 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 table below.

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 producer, 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 “Chalice Farms.”	<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. Greenpoint Nevada, Inc. is located in Sparks, Nevada.	<u>Type of relationship:</u> Greenpoint Nevada Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> Nevada <u>Classification:</u> Direct

<p>Greenpoint Equipment Leasing LLC (Oregon)</p> <p><i>January 2016</i></p>	<p>Greenpoint Equipment Leasing (OR) is located in Portland, Oregon and will lease equipment to operating subsidiaries in Oregon and Nevada.</p>	<p><u>Type of relationship:</u> Greenpoint Equipment Leasing (OR) is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> Oregon and Nevada</p> <p><u>Classification:</u> Ancillary</p>
<p>Greenpoint Real Estate LLC (Oregon)</p> <p><i>September 2015</i></p>	<p>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.</p>	<p><u>Type of relationship:</u> Greenpoint Real Estate (OR) is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> Oregon and Nevada</p> <p><u>Classification:</u> Ancillary</p>
<p>Greenpoint Workforce, Inc.</p> <p><i>June 2017</i></p>	<p>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.</p>	<p><u>Type of relationship:</u> Greenpoint Workforce, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> Oregon, California, Nevada</p> <p><u>Classification:</u> Ancillary</p>
<p>GL Management Inc.</p> <p><i>August 2014</i></p>	<p>GL Management Inc. owns and licenses brands and intellectual property in Nevada. The company is located in Sparks, Nevada.</p>	<p><u>Type of relationship:</u> GL Management Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> Nevada</p> <p><u>Classification:</u> Ancillary</p>
<p>CF Greenpoint CA, Inc.</p> <p><i>May 2018</i></p>	<p>CF Greenpoint CA, Inc. manages all non-retail operations in California.</p>	<p><u>Type of relationship:</u> CF Greenpoint CA, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> California</p> <p><u>Classification:</u> Ancillary</p>
<p>CF US Franchising, Inc.</p> <p><i>January 2018</i></p>	<p>CF US Franchising, Inc. manages franchising activities in the United States and is located in Portland, Oregon.</p>	<p><u>Type of relationship:</u> CF US Franchising, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> Oregon, California, Nevada</p> <p><u>Classification:</u> Ancillary</p>
<p>Greenpoint CBD, LLC</p> <p><i>November 2018</i></p>	<p>Greenpoint CBD, LLC manages industrial hemp handling in Nevada. It is located in Sparks, Nevada.</p>	<p><u>Type of relationship:</u> Greenpoint CBD, LLC. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.</p> <p><u>Jurisdiction:</u> Nevada</p> <p><u>Classification:</u> Direct</p>

U.S. Federal Regulatory Environment

The cultivation, production, distribution and sale of cannabis and cannabis extracts is illegal under U.S. federal law, and it is listed as a Schedule I substance under the U.S. Controlled Substances Act. A Schedule I drug or substance is deemed to have a high potential for abuse, to have no accepted medical use in the United States, and to lack an acceptable safe use of the drug under medical supervision. The Company believes the U.S. Controlled Substances Act categorization as a Schedule I drug is not reflective of cannabis medicinal properties and numerous related studies support rescheduling. Over the past decade, cannabis policy has been morphing towards legalization and liberalization of cannabis laws.

In 2009 the U.S. federal government's Department of Justice 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 former Attorney General, Jefferson B. Sessions, III, to issue additional cultivation licenses to grow marijuana for federal 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.

The District of Columbia ("D.C.") and 33 U.S. states, including the states of Oregon, Nevada and California, have legalized cannabis for medical use. D.C. and 10 U.S. states, including the states of Oregon, Nevada and California, have also legalized adult recreational use of cannabis.

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 ("MRBs"), 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 486 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. Because 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.

In March 2019, a congressional committee approved the Secure And Fair Enforcement (SAFE) Banking Act. Draft legislation of the SAFE Banking Act received a historic hearing in the House Consumer Protection and Financial Institutions Subcommittee in February 2019, where the National Cannabis Industry Association submitted written testimony along with the personal stories about the burdens and safety concerns created by the current banking situation from nearly 100 cannabis industry professionals. The proposed legislation aims to increase marijuana businesses' access to banks and increase public safety by expanding financial services to cannabis-related legitimate businesses and

service providers by reducing the amount of cash on hand at such businesses. Under the proposed bill, federal banking regulators would not be able to punish financial institutions just because they work with marijuana businesses that are legal under state or local laws, or those of an Indian tribe.¹ The Company believes that passing a progressive banking reform for the U.S. cannabis industry would reflect a positive trajectory for marijuana banking reform.

Compliance of United States Operations

Golden Leaf, via its subsidiaries, is compliant with all applicable licensing requirements and the respective U.S. state regulatory frameworks in each of its facilities in Oregon and Nevada. The Company is currently licensed to operate as a producer, 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 nor 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 armored 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. External legal advice is obtained on an as needed basis with respect to discrete questions.

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 at all points of ingress or egress, and in all areas where mature marijuana plants, immature plants, usable marijuana, cannabinoid concentrates, extracts or products may be present on the licensed facility.

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.

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.

U.S. Enforcement Proceedings

In January 2018, the former U.S. Attorney General, Jefferson B. Sessions, III, announced the rescission

¹ Tom Angell. (2019 March 28). Marijuana Banking Bill Approved by Congressional Committee. Retrieved from: <https://www.forbes.com/sites/tomangell/2019/03/28/marijuana-banking-bill-approved-by-congressional-committee/#5d3c04672ce1>

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 in January 2018 created a vacuum of guidance for enforcement agencies and the Department of Justice (“DOJ”). Multiple legislators believe that the rescission of the Cole Memorandum invites an opportunity for Congress to pass more definitive protections for cannabis businesses in states with legal cannabis programs during this Congress.

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. Gardner, along with Senator Elizabeth Warren have introduced (and recently reintroduced) the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act to effectuate this agreement. Current Attorney General William Barr has stated publicly that he would prefer this bill to the current situation.

The Rohrabacher-Farr amendment was passed by the U.S. House of Representatives in May 2014. The amendment prohibits the Department of Justice, which includes the Drug Enforcement Administration, from using funds to interfere with activities governed by laws that implement 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 33 states that have legalized marijuana for medical purposes. On March 23rd, 2018, the current version of the amendment was renewed in the FY 18 Appropriations process and expired on September 30, 2018.

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 requiring an evidentiary hearing be held on the issue of whether the alleged conduct violated state law.

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 remained in effect until September 30, 2018, when FY 2019 began. On May 17, 2018, the House Appropriations Committee approved inclusion of the Rohrabacher–Farr amendment in the Commerce, Justice, Science (“CJS”) appropriations bill for fiscal year 2019, in a voice vote led by sponsor Rep. David Joyce. The Senate Appropriations Committee followed on June 12 by approving a base CJS appropriations bill with the amendment included. The amendment was then renewed through a pair of short-term spending bills signed on September 28, December 7, and January 25. On February 15, 2019, the amendment was renewed as part of an omnibus spending bill in effect through September 30, 2019. 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.

In March 2017, Congressman Blumenauer and Senator Wyden introduced the three-bill package, Path to Marijuana Reform. The Path to Marijuana Reform includes the bipartisan Small Business Tax Equity Act, which would fix Section 280E of the United States Internal Revenue Code of 1986, as amended (the “Code”). The package also includes measures to eliminate civil asset forfeiture and federal criminal penalties for businesses complying with state law, reduce barriers to banking, responsibly de-schedule, tax and regulate marijuana.² Senator Booker has also introduced the Marijuana Justice Act, which would de-schedule marijuana.

On June 7, 2018, Senator Cory Gardner and Senator Elizabeth Warren introduced the STATES Act in the Senate. Democratic representative Jared Polis introduced a companion bill in the House. The STATES Act would amend the U.S. Controlled Substances Act to conform to conform to the policies of individual states.³ As noted above, this bill was recently re-introduced.

In response to the rescission of the Cole Memorandum, the U.S. Attorney for the District of 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.”

Notwithstanding the foregoing, there can be no assurance that the federal government will not move to prosecute cannabis businesses operating within state regulatory frameworks. 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. There are significant risks associated with Golden Leaf’s business, as described above and under the heading “Risk Factors”. Readers are strongly encouraged to carefully read all of the risk factors described herein.

² Wyden, Blumenauer. (2017 March 30). Wyden, Blumenauer announce bipartisan path to marijuana reform. Retrieved from <https://blumenauer.house.gov/media-center/press-releases/wyden-blumenauer-announce-bipartisan-pathmarijuana-reform>.

³ Theodore Kupfer. (2018 Feb 7). Marijuana Policy Should Be Left To States. Retrieved from <https://www.nationalreview.com/2018/06/marijuana-policy-should-be-left-to-states/>

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 exclusive list 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 dispensaries. However, House Bill 3460 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 registers “persons responsible for” and regulates medical marijuana businesses and the Oregon Liquor Control Commission (“OLCC”) licenses and regulates adult-use marijuana businesses. There are six distinct types of cannabis businesses: cultivation, manufacturing (“processing”), wholesaling (only for adult use), 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 issued. 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 Producer license carries an endorsement that authorizes Greenpoint Oregon to plant, cultivate, grow harvest, and dry cannabis at its Bald Peak cultivation facility in Oregon. This will allow the Company to utilize cannabis grown under our own license to produce extracts and edibles at our other facilities, reducing the need for third-party cannabis suppliers.

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.

Under the Wholesale license, 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 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.

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.	Producer: 020-10087170927
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
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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.

Retail stores 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 treatment 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 Behavioral Health (the "Division") licensed medical marijuana establishments until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation ("DOT"). Under Nevada's adult-use marijuana law, the DOT 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."

License applications in Nevada are merit based and competitive. Residency is not required to own or invest in a Nevada medical cannabis business and 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.

Through its subsidiaries, Golden Leaf is licensed for Cultivation and Cannabis Product manufacturing in the State of Nevada. The DOT has issued one Cultivation License and one 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 its 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

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 modification, as well as at the time of annual renewal.

OVERVIEW OF CANADIAN REGULATION OF CANNABIS

The commercial medical and adult-use cannabis industry is a new industry in Canada and in other jurisdictions. Through its subsidiaries, Golden Leaf was licensed for production (including cultivation) of cannabis in the province of Ontario, Canada under the Access to Cannabis for Medical Purposes Regulations (“ACMPR”). The Cannabis Act and related regulations (the “Cannabis Regulations”) came into force on October 17, 2018, thereby legalizing the sale of cannabis for adult recreational use, and replacing the ACMPR and the Controlled Drugs and Substances Act (Canada) (the “CDSA”), as the governing legislation on the production, sale and distribution of medical cannabis. The ACMPR was repealed on the same day.

The Cannabis Act sets up the regulatory framework and licensing scheme for production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal (i.e., adult-use) use. The Cannabis Act also regulates access to cannabis for medical purposes. The Cannabis Regulations provide the more detailed rules and standards that apply to the production, distribution, sale, importation and exportation of cannabis by federal license holders.

In addition to these federal laws, each province has enacted its own legislation to regulate aspects of the recreational and medical cannabis market, such as the retail distribution regulations.

The standard cultivation license issued by Health Canada to MMG for the facility in St. Thomas, Ontario (the “Canadian Cannabis License”) is effective until the expected renewal date of November 24, 2020. The Canadian Cannabis License allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the facility in St. Thomas, Ontario to produce dried cannabis and cannabis extracts up to such amounts as permitted by MMG’s storage capacity.

Health Canada, pursuant to the Cannabis Act and the Cannabis Regulations, sets the standard required for production and sale of cannabis. The combination of the Company's experienced growing team along with its goal of exceeding Health Canada's quality assurance guidelines are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients.

The Cannabis Regulations set out the product categories that are permitted for sale. Currently, the Cannabis Regulations permit the sale of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds, including in such forms as “pre-rolled” and capsule products. The THC content and serving size of cannabis products is limited by the Cannabis Regulations. Edible cannabis and cannabis concentrates are currently prohibited but are expected to be permitted for legal sale October 17, 2019, according to the Canadian federal government.

For medical cannabis patients, Health Canada requires that medical documents be written to include the amount of dried cannabis in grams per day a patient may consume. This requirement applies equally to oils. To assist patients with determining how much oil they should be consuming per day, licensed producers are required to provide an equivalency factor outlining how much oil is equivalent to one gram of dried cannabis.

With the Cannabis Act coming into force, the medical cannabis regime is no longer governed by the ACMPR and the CDSA. However, the medical cannabis regulatory framework under the Cannabis Act and the Cannabis Regulations remains substantively the same as under the CDSA and the ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system.

Under the Cannabis Regulations, patients have three options for obtaining cannabis for medical purposes: (i) they can continue to access cannabis by registering with licensed producers; (ii) they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or (iii) they can designate someone else to produce cannabis for them. With respect to (ii) and (iii), starting materials, such as marijuana plants or seeds, must be obtained from licensed producers.

The Cannabis Act provides that the provinces and territories of Canada have authority to regulate certain aspects of recreational cannabis (similar to the current regime for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

All Canadian provinces and territories have enacted regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. There are three general frameworks that the provinces and territories have followed: (i) private cannabis retailers licensed by the province; (ii) government run retail stores; or (iii) a combination of both frameworks (e.g., privately licensed retail stores, while online retailers are operated by the applicable provincial government).

Regardless of the framework, the recreational cannabis market is supplied by federally licensed producers. In many cases, provinces that follow the licensed private retailer model will still have a government-run wholesale distributor. Such licensed private retail stores are or will be required to obtain their cannabis products from the wholesalers, and the wholesalers in turn, are or will be required to obtain the cannabis products from the federally licensed producers. The minimum age for purchase and possession of cannabis in each Canadian jurisdiction is 19 years old, except for Quebec and Alberta, where it is 18.

In Ontario, where MMG operates, the distribution and retail sale of recreational cannabis is conducted through the Ontario Cannabis Retail Corporation (“**OCRC**”), a subsidiary of the Liquor Control Board of Ontario. Online sales are conducted through the Ontario Cannabis Store platform. Ontario allowed the sale of recreational cannabis by private retailers beginning on April 1, 2019. In addition, the regulatory regime in Ontario has the following requirements and features:

- private retailers have to obtain both a retail operator licence and a retail store authorization. A retail operator licence allows the holder to operate one or more retail stores in Ontario. However, a separate retail store authorization is required for each store the retailer wishes to operate. Retail store authorizations are only to be issued to persons holding a retail operator licence. Private retailers are not permitted to sell cannabis online, but may only sell cannabis in person at an authorized retail store;

- there must be at least one licensed manager for each authorized store location. The licensed manager is responsible for hiring and managing employees, overseeing cannabis sales, managing compliance and managing the cannabis inventory;
- a corporation is not eligible to apply for a retail operator licence if more than 9.9% of the corporation is owned or controlled, either directly or indirectly, by a licensed producer or their affiliate;
- federally licensed producers are prohibited from promoting their products by way of providing any material inducement to cannabis retailers;
- municipalities and reserve band councils had the option to opt out of the retail cannabis market by resolution, and had until January 22, 2019 to pass such by-laws. Municipalities that opted out can still opt in at a later date, but once a municipality has opted in, it can no longer opt out. Municipalities may not pass a bylaw providing for a further system of licensing over the retail sale of cannabis. In total, 77 municipalities opted out of having a cannabis retail store; and
- cannabis retail store operators are only permitted to purchase cannabis from the OCRC, which may in the future set a minimum price for cannabis or classes of cannabis.

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: labor 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.

[Oversupply in Oregon](#)

The adult-use cannabis market in Oregon is oversupplied resulting in a significant decline in the market price for cannabis. Due to U.S. federal regulations, all cannabis cultivated and produced in the state must be consumed in the same state. Thus, at this time, the Company is unable to export cannabis products into other markets where cannabis use is fully legal under all federal and state or provincial laws. Due to these market conditions and current regulatory environment, there is no assurance that the Company would be able to generate sufficient revenue from the sale of adult-use cannabis to result

in profitability which could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition in the Canadian Cannabis Industry

The Cannabis Act and the introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

The market in which the Company operates is competitive and fast moving and may become even more competitive. The Company faces intense 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.

The number of licenses granted and the number of licensed producers ultimately authorized by Health Canada, and other applicable regulatory bodies in the markets in which the Company operates, could have an impact on the operations of the Company. According to Health Canada, as of the date hereof, there are currently 171 licensed producers under the Cannabis Act. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. Currently, the cannabis industry generally is comprised of individuals and small to medium-sized entities, however, the risk remains that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger operations and cultivation facilities. In doing so, these larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use cannabis industry. While the trend in most laws and regulations seemingly deters this type of takeover, this industry remains quite nascent, so what the landscape will be in the future remains largely unknown, which in itself is a risk.

If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

Competition from Illegal Dispensaries and the Black Market in Canada

The Company also faces competition from illegal dispensaries and the black market that are unlicensed and unregulated, and that are selling cannabis and cannabis products, including products with higher

concentrations of active ingredients, and using delivery methods that the Company is prohibited from offering to individuals as they are not currently permitted by law. Various Canadian cities have seen an influx in the number of illegal dispensaries. Any inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could result in the perpetuation of the black market for cannabis and/or have a material adverse effect on the perception of cannabis use. Any or all these events could have a material adverse effect on the Company's business, financial condition and results of operations.

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 November 2018 private placement of unsecured convertible subordinated debenture units and the January 2018 private placement which raised C\$7.9 million and C\$17.4 million of capital for the Company, respectively. The Company 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.

Risks Inherent in an Agricultural Business

The Company's business involves the cultivation of the cannabis plant. The cultivation of this plant is subject to agricultural risks related to insects, plant diseases, unstable growing conditions, water and electricity availability and cost, and force majeure events. There can be no assurance that agricultural risks will not have a material adverse effect on the cultivation of its cannabis. The Company may in the future cultivate cannabis plants outdoors, which would also subject it to related agricultural risks.

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.

Environmental and Employee Health and Safety Regulations

Costs and obligations related to ensuring continuous compliance with environmental and safety laws concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety are inherent in being a producer of agricultural products. Failure to maintain such compliance may result in additional costs for corrective measures, penalties or in restrictions on manufacturing operations.

Further, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations 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.

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 additional 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.

Product Recalls

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

Product Liability Claims

As a manufacturer of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacturing and sale of cannabis and other products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company.

Vulnerability to Rising Energy Costs

The Company's medical cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Reliance on Inputs

The marijuana business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Company. In addition, any restrictions on the ability to secure required supplies or utility services or to do so on commercially acceptable terms could have a materially adverse impact on the business, financial condition and operating results. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms and/or agreeable terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

Transportation Risks

Due to the perishable nature of the Company's products, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably. Security of the product during transportation to and from the facility is also of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the License or the prospect of renewing the License or obtaining additional licenses and/or approvals.

Security Risks

The business premises of the Company are targets 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 May Be Restricted

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are manufactured and/or sold. Although the Company has applied for various recreational marijuana licenses, there can be no assurance that it will 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.

Competition from Synthetic Products

The pharmaceutical industry may attempt to dominate the cannabis industry, and in particular, legal cannabis, through the development and distribution of synthetic products which emulate the effects and treatment of organic cannabis. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of the Company to secure long-term profitability and success through the sustainable and profitable operation of the anticipated businesses and investment targets, and could have a material adverse effect on the Company's business, financial condition or results of operations.

Unfavorable Publicity or Consumer Perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition of the Company. In particular, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

Liability and Enforcement Actions

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.

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

The Company incurred a net loss for the period from incorporation on April 8, 2014 to December 31, 2018 of US\$100.7M. 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.

Reliance on and Retention of Qualified Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, "**Key Personnel**"). Moreover, the Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant

costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

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.

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 requires 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. 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.

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 significant 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.

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 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.

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 defenses to criminal prosecutions.

As of December 31, 2018, 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 States of Nevada and Oregon, and
4. 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 December 31, 2018:

	December 31, 2018	
Current Assets	\$	11,694,570
Non-current assets		39,484,327
Total assets	\$	51,178,897
Current liabilities		1,429,202
Non-current liabilities		46,231
Total liabilities	\$	1,475,433

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 December 31, 2018:

- Inventory: 99.8%
- Property plant & equipment: 76.4%
- Intangible assets and goodwill: 70.8%

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

	For the year ended December 31, 2018	% of consolidated total
Revenue	\$ 14,697,787	89%
Cost of sales	13,759,701	96%
Gross profit	938,086	43%
Less operating expenses	13,205,933	57%
Net loss	\$ (12,267,847)	59%

There are risks related to variation in State regulation

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. Ten 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.

There are risks related to potential changes in Cannabis laws

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 jurisdictions. In the United States, Golden Leaf's investments have been focused in the states that have legalized the recreational use of cannabis.

The activities of Golden Leaf's investments are, and will continue to be, subject to evolving regulation by governmental authorities. 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. 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 United States 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.

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. 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.

Risks associated with travelling across borders

News media have reported that United States immigration authorities have increased scrutiny of Canadian citizens who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States. There have been a number of Canadians barred from entering the United States as a result of an investment in or act related to United States cannabis businesses. In some cases, entry has been barred for extended periods of time and lifetime bans have been granted.

The majority of persons travelling across the Canadian and U.S. border do so without incident. Some persons are simply denied entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the United States has not changed the admission requirements in response to the pending legalization of recreational cannabis in Canada. Admissibility to the United States may be denied to any person working or 'having involvement in' the marijuana industry according to United States Customs and Border Protection. Additionally, legal experts have indicated that if the admission criteria are applied broadly, this may result in a determination that the act of investing in or working or collaborating with a U.S. cannabis company is considered trafficking in a Schedule I controlled substance or aiding, abetting, assisting, conspiring or colluding in the trafficking of a Schedule I controlled substance. Inadmissibility in the United States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

Resulting Issuer directors, officers or employees traveling from Canada to the United States for the benefit of the Resulting Issuer may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to Resulting Issuer directors, officers or employees, then this may reduce the Resulting Issuer's ability to manage its business effectively in the United States.

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 FinCEN 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 former 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.

The U.S. Treasury Department, headed by Stephen Mnuchin, has publicly stated they did not participate in the former Attorney General Jeff Sessions' decision to rescind the Cole Memorandum and

do not intend to rescind the FinCEN guidance for financial institutions.⁴ Notwithstanding the foregoing, there is no guarantee that 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.

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 defense 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 and recreational 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

⁴Scotsman Guide. (2018 February 7). Mnuchin: Treasury is reviewing cannabis policies. Retrieved from <http://www.scotsmanguide.com/News/2018/02/Mnuchin--Treasury-is-reviewing-cannabis-policies/>.

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.

Risks of the United States Banking System

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.

Risks Related to the Canadian Regulatory System

Compliance with relevant Canadian laws related to cannabis

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 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 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 the Canadian Cannabis License. The Canadian Cannabis License is subject to ongoing compliance and reporting requirements and expires on November 24, 2020. Prior to expiry of the Canadian Cannabis License, the Company must submit to Health Canada an application for renewal of the Canadian Cannabis License containing information prescribed by the Cannabis Act. Failure to comply with the requirements of the Canadian Cannabis License or any failure to maintain the Canadian Cannabis License 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 Cannabis Act for future extensions or renewals of the Canadian Cannabis License, there can be no guarantee that Health Canada will extend or renew these Canadian Cannabis License 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 Cannabis License, or should they renew the Canadian Cannabis License on different terms, the business, financial condition and results of the operation of the Company would be materially adversely affected.

The Cannabis Act outlines 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.

The federal government left many of the details of regulating the cannabis industry up to provinces which have also enacted regulatory regimes for the distribution and sale of cannabis for recreational purposes. 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.

The Company's operations are subject to the Cannabis Act 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. The laws, regulations and guidelines generally applicable to the cannabis industry domestically and internationally may change in ways currently unforeseen by the Company. 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.

The legislative framework pertaining to the Canadian adult-use cannabis market is uncertain. The Company anticipates that regulations governing the industry will be subject to change as the Government of Canada, the governments of individual provinces and territories and other governments, monitor operating licensed producers. The operations of the Company will be subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, processing, extraction, import, export, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis but also laws and regulations relating to drugs, controlled substances, health and safety, land use, the conduct of operations and the protection of the environment. While to the knowledge of management, the Company is currently in material compliance with all such laws, any changes to such laws, regulations, guidelines and policies may have a material adverse effect on its business, financial condition and results of operations. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to distribute or produce cannabis, or the ability of its affiliates and/or partners to complete their licensing process as a result of not being able to import genetic material. Amendments to current laws and regulations governing the distribution, transportation and/or production of cannabis, or more stringent implementation thereof, could cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The legislative and operational framework of the provinces and territories and international governments pertaining to the distribution of cannabis varies among jurisdictions and has resulted in additional regulations, creating additional compliance and other costs and/or limitations on the Company's ability to participate in such markets. There is no guarantee that jurisdictional legislation regulating the distribution and sale of cannabis for adult-use or medical purposes, as applicable, will be enacted according to all the terms announced by such jurisdictions, or at all, or that any such legislation, if enacted, will create the growth opportunities that the Company currently anticipates. While the impact of any new legislative framework for the regulation of the adult-use cannabis market or medical market, as applicable, is uncertain, any of the foregoing could result in a material adverse effect on the Company's business, financial condition and results of operations. The asymmetrical regulatory and market environment for cannabis in each of the provinces and territories of Canada could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, although the Canadian government has proposed October 2019 as the timeline for legalization of edible and other concentrate sales, to the extent such timeline is delayed or such legislative proposals do not become laws, additional revenue from such products will be lost, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The governments of every Canadian province and territory have, to varying degrees, announced or implemented regulatory regimes for the distribution and sale of cannabis for adult-use purposes within those jurisdictions. There can be no assurance that the legalization of adult-use cannabis by each of the provinces and territories will occur as announced or at all.

Regional Overcapacity

The adult-use cannabis market in Canada may become oversupplied in the future and many analysts and commentators are predicting over-supply to occur.

Since the implementation of the Cannabis Act, demand for cannabis has increased. To date, licensed producers in Canada have not been able to produce sufficient amounts of cannabis product to satisfy

demand, which has led to an undersupplied market. However, as the Company and other licensed producers in Canada produce more cannabis than is needed to satisfy the collective demand of the Canadian medical and adult-use markets, and should the Company be unable to export that oversupply into other markets where cannabis use is fully legal under all federal and state or provincial laws, the available supply of cannabis could exceed demand, resulting in a significant decline in the market price for cannabis. If this were to occur, there is no assurance that the Company would be able to generate sufficient revenue from the sale of adult-use cannabis to result in profitability which could have a material adverse effect on the Company's business, financial condition and results of operations.

Early Stage of the Cannabis Industry

As a Licensed Producer under the Cannabis Act, the Company is operating its business in a relatively new industry and market. Competitive conditions, consumer preferences, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the Cannabis Act also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf. This could potentially significantly reduce the market for the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's investments in the United States may subject the Company 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 regulatory authorities. As a result, the Company may be subject to significant, potentially costly or time intensive interactions 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 and recreational cannabis could affect future legislation or regulation. Among other things, such a shift could cause state or other jurisdictions to abandon initiatives or proposals to legalize medical and recreational cannabis, thereby limiting the number of new 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 United States or Canadian 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 and recreational cannabis licenses in the United States, the listing of its securities on 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 subsidiaries operate in a new industry that 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 subsidiaries 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 unfavorable 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 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.

Risk Related to the Common Shares of the Company

No Assurance of Returns

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 not filed this report. In lieu of this report, the Company filed audited consolidated financial statements at December 31, 2017 and December 31, 2018.

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 early development stages. As the Company is in an early development 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.

The Company Does Not Pay 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.

Other MD&A Disclosure Requirements Information available on SEDAR

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

Disclosure by venture issuer

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

Outstanding share data

Common shares issued and outstanding as at December 31, 2018 are described in detail in Note 15 of the Consolidated Financial Statements for the years ended December 31, 2018 and 2017. Shares outstanding as of April 30, 2019 are 589,140,903.



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