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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

 QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

 TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **000-55462****GB SCIENCES, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other Jurisdiction of Incorporation or organization)

59-3733133

(IRS Employer I.D. No.)

3550 W. Teco Avenue**Las Vegas, Nevada 89118****Phone: (866) 721-0297**(Address and telephone number of
principal executive offices)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller Reporting Company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No

There were 222,001,839 shares of common stock, par value \$0.0001 per share, outstanding as of November 13, 2018.

GB SCIENCES, INC.**FORM 10-Q****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018****INDEX**

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GB SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	<u>30-Sep-18</u>	<u>31-Mar-18</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,929,015	\$ 3,579,700
Accounts receivable, net of allowance for doubtful accounts of \$41,077 and \$74,706 at September 30, 2018 and March 31, 2018, respectively	654,983	667,073
Inventory	1,707,415	1,049,372
Prepaid expenses	856,494	1,956,734
TOTAL CURRENT ASSETS	<u>6,147,907</u>	<u>7,252,879</u>
Property and equipment, Net	20,873,035	13,759,157
Intangible assets, net of accumulated amortization of \$5,355 and \$4,140 at September 30, 2018 and March 31, 2018, respectively	1,636,659	1,404,366
Deposits and prepayments	1,440,264	1,464,457
Other assets	308,255	168,895
TOTAL ASSETS	<u>\$ 30,406,120</u>	<u>\$ 24,049,754</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 471,802	\$ 371,925
Accrued interest	96,664	175,878
Accrued liabilities	339,150	316,090
Notes payable, net of unamortized discount of \$0.8 million and \$5.0 million at September 30, 2018 and March 31, 2018, respectively	1,148,640	1,056,301
TOTAL CURRENT LIABILITIES	<u>2,056,256</u>	<u>1,920,194</u>
Notes payable, net of unamortized discount of \$0.04 million and \$0 at September 30, 2018 and March 31, 2018, respectively	270,575	355,233
Capital lease obligations	6,072,237	6,142,606
TOTAL LIABILITIES	<u>8,399,068</u>	<u>8,418,033</u>
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY:		
Common Stock, \$0.0001 par value, 400,000,000 and 250,000,000	22,176	16,862

shares authorized, 221,760,237 and 168,616,855 shares issued and outstanding at September 30, 2018 and March 31, 2018, respectively

Additional paid-in capital	88,860,249	70,961,104
Accumulated deficit	(75,997,660)	(58,229,235)
TOTAL GB SCIENCES, INC. STOCKHOLDERS' EQUITY	<u>12,884,765</u>	<u>12,748,731</u>
Non-controlling interest	9,122,287	2,882,990
TOTAL EQUITY	<u>22,007,052</u>	<u>15,631,721</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 30,406,120</u>	<u>\$ 24,049,754</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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GB SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
SALES REVENUE	\$ 717,229	\$ 291,035	\$ 2,032,513	\$ 360,135
COST OF GOODS SOLD	(302,744)	(154,389)	(883,309)	(169,390)
GROSS PROFIT	414,485	136,646	1,149,204	190,745
GENERAL AND ADMINISTRATIVE EXPENSES	4,569,032	2,779,370	9,032,913	5,660,035
LOSS FROM OPERATIONS	(4,154,547)	(2,642,724)	(7,883,709)	(5,469,290)
OTHER INCOME (EXPENSE)				
Interest expense	(2,828,851)	(530,082)	(4,549,033)	(786,798)
Other income/(expense)	(3,047,667)	(5,769)	(2,949,806)	(45,182)
Total other expense	(5,876,518)	(535,851)	(7,498,839)	(831,980)
NET LOSS	(10,031,065)	(3,178,575)	(15,382,548)	(6,301,270)
Net loss attributable to non-controlling interest	(291,416)	(33,495)	(475,559)	(68,025)
NET LOSS ATTRIBUTABLE TO GB SCIENCES, INC.	\$ (9,739,649)	\$ (3,145,080)	\$(14,906,989)	\$ (6,233,245)
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.02)	\$ (0.08)	\$ (0.05)
Weighted average common shares outstanding - basic and diluted	204,143,491	127,794,766	189,787,747	126,724,132

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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GB SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES:		
Net loss	\$ (15,382,548)	\$ (6,301,270)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	399,194	385,184
Stock-based compensation	1,995,332	1,211,218
Bad debt expense	20,740	-
Amortization of debt discount and beneficial conversion feature	582,809	450,983
Interest expense on conversion of notes payable	3,464,187	-
Stock issued for settlement of Pacific Leaf royalty agreement	2,045,925	-
Changes in operating assets and liabilities:		
Accounts Receivable	(8,650)	(248,265)
Prepaid expenses and other assets	570,240	(394,688)
Inventory	(658,043)	(443,715)
Accounts payable	99,877	(80,917)
Accrued expenses	487,015	170,050
Net cash used in operating activities	<u>(6,383,922)</u>	<u>(5,251,420)</u>
INVESTING ACTIVITIES:		
Payments on capital lease obligations	(375,140)	-
Purchase of property and equipment	(7,511,857)	(513,271)
Change in deposits and other assets	(348,675)	(134,561)
Net cash used in investing activities	<u>(8,235,672)</u>	<u>(647,832)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock and warrants	8,370,720	4,550
Proceeds from sale of membership interest in subsidiary	6,714,856	120,000
Proceeds from convertible notes	-	4,119,500
Payments under long-term obligations	(116,667)	(66,465)
Payments made to settle Pacific Leaf Royalty Agreement	(1,000,000)	-
Net cash provided by financing activities	<u>13,968,909</u>	<u>4,177,585</u>
Net change in cash and cash equivalents	<u>(650,685)</u>	<u>(1,721,667)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,579,700	2,692,953
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ <u>2,929,015</u>	\$ <u>971,286</u>

Non-cash transactions:

Stock issued upon conversion of long-term note payable	\$	4,640,971	\$	184,731
Stock issued to settle Pacific Leaf Royalty Agreement	\$	36,000	\$	-
Capital lease obligation	\$	-	\$	2,525,000
Dividend from warrant exercise inducement	\$	2,861,436	\$	-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

[Table of Contents](#)**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)****Note 1 – Basis of Presentation and Significant Accounting Policies***Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements of GB Sciences, Inc. (the “Company,” “We” or “Us”) have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending March 31, 2019. The balance sheet at March 31, 2018 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended March 31, 2018.

Principles of Consolidation

The condensed consolidated financial statements include all operating divisions and majority owned subsidiaries, reported as a single operating segment, for which we maintain controlling interests. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the comparative period amounts in order to conform to the current period presentation. These reclassifications had no effect on the reported financial position, results of operations or cash flows of the Company.

Significant Accounting Policies

A description of the Company's significant accounting policies is included in Note 3 of its Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Inventory

We value our inventory at the lower of the actual cost of our inventory, as determined using the first-in, first-out method, or its current estimated market value. We periodically review our physical inventory for excess, obsolete, and potentially impaired items and reserve accordingly. Our reserve estimate for excess and obsolete inventory is based on expected future use.

Revenue Recognition

The FASB issued Accounting Standards Codification (“ASC”) 606 as guidance on the recognition of revenue from contracts with customers. Revenue recognition will 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 or services. The guidance also requires disclosures regarding the nature, amount, timing and uncertainty of revenue and

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cash flows arising from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company adopted the guidance on April 1, 2018 and applied the cumulative catch-up transition method.

The Company's only current revenue source is from sales of cannabis, a distinct physical good. Under ASC 606, the Company is required to separately identify each performance obligation resulting from its contracts from customers, which may be a good or a service. A contract may contain one or more performance obligations. All of the Company's contracts with customers, past and present, contain only a single performance obligation, the delivery of distinct physical goods. Because fulfillment of the company's performance obligation to the customer under ASC 606 results in the same timing of revenue recognition as under the previous guidance (i.e. revenue is recognized upon delivery of physical goods), the Company did not record any material adjustment to report the cumulative effect of initial application of the guidance.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued amended accounting guidance that changes the accounting for leases and requires expanded disclosures about leasing activities. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Lessor accounting will remain largely unchanged, other than certain targeted improvements intended to align lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The amended guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2018, and early application is permitted. The Company expects that adoption of this guidance will result in the recognition of right-of-use assets and related obligations.

In August 2016, the FASB issued ASU 2016-15, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistency on this topic. The standard is effective for annual and interim periods beginning after December 15, 2017. There were no significant classification modifications upon adoption at April 1, 2018.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

Note 2 – Going Concern

The Company's condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has sustained net losses since inception, which have caused an accumulated deficit of approximately \$76.0 million at September 30, 2018. In addition, the Company has consumed cash in its operating activities of approximately \$6.4 million for the six months ended September 30, 2018,

compared to \$5.3 million for the same period last year. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

Management has been able, thus far, to finance the losses through a public offering, private placements and obtaining operating funds from stockholders. The Company is continuing to seek sources of financing. There are no assurances that the Company will be successful in securing capital necessary to achieve its goals.

In view of these conditions, the Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing or capital sources, to meet its financing requirements, and ultimately to achieve profitable operations. Management believes that its current and future plans provide an opportunity to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that may be necessary in the event the Company is unable to continue as a going concern.

[Table of Contents](#)**Note 3 – Convertible Notes**

In March 2017, the Company issued short-term Promissory Notes (“Notes”) to various holders with combined face value of \$965,500. The Notes are payable within three years of issuance and are convertible into 3,862,000 shares of the Company’s common stock. The Company also issued 3,862,000 common stock warrants to the Note holders. The warrants are exercisable at any time and from time to time before maturity at the option of the holder. Each warrant gives the Noteholder the right to purchase one share of common stock of the Company at an exercise price of \$0.60 per share for a period of three years. The beneficial conversion feature resulting from the discounted conversion price compared to the market price was calculated based on the date of issuance to be \$416,733 after adjusting the effective conversion price for the relative fair value of the note proceeds compared to the fair value of the attached warrants and note. In addition to this discount related to the beneficial conversion feature, an additional discount of \$548,767 was recorded based on the fair value of the warrants attached to the note. This value was derived using the Black-Scholes valuation model.

During the three months ended June 30, 2017, the Company issued short-term Promissory Notes (“Notes”) to various holders with combined face value of \$1,034,500. The Notes are payable within three years of issuance and are convertible into 4,138,000 shares of the Company’s common stock. The Company also issued 4,138,000 common stock warrants to the Note holders. The warrants are exercisable at any time and from time to time before maturity at the option of the holder. Each warrant gives the Noteholder the right to purchase one share of common stock of the Company at an exercise price of \$0.60 per share for a period of three years. The beneficial conversion feature resulting from the discounted conversion price compared to the market price was calculated based on the date of issuance to be \$487,957 after adjusting the effective conversion price for the relative fair value of the note proceeds compared to the fair value of the attached warrants and note. In addition to this discount related to the beneficial conversion feature, an additional discount of \$480,236 was recorded based on the fair value of the warrants attached to the note. This value was derived using the Black-Scholes valuation model.

In July, 2017, the Company entered into a Placement Agent’s Agreement with a third-party brokerage firm to offer units consisting of a \$1,000 6% promissory note convertible into 4,000 shares of the Company’s common stock at \$0.25 per share and 4,000 warrants to purchase shares of the Company’s’ common stock at an exercise price of \$0.65 per share for the period of three years.

During the three months ended September 30, 2017, the Company issued short-term Promissory Notes (“Notes”) to various holders with combined face value of \$3,085,000. The Notes are payable within three years of issuance and are convertible into 12,340,000 shares of the Company’s common stock. The Company also issued 12,340,000 common stock warrants to the Note holders. The warrants are exercisable at any time and from time to time before maturity at the option of the holder. Each warrant gives the Noteholder the right to purchase one share of common stock of the Company at an exercise price of \$0.65 per share for a period of three years. The beneficial conversion feature resulting from the discounted conversion price compared to the market price was calculated based on the date of issuance to be \$1,541,797 after adjusting the effective conversion price for the relative fair value of the note proceeds compared to the fair value of the attached warrants and note. In addition to this discount related to the beneficial conversion feature, an additional discount of \$1,532,335 recorded based on the fair value of the warrants attached to the note. This value was derived using the Black-Scholes valuation model.

During the three months ended December 31, 2017, the Company issued short-term Promissory Notes (“Notes”) to various holders with combined face value of \$4,116,000. The Notes are payable within three years of issuance and are convertible into 16,464,000 shares of the Company’s common stock. The Company also issued 16,464,000 common stock warrants to the Note holders. The warrants are exercisable at any time and from time to time before maturity at the option of the holder. Each warrant gives the Noteholder the right to purchase one share of common stock of the Company at an exercise price of \$0.65 per share for a period of three years. The beneficial conversion feature resulting from the discounted conversion price compared to the market price was calculated based on the date of issuance to be \$1,600,808 after adjusting the effective conversion price for the relative fair value of the note proceeds compared to the fair value of the attached warrants and note. In addition to this discount related to the beneficial conversion feature, an additional discount of \$2,417,856 was recorded based on the fair value of the warrants attached to the note. This value was derived using the Black-Scholes valuation model.

The Notes and Warrants were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 (the “Securities Act”) and/or Rule 506 of Regulation D under the Securities Act, as amended.

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As of September 30, 2018, convertible notes of \$488,395 remained outstanding, net of discount of \$768,605. The net amount is reported in Notes Payable under the current liabilities section of the Company's Condensed Consolidated Balance Sheet as of September 30, 2018.

Note 4– Notes Payable

The Company entered into a Note Purchase Agreement, dated May 12, 2015 and effective as of June 8, 2015, with Pacific Leaf Ventures, LP (“Pacific Leaf”), pursuant to which Pacific Leaf has made installment loans (the “Loans”) to the Company in the aggregate amount of \$1.75 million. The purpose of the financing is to provide for the acquisition and installation of an operating facility, equipment and other tangible assets by GB Sciences Nevada, LLC (“GBSN”). Such facility and equipment was dedicated to the cultivation of cannabis and the extraction of oils and other constituents present in cannabis, subject at all times to Nevada legal requirements. The note is convertible at the option of the holder into common shares at a conversion price of \$0.50, subject to anti-dilution adjustments.

To evidence the Loans, the Company issued to Pacific Leaf a 6% senior secured convertible promissory note (the “Note”), bearing interest at the rate of 6% per annum, payable quarterly. All outstanding principal and interest due under the Note were due and payable on May 12, 2020. The Company was required to prepay the outstanding principal amount of the Note on a quarterly basis in an amount equal to 50% of the cash flow (accrued EBITDA) of GBSN attributable to our percentage interest in GBSN no later than the earlier to occur of (a) the fifth (5th) business day following receipt of a distribution of the Company's Share of GBSN's EBITDA for the calendar quarter in question, or (b) thirty (30) days following the end of the calendar quarter in question, with the first such prepayment to be made not later than July 31, 2015 with respect to the quarter ending June 30, 2015. In order to induce the Pacific Leaf to extend the loan to the Company and to secure the payment and performance of all of the Secured Obligations, the Company agreed to grant Pacific Leaf a security interest in certain of its assets and enter into the lending agreement.

On February 8, 2016, the Company entered into the Amended and Restated 6% Senior Convertible Promissory Note (“Amended Note”) with Pacific Leaf. The amended agreement modifies the 6% Senior Secure Convertible Promissory Note dated May 12, 2015 and effective as of June 8, 2015, in the principal amount of \$1.75 million.

Per the terms of the amended agreement, Pacific Leaf may make up to \$1.0 million in additional advances to the Company under the Amended Note bringing the total in the aggregate to \$2.75 million. The note is convertible at the option of the holder into common shares at a conversion price of \$0.25, subject to anti-dilution adjustments. The Company has an option to prepay the Amended Note, without premium or penalty, in whole or in part, with accrued interest to the date of such prepayment.

Until the payment in full of the Amended Note, Pacific Leaf or its designee have the option (the “Option”) to purchase up to a 20% membership interest in GBSN for a purchase price equal to \$100,000 for each 2% of membership interest purchased (i.e., \$1,000,000 if the Option is exercised in full), provided that the Option may not be exercised for less than a 1% membership interest in GBSN.

In connection with the Amended Note, the Company also entered into the Amended and Restated Royalty Agreement (“Pacific Leaf Royalty Agreement”) with Pacific Leaf dated and effective as of February 8, 2016. Per the terms of the Pacific Leaf Royalty Agreement, the royalty rate at any time shall equal to the sum of (i) 9.1%, and (ii) the percentage calculated by dividing the amount advanced in excess of \$1.75 million by \$1.0 million, multiplied

by the gross revenues of GBSN. On the earlier of (i) the seventh anniversary of the royalty payment date, or (ii) the date that all amounts outstanding under the Amended Note have been paid in full, the royalty rate shall be reduced by 50%.

On June 13, 2016, the Company received notice from the Pacific Leaf that it had elected to convert \$500,000 of the Pacific Leaf Note into common stock of the Company pursuant to the Amended and Restated 6% Senior Secured Convertible Promissory. Accordingly, the Company has issued 2,000,000 shares of its common stock (\$500,000 converted at a price of \$0.25 per share) to Pacific Leaf and the Company's indebtedness pursuant to the Note was reduced by \$500,000.

On August 4, 2016, the Company entered into the Second Omnibus Amendment ("Second Amendment") of its existing agreements with Pacific Leaf. The Second Amendment eliminates Pacific Leaf's option to purchase up to a

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20% membership interest in GBSN and reduces Pacific Leaf's existing royalty rate to 16.4% of the gross sales revenue of GBSN. It also caps maximum aggregate royalty payments to be made to Pacific Leaf at \$2,420,000 with respect to any calendar year. In consideration of the amended terms, Pacific Leaf and its designees received 1,000,000 shares of the Company's common stock and a five-year warrant to purchase 1,500,000 shares of the Company's common stock at \$0.36 per share resulting in related expense of approximately \$0.9 million.

On October 4, October 20, November 1, and November 10, 2016, the Company received notices from Pacific Leaf that it had elected to convert total of \$1,776,750 of the Pacific Leaf Note into common stock of the Company pursuant to the Amended and Restated 6% Senior Secured Convertible Promissory Note. Accordingly, the Company has issued 7,107,000 shares of its common stock (\$1,776,750 converted at a price of \$0.25 per share) to Pacific Leaf and the Company's indebtedness pursuant to the Note was reduced by \$1,776,750.

On January 24, and February 22, 2017, the Company received additional notices from Pacific Leaf that it had elected to convert \$413,085 (\$317,938 in principal and \$95,145 in accrued interest) of the Pacific Leaf Note into common stock of the Company pursuant to the Amended and Restated 6% Senior Secured Convertible Promissory Note. Accordingly, the Company has issued 1,652,332 shares of its common stock (\$413,083 converted at a price of \$0.25 per share) to Pacific Leaf and the Company's indebtedness pursuant to the Note was reduced to \$200,000.

On May 12, 2017, the Company received notice from Pacific Leaf that it had elected to convert \$184,805 (\$154,805 principal and \$30,000 accrued interest) of the Company's indebtedness to Pacific Leaf Note into common stock of the Company pursuant to the Amended and Restated 6% Senior Secured Convertible Promissory Note. Accordingly, the Note was reduced by \$184,805.

February 2018 Agreement

On February 23, 2018, the Company and Pacific Leaf entered into the Agreement ("February 2018 Agreement") whereby all rights and obligations between the parties pursuant to all prior agreements would terminate. Under the terms of the February 2018 Agreement, the Company paid Pacific Leaf \$1,269,818 upon the signing of the agreement and was to pay Pacific Leaf an additional \$1,500,000 on or before July 31, 2018. The Company would also issue Pacific Leaf 1,600,000 shares of restricted common stock on or before July 31, 2018. Thereafter, no business relationship would exist between the parties and no royalties would be owed.

If the Company were unable to make the \$1.5 million payment to Pacific Leaf on or before July 31, 2018, the Royalty Agreement and all other agreements that would have been terminated under the terms of the February 2018 Agreement would have continued in full force and effect, and 75% of all payments made under the February 2018 Agreement would have been credited toward royalties owed under the Royalty Agreement.

In connection with the February 2018 Agreement, the Company recorded royalty expense of \$269,818 in fiscal year 2018 for accrued royalties paid, \$250,000 in other expense which represents 25% of the \$1 million payment made on February 26, 2018, and \$750,000 in prepaid expenses which represents the 75% portion of the \$1 million payment which would have been credited toward future royalties in the event the \$1.5 million payment were not made on or before July 31, 2018.

The market value of the 1.6 million shares issued relating to the February 2018 Agreement was \$1,040,000, valued as of the date of the agreement. The Company recorded \$260,000 in other expense related to the issuance of those

shares, which represents 25% of the market value of those shares. The Company recorded \$780,000 in prepaid expenses, representing the 75% portion of the fair market value of those shares which would have been credited toward future royalties in the event that the final \$1.5 million payment were not made on or before July 31, 2018.

All amounts related to the February 2018 Agreement recorded in the Company's Condensed Consolidated Balance Sheet and Statement of Operations for the year ended March 31, 2018, are summarized below:

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	Year Ended March 31, 2018		As of March 31, 2018	
	Royalty Expense	Other Expense	Prepaid Expense	Total
Pacific Leaf Ventures LP February 2018 Agreement				
Payment made on February 26, 2018	\$ 269,818	\$ 250,000	\$ 750,000	\$ 1,269,818
1,600,000 shares common stock issued in connection with the February 2018 Agreement	-	260,000	780,000	1,040,000
Total recorded in Fiscal Year 2018 related to the February 2018 Agreement	\$ 269,818	\$ 510,000	\$ 1,530,000	\$ 2,309,818

July 2018 Amendment and Termination Agreement

On July 28, 2018, the Company entered into the Amendment and Termination Agreement (“Amendment and Termination Agreement”) with Pacific Leaf. Pursuant to that agreement, the Pacific Leaf Royalty Agreement and all other agreements with Pacific Leaf were terminated in their entirety, and the Company would make payments totaling \$1 million of the \$1.5 million balance due to Pacific Leaf by August 31, 2018. Contemporaneously with the Amendment and Termination Agreement, the Company issued a Promissory Note (“Promissory Note”) for the remaining \$0.5 million due to Pacific Leaf, which is included in Notes Payable on the Condensed Consolidated Balance Sheet as of September 30, 2018. The Promissory Note accrues interest at a rate of 6% per annum and matures on November 30, 2018. The Company has recorded interest expense of \$5,425 related to the Promissory Note as of September 30, 2018.

In consideration for deferring the payment of the amounts due to Pacific Leaf, the Company issued 100,000 shares of its common stock to Pacific Leaf on July 31, 2018 having a fair market value of \$36,000. The Company made cash payments totaling \$1.0 million to Pacific Leaf in August 2018 related to the Amendment and Termination Agreement. Both the \$36,000 fair value of shares issued to Pacific Leaf and the \$1,000,000 in cash payments made to Pacific Leaf in August 2018 are recorded in the Company’s Condensed Consolidated Statement of Operations for the Three and Six Months Ended September 31, 2018, under the other expense caption.

Because the Amendment and Termination Agreement irrevocably terminated the Pacific Leaf Royalty Agreement, the Company recorded an expense of \$1,530,000 in the quarter ended September 30, 2018 related to the prepaid royalties previously recorded on the Condensed Consolidated Balance Sheet in connection with the February 2018 Agreement. The expense is included in the Other Expense caption of the Company’s Condensed Consolidated Statement of Operations for the three and six months ended September 30, 2018. In total, the Company recorded \$3.0 million in Other Expense in its Condensed Consolidated Statement of Operations for the three and six months ended September 30, 2018, as summarized in the table below:

**Amendment and Termination Agreement -
Amounts Recorded in Other Expense**

**As of
September 30,
2018**

Prepaid royalties recorded in February 2018	\$	1,530,000
Cash payments made in August 2018		1,000,000
Promissory note issued to Pacific Leaf, due on or before November 30, 2018		500,000
100,000 shares common stock issued to Pacific Leaf		36,000
Settlement of convertible note payable and related accrued interest		<u>(20,075)</u>
Total	\$	<u>3,045,925</u>

[Table of Contents](#)**Summary of Notes Payable**

As of September 30, 2018, the following amounts were recorded in the Company's Condensed Consolidated Balance Sheet under Notes Payable:

	As of September 30, 2018		
	Face Value	Discount	Net
Short-Term Notes Payable			
Convertible Notes Payable to various investors	\$ 1,257,000	\$ (768,605)	\$ 488,395
6% Promissory Note due to Pacific Leaf Ventures, LP on or before November 30, 2018	500,000	-	500,000
Note Payable to William Moore and Brian Moore, current portion	233,333	(73,089)	160,245
Total Short-Term Notes Payable	<u>\$ 1,990,333</u>	<u>\$ (841,693)</u>	<u>\$ 1,148,640</u>
Long-Term Notes Payable			
Note Payable to William Moore and Brian Moore, long-term	\$ 311,111	\$ (40,536)	\$ 270,575
Total Long-Term Notes Payable	<u>\$ 311,111</u>	<u>\$ (40,536)</u>	<u>\$ 270,575</u>

Note 5 – Capital Lease

In July 2016, an entity associated with Pacific Leaf Partners, LLC completed the purchase of the building housing the Company's cultivation facility at 3550 W. Teco Ave., Las Vegas, NV. In connection with the purchase, the Company entered into the Amended Lease Agreement for an initial term of ten and a half years with one option to extend the lease for five years, or until December 31, 2030. The monthly rent payments per the Amended Lease Agreement are \$40,000 through December 31, 2017. Commencing January 1, 2018, the monthly rent payments will increase by 3% per annum through the expiration of the lease. The Company analyzed the transaction in accordance with the applicable accounting guidance determining that the aggregate amount of \$3.9 million met the requirements for capitalization. The building has been capitalized and is included in property and equipment, net balance with related obligations included as part of current and non-current liabilities. The obligation recorded is based upon the present value of the future minimum lease payments discounted at an 11.6% interest rate.

In August 2017, GB Sciences Louisiana, LLC entered into the Lease Agreement with Petroleum Drive Investment, LLC for 36,125 square feet of interior space on approximately 5.38 acres of land located at 18350 Petroleum Drive, Baton Rouge, LA 70809. The Lease Agreement is for an initial term of five years with two options to extend the lease for five years, or until June 30, 2032. The monthly rent payments per the Lease Agreement are \$25,588 through June 30, 2022. If the Company exercises its first and second options to extend, monthly rent payments will increase to \$28,147 beginning August 1, 2022, and to \$30,966 beginning August 1, 2027. The Company analyzed the transaction in accordance with the applicable accounting guidance determining that the aggregate amount of \$2.5 million met the requirements for capitalization. The building has been capitalized and is included in property and equipment, net balance with related obligations included as part of current and non-current liabilities. The obligation recorded is based upon the present value of the future minimum lease payments discounted at a 10.2% interest rate.

Amortization of assets under capital leases is included in depreciation expense. The future minimum lease payments required under the capital leases and the net present value of the minimum lease payments as of September 30, 2018, are as follows:

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	<u>Year Ending March 31,</u>	<u>Total</u>
	2019 (6 months)	\$ 363,236
	2020	820,107
	2021	835,499
	2022	851,352
	2023	890,712
	Thereafter	<u>8,246,770</u>
Total minimum lease payments		12,007,676
Less: Amount representing interest		<u>(5,807,069)</u>
Present value of minimum lease payments		6,200,607
Less: Current maturities of capital lease obligations		<u>(128,370)</u>
Long-term capital lease obligations		<u><u>\$ 6,072,237</u></u>

Note 6 – Capital Transactions

Effective April 8, 2018, Shareholders of the Company approved the change in corporate domicile from the State of Delaware to the State of Nevada and an increase in authorized capital from 250,000,000 to 400,000,000 shares.

During the six months ended September 30, 2018, the Company issued an aggregate of 53,143,382 shares of common stock, as follows:

- During the six months ended September 30, 2018, the Company received notice from convertible note holders of the conversion of notes having a total of \$4,470,000 face value and \$170,971 in accrued interest. Accordingly, the Company has issued 18,563,885 shares of its common stock based on a \$0.25 per share conversion price. In connection with the conversions, \$3,464,187 in unamortized discount on the related notes was recognized as interest expense and the Company has reduced the carrying amount of convertible notes payable by \$1,005,813.
- The Company issued 1,543,844 shares in exchange for consulting services and recorded a related expense of \$0.7 million.
- In order to encourage the exercise of the 8,000,000 warrants issued to investors in the private offering of convertible notes dated March 2017 and the 28,804,000 warrants issued to investors in the private offering of convertible notes dated July 2017, the Company effected a temporary decrease in the exercise price of the warrants from \$0.60 and \$0.65, respectively, to \$0.30 and \$0.325 per share. As a result of the price reduction, the Company issued 12,332,750 shares of its common stock and received net proceeds of approximately \$3.9 million. In connection with the induced exercise of the warrants, the Company recorded an inducement dividend of approximately \$2.9 million.

- The Company issued 325,125 shares of its common stock in connection with the exercise of compensation warrants at \$0.01 per share.
- On August 10, 2018, the Company entered into a Placement Agent's Agreement to offer a total of 10,000,000 units at the price of \$0.25 per unit. Each unit consisted of one share of the Company's common stock and one warrant to purchase one share of the Company's common stock at the price of \$0.60 for a period of three years. On August 23, 2018, the Placement Agent's Agreement was amended to increase the number of units offered by 10,000,000 to 20,000,000 in total, with no other changes to the agreement. Between August 10, 2018 and September 25, 2018, the Company received a total of \$4.4 million in proceeds from the private placement, net of \$0.6 million in brokerage fees and issued 20 million shares of its common stock and 20 million warrants to purchase one share of its common stock for a period of three years to the investors who participated in the private placement.

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- During the six months ended September 30, 2018, the Company issued 277,778 shares of its common stock to an investor for the cash purchase of shares at \$0.36 per share.
- In connection with the Pacific Leaf Amendment and Termination Agreement (Note 4), the Company issued 100,000 shares of its common stock to Pacific Leaf on July 31, 2018 and recorded \$36,000 in other expense related to those shares.

Options and Warrants

In connection with the Placement Agent's Agreement described above, the Company issued 2,000,000 compensation warrants to the brokers who participated in the offering and recorded a related expense of \$0.6 million. Each compensation warrant is for the purchase of one share of the Company's common stock at a price of \$0.60 per share and expires on October 1, 2023.

During the six months ended September 30, 2018, the Company issued 400,000 stock options under the 2014 Equity Incentive Plan to its employees. The options are exercisable upon vesting for a period of 10 years from issuance at an exercise price ranging from \$0.37 to \$0.60 per share. The Company has recognized total of \$0.7 million in share-based compensation expense related to all outstanding options during the six months ended September 30, 2018.

Note 7 – Commitments and Contingencies

On September 18, 2017 GB Sciences finalized its agreement with Louisiana State University ("LSU") AgCenter to be the sole operator of the LSU's medical marijuana program. The LSU Board of Supervisors entered into a five-year agreement—that has an option to renew for two additional five-year terms—with GB Sciences.

The contract includes the Company's commitment to make a minimum financial contribution to the LSU AgCenter in the amount of \$3.4 million, or a 10% commission of gross receipts, in addition to annual research investments of \$500,000 to the LSU AgCenter.

The monetary contributions would be used to conduct research on plant varieties, compounds, extraction techniques and delivery methods that could generate additional revenue through discoveries that are subject to intellectual property rights, which AgCenter would retain 50% of those rights. As of September 30, 2018, GB Sciences has made payments totaling \$1,500,000 toward its obligations under the agreement.

From time to time, the Company may become involved in certain legal proceedings and claims which arise in the ordinary course of business. In management's opinion, based on consultations with outside counsel, the results of any of these ordinary course matters, individually and in the aggregate, are not expected to have a material effect on our results of operations, financial condition, or cash flows. As more information becomes available, if management should determine that an unfavorable outcome is probable on such a claim and that the amount of such probable loss that it will incur on that claim is reasonably estimable, the Company would record a reserve for the claim in question. If and when the Company records such a reserve, it could be material and could adversely impact its results of operations, financial condition, and cash flows.

Note 8 – Loss per Share

The Company's basic loss per share has been calculated using the weighted average number of common shares outstanding during the period. The Company had 73,579,521 and 58,197,413 of potentially dilutive common shares at September 30, 2018, and September 30, 2017, respectively. However, such common stock equivalents were not included in the computation of diluted net loss per share as their inclusion would have been anti-dilutive.

Note 9 – Related Party Transactions

During the fiscal year ended March 31, 2017, the Company entered into a consulting contract with Quantum Shop, a Company owned by a relative of one of the Company's executives. Per the terms of the agreement, Quantum Shop is to provide GB Sciences with research, design, development, fabrication, and production services. During the six months ended September 30, 2018, the Company made payments totaling \$1.06 million to Quantum Shop primarily related to the build-out of the Company's cultivation and production facility in Baton Rouge, Louisiana.

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During the year ended March 31, 2017, the Company entered into an advisory agreement with Electrum Partners, LLC, a company whose President resides on GB Sciences' Board of Directors and serves as a Chair of the Audit Committee. The agreement has a term of one year and is renewable for a successive one-year period. During the six months ended September 30, 2018, the Company made payments totaling \$82,603 to Electrum Partners, LLC and issued 143,844 shares of its restricted stock.

On November 1, 2017, the Company entered into an Edibles Production Agreement (the "EPA") with The Happy Confections, L.L.C. ("THCLLC") through the Company's wholly-owned subsidiary, GB Sciences Las Vegas, LLC ("GBSLV"). Dr. Andrea Small-Howard, a member of GB Science's Board of Directors, is a Co-Managing Member of THCLLC. Under the EPA, THCLLC is to produce cannabis-infused baked goods and other edibles in GBSLV's production facility upon approval of GBSLV's Nevada Medical Marijuana Production License. The Company will receive a royalty of between 20% and 25% on all sales of edibles produced by THCLLC.

Contemporaneously with the EPA, the Company entered into a Non-Revolving Credit Line Agreement and Non-Revolving Credit Line Promissory Note (together, the "THC Note" or "Note") to advance up to \$300,000 to THCLLC for the purpose of expanding THCLLC's operations. The Note bears interest at a rate of 1.29% per annum. Beginning 90 days after the sale of its first product, THCLLC is to make repayment of its advances under the Note in an amount equal to 25% of its gross sales revenue. Such repayment is due within 10 days of the sale of any product.

Under the EPA, the Company is to provide accounting and bookkeeping services to THCLLC. In connection with the EPA and THC note, the Company entered into a Reimbursement Agreement for facility expenses and accounting services. Under the Reimbursement Agreement, the Company will be reimbursed \$4,500 per month for facility expenses and \$2,000 per month for accounting and bookkeeping services. In light of the fact that The Company will be providing the accounting and bookkeeping services to THCLLC, the Company may deduct royalties, facility expenses, and accounting expenses directly from the accounts of THCLLC.

As of September 30, 2018, the Company has advanced \$253,034 under the THC Note. This amount, including accrued interest, is reported under the other assets caption on the Company's September 30, 2018 balance sheet. Subsequent to September 30, 2018, the Company terminated its agreements with THC LLC, as further described below in Note 10.

Note 10 – Subsequent Events

Capital Transactions

Subsequent to September 30, 2018, the Company issued 241,602 shares of its common stock as the result of the following transactions:

- The Company issued 41,602 shares of its common stock to Electrum Partners, LLC, a related party, in connection with its advisory agreement.
- The Company issued 200,000 shares of its common stock to a third-party consultant under the terms of a consulting agreement.

Termination of Agreements with THC LLC

On October 15, 2018, the Company gave notice to The Happy Confections, LLC (“THC LLC”) that Company would not provide any additional financing beyond the \$300,000 Credit Line granted under the Non-Revolving Credit Line Agreement dated November 1, 2017. In this notice, the Company requested that THC LLC seek to find additional sources of financing to be able to fund the manufacture of edibles. The Company further notified THC LLC that the Company would terminate the Edibles Production Agreement and all other related agreements with THC LLC if it was unable to acquire additional funding by October 22, 2018. On October 19, 2018, the Company received a response from THC LLC that it was unable to acquire additional funding. Accordingly, the Company has terminated all of its agreements with THCLLC effective October 19, 2018, and took possession of all tangible assets owned by THCLLC on October 22, 2018, as collateral for the balance owed under the Note. These assets include

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kitchen machinery and equipment, leasehold improvements, and inventory that will be used in the Company's production operations at the Teco Facility. The Company is in the process of assessing the fair value of the collateral and anticipates recording a loss in October 2018 equal to the balance of the Non-Revolving Credit Line and Promissory Note in excess of the fair value of the collateral received.

Note 11 – Formation of GBS Global Biopharma

The Company plans to license some of Growblox Life Sciences LLC's intellectual property to a newly created, wholly-owned Canadian entity, GBS Global Biopharma Inc. The entity was formed in the Province of Ontario during the quarter ended September 30, 2018 and does not currently hold any assets or have any activity to date. It is anticipated that GBS Global Biopharma Inc. will pursue clinical development of the intellectual property, including clinical trials.

Note 12 – Non-Controlling Interests

On February 12, 2018, the Company's wholly-owned subsidiary, GB Sciences Louisiana, LLC ("GBSLA"), issued members' equity interests equal to 15% in GBSLA to Wellcana Group, LLC ("Wellcana") for \$3 million. Under the GBSLA operating agreement, Wellcana has the option to make additional capital contributions for the purchase of up to an additional 35% membership interest in GBSLA, at the rate of 5% membership interest per \$1 million contributed.

On May 23, 2018, Wellcana made a \$3.8 million capital contribution to GBSLA for the purchase of an additional 19% membership interest, increasing its ownership interest to 34%. On September 14, 2018, Wellcana made an additional capital contribution of \$2.9 million, thereby increasing the non-controlling interest in GBSLA to 48.6%. The capital contributions have been used to fund the buildout of the Petroleum Drive facility and to pay for the operating costs of GBSLA.

The Company maintains a majority interest in GBSLA and continues to exercise control over the management and operations of GBSLA. Accordingly, the Company continues to consolidate GBSLA in its condensed consolidated financial statements for the three and six months ended September 30, 2018.

[Table of Contents](#)**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis contains "forward-looking statements," as defined in the United States Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts" or "continue", which list is not meant to be all-inclusive and other such negative terms and comparable technology. These forward-looking statements, include, without limitation, statements about our market opportunity, our strategies, competition, expected activities and expenditures as we pursue our business plan, and the adequacy of our available cash resources. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Actual results may differ materially from the predictions discussed in these forward-looking statements. The economic environment within which we operate could materially affect our actual results. Additional factors that could materially affect these forward-looking statements and/or predictions include among other things: (1) product demand, market and customer acceptance of GB Sciences products, equipment and other goods, (ii) ability to obtain financing to expand its operations, (iii) ability to attract qualified personnel, (iv) competition pricing and development difficulties, (v) general industry and market conditions and growth rates, unexpected natural disasters, and other factors, which we have little or no control: and other factors discussed in the Company's filings with the Securities and Exchange Commission ("SEC"). The Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

The following discussion highlights the Company's results of operations and the principal factors that have affected our financial condition, as well as our liquidity and capital resources for the periods described and provides information that management believes is relevant for an assessment and understanding of the statements of financial condition and results of operations presented herein. The following discussion and analysis is based on the Company's unaudited financial statements contained in this Quarterly Report, which we have prepared in accordance with United States generally accepted accounting principles. You should read this discussion and analysis together with such financial statements and the related notes thereto.

Overview

The Company seeks to be an innovative technology and solution company that converts the cannabis plant into medicines, therapies and treatments for a variety of ailments. The Company is developing and utilizing state of the art technologies in plant biology, cultivation and extraction techniques, combined with biotechnology, and plans to produce consistent and measurable medical-grade cannabis, cannabis concentrates and cannabinoid therapies.

Although we believe that maximum shareholder value will ultimately be achieved through the development, production and marketing of certified cannabinoid medicines, therapies and treatments, in order to generate cash flow and near-term profitability, we cultivate and dispense cannabis for medical and recreational purposes in Nevada. Additionally, we intend to cultivate and dispense cannabis in other states which permit such sales and in which we and our operating partners are able to obtain cultivation and dispensing licenses.

We seek to become a trusted producer of consistent and efficacious medicinal strains and products, combining both cannabinoids and terpenes, which we intend to market in those states within the United States and in other countries where the sale of medical cannabis products are permitted. In addition, subject to obtaining Food and Drug

Administrative (FDA) certification, we intend to market our cannabinoid-based drug discoveries on a world-wide basis.

We were incorporated in the State of Delaware on April 4, 2001, under the name “Flagstick Venture, Inc.” On March 28, 2008, stockholders owning a majority of our outstanding common stock approved changing our then name “Signature Exploration and Production Corp.” as our business model had changed.

On March 13, 2014, we entered into a definitive assets purchase agreement for the acquisition of assets, including the Growblox™ cultivation technology which resulted in a change in our corporate name on April 4, 2014, from Signature Exploration and Production Corporation to Growblox Sciences, Inc.

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Effective December 12, 2016, the Company amended its Certificate of Corporation pursuant to shareholder approval as reported in the Form 8-K filed on October 14, 2016. Pursuant to the amendment the Company's name was changed from Growblox Sciences, Inc. to GB Sciences, Inc.

Effective April 8, 2018, Shareholders of the Company approved the change in corporate domicile from the State of Delaware to the State of Nevada and increase in the number of authorized capital shares from 250,000,000 to 400,000,000.

Plan of Operation

GB Sciences intends to operate as an intellectual property company that will conduct its business through its subsidiaries. GB Sciences intends to own all patents and related technologies developed by it and its subsidiaries. In addition, the Company owns and will seek to own majority interests in each of its existing and future operating subsidiaries.

Our wholly-owned subsidiary GB Sciences Nevada, LLC ("GBSN") leases a warehouse facility at 3550 W. Teco Avenue, Las Vegas Nevada. On January 4, 2017, GBSN received a State Registration Certificate ("Certificate") for its 28,000-sq. ft. cannabis cultivation facility located in Las Vegas, NV. The receipt of the Certificate allows the Company to cultivate medical cannabis. Phase 1 of the GBSN cultivation facility opened with 200 grow lights. When all phases of construction are completed, the facility is expected to generate revenues of \$10 million. Completion of all Phases of this facility is dependent upon the availability of capital to complete construction. The Company has made completion of all Phases of this facility its number one priority.

On October 4, 2016, we acquired a 60% interest in a Nevada Medical Marijuana Production License with an option of up to 80%. A production license enables us to convert cannabis plants into oils and extracts that are suitable for creating medical compounds as well as consumer products. This license is critical and essential to our plan of producing cannabis-based medicines and must be integrated into our cultivation facility to ensure quality control standards and efficiency in our production of cannabis medicines. On October 23, 2017, the Company amended the existing Nevada Medical Marijuana Production License Agreement ("Amended Production License Agreement"). Per the terms of the Amended Production License Agreement, GB Sciences purchased the remaining percentage of the production license resulting in the 100% ownership of the license. GB Sciences also received 100% ownership of the cultivation license included in the original Nevada Medical Marijuana Production License Agreement. In exchange, GB Sciences made one-time payment of \$500,000 and issued a Promissory Note in the amount of \$700,000 payable in equal monthly payments over a three-year period commencing on January 1, 2018.

On January 31, 2018 the Company entered into a Contract Farming Agreement with Colorado Hemp Project Limited ("CHP") for the development and cultivation of boutique hemp genetics and new strains of hemp which will provide the key ingredient in proprietary CBD formulations. Per the terms of the agreement, the Company leased 8 acres of land on which CHP planted 2000 seeds per acre. CHP is responsible for providing genetics, land, water, planting, cultivation, any soil amendments needed, harvest, drying and stripping into whole plant composite for extraction, if desired. In return, GB Sciences is obligated to pay for all production expenses and delivery or shipping for the total of \$16,750 per acre of land farmed. On March 15, 2018, the Company leased additional 5 acres of land from CHP under the same terms as those included in the original agreement.

The current emphasis on near-term cash flow allows us to plan for exploiting the potential of our science assets. We recently formed Growblox Life Sciences, LLC and have retained Fenwick & West, a Silicon Valley based law firm focusing on life sciences and high technology companies with a nationally top-ranked intellectual property practice, to development strategies for the protection of the Company's intellectual property. On October 11, 2016, we filed the first of several planned patent applications for life science inventions by our wholly-owned subsidiary, Growblox Life Sciences, LLC. The current provisional patent application covers complex-cannabinoid-containing mixtures capable of enhancing dopamine secretion and protecting neurons from the mitochondria-induced free radical damage that occurs during disease progression in the brains of patients with Parkinson's disease, Alzheimer's disease, Lewy Body Dementia, and Huntington's disease, among others. At this time, the Company plans to seek partners in the pharmaceutical industry or alternatively venture funding to advance these cannabis-based formulations to clinical testing and commercialization.

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On December 13, 2016, Growblox Life Sciences, LLC licensed intellectual property from Makai Biotechnology, LLC. The patent underlying the license was issued by the USPTO in July of 2015 and claims therapeutic methods for the treatment of cardiac hypertrophy and associated pathologies through regulation of the cannabinoid receptor, TRPV1. TRPV1 can be regulated therapeutically by plant-based cannabinoids, which creates a plethora of potentially new therapeutic agents for the treatment of cardiac hypertrophy and heart failure. Licensing this TRPV1 patent underscores the Company's drug discovery commitment to targeting the non-classical cannabinoid receptors, beyond the usual CB1 and CB2 receptors.

On February 1, 2017, we filed second patent application for the Treatment of Chronic Arthritis, Crohn's Disease, Inflammatory Bowel Disease, and Asthma; Proprietary Cannabinoid-Containing Complex Mixtures for the Treatment of Inflammatory Disorders. The current provisional patent application covers cannabinoid-containing complex mixtures ("CCCM") capable of preventing and treating a spectrum of inflammatory disorders. The application focuses on the use of CCCM to disrupt the signaling pathways in certain immune cells that lead to the initiation and maintenance of inflammatory responses. Both common and uncommon inflammatory disorders, ranging from chronic arthritis to acute responses to insect stings, are likely to be effectively targeted by this therapeutic approach.

On May 23, 2017, we filed third patent application for the treatment of chronic pain and heart therapies based on myrcene-containing complex mixtures ("MCCM"). The current provisional patent application covers myrcene-containing complex mixtures capable of targeting the non-traditional cannabinoid receptor, TRPV1. Our latest patent application complements the issued TRPV1 patent that GB Sciences licensed from Makai Biotechnology in December of 2016.

The Company plans to license some of Growblox Life Sciences LLC's intellectual property to a newly created, wholly-owned Canadian entity, GBS Global Biopharma Inc. The entity was formed in the Province of Ontario during the quarter ended September 30, 2018 and does not currently hold any assets or have any activity to date. It is anticipated that GBS Global Biopharma Inc. will pursue clinical development of the intellectual property, including clinical trials.

RESULTS OF OPERATIONS

The following table sets forth certain of our Statements of Operations data:

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2018	2017	2018	2017
Gross profit	414,485	136,646	1,149,204	190,745
General and administrative expenses	4,569,032	2,779,370	9,032,913	5,660,035
Other Income/(Expense)	(5,876,518)	(535,851)	(7,498,839)	(831,980)
Net loss attributable to non-controlling	(291,416)	(33,495)	(475,559)	(68,025)

interest

Net Loss

<u>(9,739,649)</u>	<u>(3,145,080)</u>	<u>(14,906,989)</u>	<u>(6,233,245)</u>
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[Table of Contents](#)**Comparison of the Three Months Ended September 30, 2018 and 2017****Gross profit**

The Company recorded gross profit of approximately \$0.4 million for the three months ended September 30, 2018, as compared to \$0.1 million for the same period in the prior year. The increase in gross profit is due to the Company's Teco cultivation facility located in Las Vegas, NV harvesting its first cannabis in May 2017 and ramping up its production to current levels with subsequent harvests.

General and administrative expenses

General and administrative expenses increased \$1.8 million to \$4.6 million for the three months ended September 30, 2018, compared to \$2.8 million for the three months ended September 30, 2017. The increase is attributable in part to a \$0.3 million increase in taxes and licenses expense due to an increase in cultivation sales and costs related to securing additional licenses for the cultivation and production of cannabis. Payroll and related expenses increased by \$0.2 million due to an increased number of employees compared to the same period in the prior year. The increase is also due in part to noncash expenses of \$0.6 million for the issuance of compensation warrants to the brokers involved in the August 2018 private placement. The remaining increase is attributable to increased operating costs related to new business activities at our Nevada and Louisiana facilities.

Interest expense

Total interest expense increased by \$2.3 million compared to the same period in the prior year. The increase is primarily due to \$3.5 million of unamortized discount recognized as interest expense upon the conversion of convertible notes.

Other expense

Total other expense increased by \$3.0 million compared to the same period in the prior year. The increase is primarily due to \$1.0 million paid to Pacific Leaf in connection with the July 2018 Amendment and Termination Agreement and \$2.0 million in noncash expense related to that agreement.

Comparison of the Six Months Ended September 30, 2018 and 2017**Gross profit**

The Company recorded gross profit of approximately \$1.1 million for the six months ended September 30, 2018, as compared to \$0.2 million for the same period in the prior year. The increase in gross profit is due to the Company's Teco cultivation facility located in Las Vegas, NV harvesting its first cannabis in May 2017 and ramping up its production to current levels with subsequent harvests.

General and administrative expenses

General and administrative expenses increased \$3.4 million to \$9.0 million for the six months ended September 30, 2018, compared to \$5.7 million for the six months ended September 30, 2017. The increase is attributable in part to a \$0.7 million increase in taxes and licenses expense due to an increase in cultivation sales and costs related to securing additional licenses for the cultivation and production of cannabis. Payroll and related expenses increased by \$0.7 million due to an increased number of employees compared to the same period in the prior year. The increase is also due in part to noncash expenses of \$0.6 million for the issuance of compensation warrants to the brokers involved in the August 2018 private placement and \$0.6 million related to common stock issued to consultants. The remaining increase is attributable to increased operating costs related to new business activities at our Nevada and Louisiana facilities.

[Table of Contents](#)**Interest expense**

Total interest expense increased by \$3.8 million compared to the same period in the prior year. The increase is primarily due to \$2.4 million of unamortized discount recognized as interest expense upon the conversion of convertible notes.

Other expense

Total other expense increased by \$2.9 million compared to the same period in the prior year. The increase is primarily due to \$1.0 million paid to Pacific Leaf in connection with the July 2018 Amendment and Termination Agreement and \$2.0 million in noncash expense related to that agreement.

LIQUIDITY AND CAPITAL RESOURCES**Current Liquidity**

The Company will need additional capital to implement its strategies. There is no assurance that it will be able to raise the amount of capital needed for future growth plans. Even if financing is available, it may not be on terms that are acceptable. If unable to raise the necessary capital at the times required, the Company may have to materially change the business plan, including delaying implementation of aspects of the business plan or curtailing or abandoning the business plan. The Company represents a speculative investment and investors may lose all of their investment. In order to be able to achieve the strategic goals, the Company needs to further expand its business and financing activities. Based upon the cash position, it is necessary to raise additional capital by the end of the next quarter in order to continue to fund current operations. These factors raise substantial doubt about the ability to continue as a going concern. The Company is pursuing several alternatives to address this situation, including the raising of additional funding through equity or debt financings. In order to finance existing operations and pay current liabilities over the next twelve months, the Company will need to raise additional capital. No assurance can be given that the Company will be able to operate profitably on a consistent basis, or at all, in the future. The principal sources of liquidity to date have been cash generated from sales of debt and equity securities and loans.

At September 30, 2018, cash was \$2.9 million, other current assets excluding cash were \$3.2 million, and our working capital was \$4.1 million. At the same time, current liabilities were approximately \$2.1 million and consisted principally of \$0.4 million in accounts payable, \$0.4 million in accrued liabilities, and \$1.1 million in notes payable, net of \$0.8 million in discounts. At March 31, 2018, the Company had a cash balance of \$3.6 million, other current assets excluding cash were \$3.7 million and our working capital was \$5.3 million. Current liabilities were approximately \$1.9 million, which consisted principally of and \$0.4 million in accounts payable, \$0.5 million in accrued liabilities, and \$1.1 million in notes payable, net of \$5.0 million in discounts.

Sources and Uses of CashOperating Activities

Net cash used in operating activities was \$6.4 million for the six months ended September 30, 2018, as compared to net cash used of \$5.3 million for the six months ended September 30, 2017. We anticipate that cash flows from operations may be insufficient to fund business operations for the next twelve-month period. Accordingly, we will have to generate additional liquidity or cash flow to fund our current and anticipated operations. This will likely require the sale of additional common stock or other securities. There is no assurance that we will be able to realize any significant proceeds from such sales, if at all.

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Investing Activities

During the six months ended September 30, 2018 and 2017, the Company used \$8.2 million and \$0.6 million, respectively, of cash in investing activities. The cash used in investing activities during the six months ended September 30, 2018 and 2017 was primarily for the purchase of property and equipment.

Financing Activities

During the six months ended September 30, 2018 and 2017, cash flows from financing activities totaled \$14.0 million and \$4.2 million, respectively. Cash flows from financing activities for the six months ended September 30, 2018, related primarily to \$4.4 million in proceeds from the issuance of common stock in a private placement, \$3.9 million in proceeds from warrant exercises, and \$6.7 million in proceeds from non-controlling interests. Cash flows from financing activities for the six months ended September 30, 2017 related primarily to \$4.1 million in proceeds from the issuance of convertible notes.

GOING CONCERN

The unaudited interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since inception resulting in an accumulated deficit of approximately \$76.0 million as of September 30, 2018, and further losses are anticipated in the development of the business raising substantial doubt about the ability to continue as a going concern. The ability to continue as a going concern is dependent upon generating profitable operations in the future and/or obtaining the necessary financing to meet obligations and repay liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with existing cash on hand and/or private placements of debt and equity securities. The financials do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or amounts and classifications of liabilities that might result from this uncertainty.

VARIABLES AND TRENDS

In the event the Company is able to obtain the necessary financing to progress with its business plan, the Company expects expenses to increase significantly to grow the business. Accordingly, the comparison of the financial data for the periods presented may not be a meaningful indicator of future performance and must be considered in light of these circumstances.

CRITICAL ACCOUNTING POLICIES

A description of the Company's significant accounting policies is included in Note 3 of its Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

ITEM 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed in the periodic reports filed under the Securities Exchange Act of 1934, as amended, or 1934 Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure. At the end of the quarter ended September 30, 2018, the Company carried out an evaluation, under the supervision and with the participation of management, including the principal executive officer and the principal financial

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officer, of the effectiveness of the design and operation of disclosure controls and procedures, as defined in Rule 13(a)-15(e) and Rule 15d-15(e) under the 1934 Act. Based on this evaluation, management concluded that as of September 30, 2018, the disclosure controls and procedures were not effective due to material weaknesses as no member of our board of directors qualifies as an “audit committee financial expert” as defined in Item 407(d)(5) of Regulation S-K promulgated under the Securities Act.

Limitations on Effectiveness of Controls and Procedures

Management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls

During the fiscal quarter ended September 30, 2018, there have been no changes in the internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

[Table of Contents](#)**PART II – OTHER INFORMATION****ITEM 1. Legal Proceedings**

From time to time, the Company also becomes involved in certain legal proceedings and claims which arise in the ordinary course of business. In our opinion, based on consultations with outside counsel, the results of any of these ordinary course matters, individually and in the aggregate, are not expected to have a material effect on our results of operations, financial condition, or cash flows. As more information becomes available, if management should determine that an unfavorable outcome is probable on such a claim and that the amount of such probable loss that it will incur on that claim is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve is recorded, it could be material and could adversely impact our results of operations, financial condition, and cash flows.

ITEM 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as filed with the SEC.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the six months ended September 30, 2018, the Company issued an aggregate of 53,143,382 shares of common stock, as follows:

- During the six months ended September 30, 2018, the Company received notice from convertible note holders of the conversion of notes having a total of \$4,470,000 face value and \$170,971 in accrued interest. Accordingly, the Company has issued 18,563,885 shares of its common stock based on a \$0.25 per share conversion price. In connection with the conversions, \$3,464,187 in unamortized discount on the related notes was recognized as interest expense and the Company has reduced the carrying amount of convertible notes payable by \$1,005,813.
- The Company issued 1,543,844 shares in exchange for consulting services and recorded a related expense of \$0.7 million.
- In order to encourage the exercise of the 8,000,000 warrants issued to investors in the private offering of convertible notes dated March 2017 and the 28,804,000 warrants issued to investors in the private offering of convertible notes dated July 2017, the Company effected a temporary decrease in the exercise price of the warrants from \$0.60 and \$0.65, respectively, to \$0.30 and \$0.325 per share. As a result of the price reduction, the Company issued 12,332,750 shares of its common stock and received net proceeds of approximately \$3.9 million. In connection with the induced exercise of the warrants, the Company recorded an inducement dividend of approximately \$2.9 million.
- The Company issued 325,125 shares of its common stock in connection with the exercise of compensation warrants at \$0.01 per share.

- On August 10, 2018, the Company entered into a Placement Agent's Agreement to offer a total of 10,000,000 units at the price of \$0.25 per unit. Each unit consisted of one share of the Company's common stock and one warrant to purchase one share of the Company's common stock at the price of \$0.60 for a period of three years. On August 23, 2018, the Placement Agent's Agreement was amended to increase the number of units offered by 10,000,000 to 20,000,000 in total, with no other changes to the agreement. Between August 10, 2018 and September 25, 2018, the Company received a total of \$4.4 million in proceeds from the private placement, net of \$0.6 million in brokerage fees and issued 20 million shares of its common stock and 20 million warrants to purchase one share of its common stock for a period of three years to the investors who participated in the private placement.

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- During the six months ended September 30, 2018, the Company issued 277,778 shares of its common stock to an investor for the cash purchase of shares at \$0.36 per share.
- In connection with the Pacific Leaf Amendment and Termination Agreement (Note 4), the Company issued 100,000 shares of its common stock to Pacific Leaf on July 31, 2018 and recorded \$36,000 in other expense related to those shares.

Subsequent to September 30, 2018, the Company issued 241,602 shares of its common stock as the result of the following transactions:

- The Company issued 41,602 shares of its common stock to Electrum Partners, LLC, a related party, in connection with its advisory agreement.
- The Company issued 200,000 shares of its common stock to a third-party consultant under the terms of a consulting agreement.

Options and Warrants

In connection with the Placement Agent's Agreement described above, the Company issued 2,000,000 compensation warrants to the brokers who participated in the offering and recorded a related expense of \$0.6 million. Each compensation warrant is for the purchase of one share of the Company's common stock at a price of \$0.60 per share and expires on October 1, 2023.

During the six months ended September 30, 2018, the Company issued 400,000 stock options under the 2014 Equity Incentive Plan to its employees. The options are exercisable upon vesting for a period of 10 years from issuance at an exercise price ranging from \$0.37 to \$0.60 per share. The Company has recognized total of \$0.7 million in share-based compensation expense related to options during the six months ended September 30, 2018.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not Applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

In reviewing the agreements included as exhibits to this Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations

and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

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- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The following exhibits are included as part of this report:

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation (Incorporated by reference to an exhibit to Form SB-2 No. 333-82580 filed with the Commission on February 12, 2002)
3.2	Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3.2 to Form S-1/A No. 333-82580 filed with the Commission on October 6, 2014 and Exhibit 3.2 to Form 10-K No. 333-82580 filed with the Commission on June 27, 2014)
3.3	Bylaws (Incorporated by reference to an exhibit to Form SB-2 No. 333-82580 filed with the Commission on February 12, 2002)
3.4	Amendment and Termination Agreement by and between GB Sciences, Inc. and Pacific Leaf Ventures, LP, dated July 28, 2018
31.1	Certification of Principal Executive Officer and Pursuant to Rule 13a-14
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14
32.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

