

# **GREEN GROWTH** BRANDS

**GREEN GROWTH BRANDS INC.**

**(formerly Xanthic Biopharma Inc.)**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2018**

## MANAGEMENT DISCUSSION AND ANALYSIS

Green Growth Brands Inc. (formerly Xanthic Biopharma Inc. (“Xanthic”)) (“GGB” or the “Company”) was incorporated under *Business Corporations Act* (Ontario). GGB was acquired by Green Growth Brands Ltd. (“GGB Ltd.”) in a reverse takeover transaction completed on November 9, 2018.

GGB is in the business of cultivating, processing and retailing cannabis and cannabidiol (“CBD”) infused consumer products. The GGB team is comprised of retail and consumer packaged goods experts with decades of experience building successful brands.

The Company’s objectives are to develop and sell CBD personal care and beauty products and establish retail cannabis locations, or otherwise apply for such licenses, in various states within that timeframe, pursuant to state laws. Such activity will focus on those certain states where cannabis has been legalized for medical and/or recreational use at the state level.

The Company’s registered office is 5300 Commerce Court West 199 Bay Street, Toronto, Ontario M5L 1B9.

**This Management’s Discussion and Analysis (“MD&A”) has been prepared with an effective date of February 27, 2019, and provides an update on matters discussed in, and should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the three and six months, including the notes thereto, as at and for period ended December 31, 2018 (the “December 2018 Financial Statements”), which have been prepared using International Financial Reporting Standards (“IFRS”), available under the Company’s profile at [www.sedar.com](http://www.sedar.com). All amounts are in United States dollars unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in United States dollars, except for per unit or per share amounts. This MD&A contains forward looking statements that are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may vary materially from management’s expectations. See the “*Caution Concerning Forward Looking Statements*” section in this MD&A.**

In this MD&A, reference is made to gram equivalents, net revenue per selling square foot, cash cost to produce, “all-in” cost of sales, gross profit before fair value adjustments, adjusted gross margin, adjusted EBITDA, capital and intangible asset expenditures which are not measures of financial performance under IFRS. The Company calculates each as follows:

“Gram equivalents” include both grams of dried cannabis as well as grams of cannabis oil as derived using an “equivalency factor” of 1 gram per 4.5 mL of cannabis oil. Management believes this measure provides useful information as a benchmark of the Company against its competitors.

“Net revenue per selling square foot” is defined as annualized net revenue per IFRS divided by the amount of saleable square feet at the Company’s dispensary. This measure does not include stock rooms and waiting areas.

“Gross profit before fair value adjustments” is equal to gross profit less the non-cash increase (plus the non-cash decrease) in the fair value adjustments on sale of inventory and on growth of biological assets, if any. Management believes this measure provides useful information as it removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.

“Adjusted gross margin” is gross profit before fair value adjustments divided by revenue. Management believes this measure provides useful information as it represents the gross profit based on the Company’s cost to produce inventory sold and removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.

“Adjusted EBITDA” is net income (loss) before taxes plus (minus) finance income, net, plus depreciation and amortization, interest and bank charges, plus share-based compensation, plus (minus) non-cash fair value adjustments on sale of inventory and on growth of biological assets, plus impairment of intangible assets, plus transaction costs, plus (minus) loss (gain) on disposal of capital assets, plus (minus) loss (gain) on foreign exchange, plus (minus) loss (gain) on marketable securities, plus (minus) loss (gain) from equity investee, minus deferred gain on sale of intellectual property, plus (minus) loss (gain) on dilution of ownership in equity investee, plus (minus) unrealized loss

(gain) on convertible notes receivable, plus (minus) loss (gain) on long-term investments, listing fees and certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by (used for) operations.

These measures are not necessarily comparable to similarly titled measures used by other companies.

**The Company currently does, and is expected to continue to, derive its revenues from the cannabis industry in certain states in the United States, which industry is illegal under Federal Law in the United States. GGB is directly involved (through its licensed wholly-owned subsidiaries) in the medical or adult-use cannabis industry in the States of Nevada and Massachusetts. See “Issuers with U.S. Cannabis-Related Assets”. Almost half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the “U.S. CSA”) in the United States and as such, is in violation of federal law in the United States. Despite the current state of the federal law and the U.S. CSA, certain states have legalized the recreational use of cannabis, including Nevada where the Company has a direct involvement in U.S. cannabis.**

**As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law must be applied. Notwithstanding the paramouncy of federal law in the United States, enforcement of such laws may be limited by other means or circumstances, which are further described in this document.**

**Unless and until the United States Congress amends the U.S. CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, which may adversely affect the current and future operations of the Company in the United States. As such, there are a number of significant risks associated with the Company's existing and future operations in the United States, and such operations may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States or any other jurisdiction. See “Risk Factors”.**

**For the reasons set forth above, the Company's existing interests and operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. There are a number of significant risks associated with the business of the Company. See “Issuers with U.S. Cannabis-Related Assets” and “Risk Factors”.**

## **CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

Certain statements in this MD&A may contain “forward-looking information,” within the meaning of applicable securities laws, including the “safe harbour provisions” of the *Securities Act* (Ontario) with respect to the Company. Such statements include, but are not limited to, statements with respect to expectations, projections, or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our plans and objectives, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities. These statements are subject to certain risks, assumptions and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words “believe”, “plan”, “intend”, “estimate”, “expect”, or “anticipate”, and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would”, and “could” often identify forward-looking statements. Management has based these forward-looking statements on its current views with respect to future events and financial performance. With respect to forward looking statements contained in this MD&A, management has made assumptions and applied certain factors regarding, among other things: future product pricing; costs of inputs; the Company’s ability to successfully market its products to its anticipated clients; the Company’s reliance on its key personnel; the certain regulatory requirements; the application of federal and state environmental laws; and the impact of increasing competition. These forward-looking statements are also subject to the risks and uncertainties discussed in the “Risks Factors” section of the CSE listing Statement as filed on SEDAR and elsewhere in this MD&A and other risks detailed from time to time in the publicly filed disclosure documents of the Company which are available at [www.sedar.com](http://www.sedar.com). Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and assumptions which could cause actual results to differ materially from the conclusions, forecasts, or projections anticipated in these forward-looking statements. Because of these risks, uncertainties, and assumptions, the reader should not place undue reliance on these forward-looking statements. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. The Company’s forward-looking statements are made only as of the date of this MD&A, and except as required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events or circumstances.

## **GOING CONCERN ASSUMPTION AND EARLY STAGE CORPORATION**

The Company’s ability to continue as a going concern is dependent upon the ability to raise the necessary capital to finance development the Company’s business strategy to be a vertically integrated U.S. multi-state cannabis operator and a retailer of branded CBD personal care products, primarily sold in wholly owned kiosk shops in mall locations and e-commerce sites in the U.S. The December 2018 Financial Statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The amounts the Company may realize on the disposition of its assets or the discharging of its liabilities in other than the normal course of its business may be significantly different than the carrying value of these assets and liabilities as reflected in the December 2018 Financial Statements.

## **OVERVIEW OF THE COMPANY**

### **Description of Business**

GGB operates two distinct lines of business: cannabis cultivation, production, wholesale and retail operations; and CBD-infused consumer product production, wholesale, and retail. The background of management is leading retail and consumer packaged goods organizations. Management is applying best practice retail and product development methodologies to the Cannabis and CBD Segments in order to elevate and differentiate GGB’s offerings.

As of December 31, 2018, the Company had the following cannabis related licenses:

License	Type	State
Medical Cultivation	Cultivation	Nevada, US
Medical Dispensary	Retail	Nevada, US
Adult use Dispensary	Retail	Nevada, US
Medical Production	Production	Nevada, US
Adult use Cultivation	Cultivation	Nevada, US
Adult use Production	Production	Nevada, US
7 License award Adult use Dispensary	Retail	Nevada, US

Subsequent to December 31, 2018, the Company completed the acquisition of Just Healthy LLC (see “*Just Healthy LLC Acquisition*” below) in which Just Healthy holds provisional certificates of registration for a registered medical cannabis dispensary, cultivation, and processing site in Massachusetts.

## Recent Developments

### *Nevada Organic Remedies LLC Acquisition (“NOR”)*

As further discussed below, on September 4, 2018, the Company through GGB Nevada LLC (“**GGB Nevada**”), a wholly owned subsidiary, completed the purchase of NOR from its members (“**NOR Members**”) pursuant to which GGB Nevada acquired (the “**NOR Acquisition**”) 95% of the outstanding membership interests of NOR for aggregate consideration of \$56,750,000 payable by a combination of cash, stock, and a promissory note. The balance of the 5% or \$2,837,500 to the NOR Members was satisfied by the issuance of common shares of the resulting issuer following completion of the business combination with GGB, which was completed November 9, 2018. However, under the NOR Agreement, the remaining 5% is retained by the NOR Members as security until the promissory note is settled.

#### *NOR seven retail license award*

On December 6, 2018, GGB was awarded seven additional retail cannabis dispensary licenses by the Nevada department of Taxation to operate in the state of Nevada. GGB expects to have the first three locations operating by the end of calendar 2019, with the remainder opening in 2020, subject to the favorable resolution of regulations and permitting with local authorities.

### *Just Healthy LLC Acquisition*

On December 11, 2018, GGB announced execution of a definitive agreement to acquire 100% of the membership interests of Just Healthy LLC (“**Just Healthy**”). Just Healthy holds provisional certificates of registration for a registered marijuana dispensary in Northampton, Massachusetts, a cultivation and processing site, also located in Northampton. The license allows for a total of up to three medical dispensaries with preferred treatment for future adult use.

GGB completed the acquisition on January 30, 2019, pursuant to the terms of the Just Healthy membership interest purchase agreement, whereby the Company issued 1,741,244 common shares in the capital of GGB (the “**GGB Shares**”) at a price of CAD\$2.88 per GGB Share (representing a 15% discount to the closing market price of the GGB Shares on the Canadian Securities Exchange (the “**CSE**”) on December 11, 2018 (being the date immediately preceding the date of the news release announcing this transaction)). GGB also assumed and satisfied \$455,000 of Just Healthy corporate debt. In connection with the acquisition of Just Healthy, the Company elected to exercise an option to purchase land in the Northampton, Massachusetts area for a total purchase price of \$700,000. The land is the future site of the cultivation facility.

### *Wellness Orchards of Nevada LLC acquisition*

On December 12, 2018, the Company entered into definitive agreements to acquire a Pahrump, Nevada cultivation facility operated by Wellness Orchards of Nevada LLC (“**WON**”) and Panorama WON LLC (“**Panorama**”) for a total purchase price of \$13,372,162. Through this acquisition, GGB expects to expand its current Nevada footprint to two cultivation facilities in 2019. WON currently operates a 12,000 square foot cannabis cultivation facility in Pahrump, while Panorama owns the real property and assets upon which the cultivation facility operates. The

transaction is expected to close in early 2019 and remains subject to regulatory approvals and other customary closing conditions. Following closing, GGB intends to begin a phase expansion of the current WON cultivation space to nearly 150,000 square feet, with the total cost estimated at \$13,000,000. The first phase is expected to be completed by the end of 2019. This expansion will provide GGB the support necessary for its growing retail and wholesale operations.

#### *Henderson Organic Remedies Irrevocable Option*

On December 14, 2018, GGB agreed to an irrevocable option (the “**Henderson Option**”) to acquire all of the membership interests of Henderson Organic Remedies, LLC (“**Henderson Organic**”) together with the right to all of Henderson Organic’s free cash flow until exercise of the Henderson Option in consideration of the issuance of (i) a secured loan (the “**Loan**”) in the principal amount of \$15,485,000 and (ii) a common share purchase warrant (the “**Warrant**”) exercisable for an aggregate of 7,609,746 GGB Shares. Henderson Organic operates a 2,693 square foot medical and retail marijuana dispensary facility located in Henderson, Nevada. In connection with these transactions, HOR Holdings LLC (“**HOR Holdings**”) is expected to acquire (the “**Henderson Acquisition**”) all of the membership interests of Henderson Organic.

The completion of the Henderson Acquisition and the exercise of the Warrant (which is intended to be satisfied by the issuance of the Henderson Option to GGB) are expected to occur in the first half of calendar 2019 and remain subject to state and municipal regulatory approval and customary conditions of closing. The proposed transactions have been structured to comply with both local and state laws and GGB anticipates exercising the Henderson Option immediately following the later of (i) a change in applicable laws and (ii) the completion of the Henderson Acquisition. The Loan, which was issued on December 13, 2018, to certain members of Henderson Organic, has a maturity date of May 4, 2019, bears interest at a simple annual rate of 6% and is secured against (i) a portion of the payment obligation of NOR,, in favor of the borrowers under the Loan (which portion is equal to the principal amount and accrued interest under the Loan) and (ii) all membership interests of Henderson Organic held by the borrowers under the Loan. The Warrant, which was issued to HOR Holdings LLC on December 13, 2018, expires on December 31, 2019 and vests only upon completion of Henderson Acquisition. Once vested, the Warrant is exercisable for an aggregate of 7,609,746 GGB Shares at an exercise price of CAD\$3.16 per GGB Share (reflecting the price per GGB Share as of the close of trading on December 12, 2018).

#### *Senior Management appointments*

In late January 2019, the Company announced the appointment of Peter Horvath as the Chief Executive Officer, Ed Kistner as Chief Administrative Officer and Brian Logan as Chief Financial Officer, who collectively bring to the Company their extensive retail experience.

#### *Aphria Takeover Bid*

On January 23, 2019, GGB announced that it had filed its offer to purchase (the “**Offer**”) all of the issued and outstanding common shares (the “**Aphria Shares**”) of Aphria Inc. (“**Aphria**”), including any Aphria Shares that may become issued and outstanding after the date of the Offer but prior to 5:00 p.m. (Toronto time) on May 9, 2019 (the “**Expiry Time**”) upon the conversion, exchange or exercise of any Convertible Securities, in accordance with the terms and subject to the conditions contained in the takeover bid circular (the “**TOB Circular**”).

#### The Offer Consideration

Pursuant to the Offer, holders of Aphria Shares (“**Aphria Shareholders**”) holders who tender their Aphria Shares to the Offer (including any Aphria Shares that may become issued and outstanding after the date of the Offer but before the Expiry Time upon the conversion, exchange or exercise of any Convertible Securities) will receive 1.5714 GGB Shares in exchange for each Aphria Share (the “**Offer Consideration**”).

The number of GGB Shares to be issued in exchange for each Aphria Share under the Offer will not be adjusted to reflect any change in the market value of GGB Shares that may occur prior to the time of the take up of Aphria Shares under the Offer. Accordingly, there can be no assurance of what the value of a GGB Share will be at the time of the take up of the Aphria Shares under the Offer.

The Offer is subject to certain conditions which can be found in the TOB Circular as filed on SEDAR under Aphria's profile

### Financing

The Offer is not subject to any financing condition. GGB, however, intends to complete, immediately following the take up of Aphria Shares under the Offer, a third-party equity financing at a share price equal to CAD\$7.00 per GGB Share for aggregate gross proceeds of CAD\$300 million (the "Financing"). As a backstop to the Financing, GGB has entered into a commitment letter (the "**Commitment Letter**") with All Js Greenspace LLC (the "**Backstop Investor**") pursuant to which the Backstop Investor has agreed, subject to the terms and conditions set forth in the Commitment Letter, to subscribe for and purchase up to CAD\$150 million of newly-issued GGB Shares for CAD\$7.00 per share (or the equivalent value of proportionate voting shares ("**PV Shares**") in the capital of GGB) (the "Commitment"). The Commitment is conditional upon the successful completion of the Offer and the take up of Aphria Shares at the Expiry Time on the terms and conditions set forth in the Offer, without any amendment or waiver. The Commitment is also subject to certain terms which GGB believes are customary, including the (i) entering into of a definitive purchase agreement in respect of the Commitment (and satisfaction of the conditions set out therein), (ii) GGB not taking any steps to change its capital structure or capitalization, and (iii) no material events occurring with respect to GGB or its business, assets, liabilities, prospects or results of operations. To induce the Backstop Investor to provide the Commitment, GGB has agreed to pay the Backstop Investor a commitment fee equal to CAD\$7,500,000, payable by issuing 2,504 PV Shares to the Backstop Investor, and to indemnify and reimburse the Backstop Investor for certain liabilities, costs and expenses. GGB will also be obligated to sell to the Backstop Investor up to CAD\$150 million of GGB Shares for CAD\$7.00 per share (or the equivalent value of PV Shares) even if the Offer has not been completed (any such sales shall reduce the Commitment on a dollar-for-dollar basis).

The foregoing is a summary only of certain terms and conditions of the Commitment Letter and is qualified in its entirety by the actual terms of the Commitment Letter. A copy of the Commitment Letter has been filed with the applicable securities regulatory authorities and is available for review under the GGB's profile on SEDAR.

If the Offer and the Financing are completed, GGB expects to use the net proceeds of the Financing to fund the business growth of the combined company, including for working capital and general corporate purposes.

### *ZLJT LLC & Arizona Natural Pain Solutions Inc. Acquisition*

On January 31, 2019, GGB announced execution of an arm's length definitive agreement to acquire control of ZLJT LLC & Arizona Natural Pain Solutions Inc. (collectively, "**Desert Rose**"). Desert Rose holds a license for a vertically-integrated operation in Arizona, including retail, cultivation & infusion (kitchen). As consideration for the membership interests, GGB will pay an aggregate purchase price of \$12,350,000 in cash.

Completion of the acquisition of Desert Rose is expected to occur in early 2019, and remains subject to regulatory approval, customary conditions of closing and the satisfactory completion of due diligence by the Company.

### *Authentic Brands Group and Greg Norman Licensing Agreement*

On February 7, 2019, GGB Beauty LLC, a subsidiary of GGB announced it had executed a licensing agreement with Authentic Brands Group ("**ABG**") and the Greg Norman brand. The agreement is to develop a line of CBD infused personal care products designed for active men and women. ABG is a brand development and marketing company. In addition to the Greg Norman brand, its global portfolio of entertainment and lifestyle brands include some of worlds most renowned celebrities. The agreement is for a five-year term with certain guaranteed annual minimum royalties. The Company has discretion to terminate the Agreement at any time subject to the payment of a termination fee.

### *Simon Property Group Master Lease Agreement*

On February 11, 2019, GGB announced that it had entered into an agreement through which the Company will gain access to 108 prime shop locations in U.S. malls owned and operated by the Simon Property Group, Inc. (NYSE: SPG) (“**Simon**”). Pursuant to the arrangement, GGB will further expand its chain of CBD-infused personal care product shops under the Seventh Sense Botanical Therapy (“**Seventh Sense**”) brand and other GGB brands.

In conjunction with the Simon transaction, the Company, through its wholly owned subsidiary GGB Kiosks LLC, has entered into a consulting agreement for services rendered with Simon Canada Management Ltd. (“**Simon Canada**”). In exchange for the services rendered under the this consulting agreement, which relate to GGB's shop expansion strategy, the Company has issued to Simon Canada \$2,232,824 (CAD\$2,925,000) in GGB Shares and 1,000,000 GGB Share purchase warrants with an exercise price of \$4.47 (CAN\$5.85) per GGB Share, with both the GGB Shares and the warrants reflecting the GGB Share price as of close of trading on February 7, 2019. The GGB Shares issued to Simon Canada are subject to a lock up agreement for a period of 12 months from the effective date.

GGB also entered into an Advisory Services Agreement (the “**Advisory Agreement**”) with J. Salter Ltd., d.b.a. Authentic Retail Concepts, Ltd. (“**ARC**”), for a variety of consulting services that leverage a network of strategic relationships, including Simon Property Group. As compensation for the services under the Advisory Agreement, GGB has issued to ARC \$2,232,824 (CAN\$2,925,000) in GGB Shares at a price of \$4.47 (CAN\$5.85) per GGB Share. The GGB Shares issued to ARC are subject to a lock up agreement for a period of 12 months from the effective date.

### *Launch of first CBD retail locations and eCommerce website*

In mid-February 2019, the Company announced the opening of its first Seventh Sense CBD shop at Fayette Mall in Lexington, Kentucky and the launch of the Company’s eCommerce website, ShopSeventhSense.com. The eCommerce site will allow consumers access to hemp-derived CBD personal care and beauty products under the Seventh Sense Botanical Therapy brand. Seventh Sense Botanical Therapy is made only with legally sourced industrial hemp, not cannabis. The Company is currently shipping to customers in the following states: Arkansas, Arizona, California, Colorado, Connecticut, Delaware, Illinois, Indiana, Kansas, Kentucky, Massachusetts, Maryland, Maine, Minnesota, Missouri, Montana, North Carolina, New Hampshire, New Jersey, Nevada, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Utah, West Virginia and Wisconsin.

### **Corporate Outlook and Strategy**

GGB is a customer-centric retailer. The focus is to earn customer loyalty with remarkable experiences across all touch points through a suite of brands that resonate with a new generation of cannabis and CBD consumers.

GGB has two core differentiators from its competitors: (1) the experience of its management team and (2) its diversified business model.

Management is comprised of leaders who have been involved in saturated and mature markets. Their experience includes building strategies that drove results at iconic, publicly traded Fortune 500 companies.

This experience is being applied to both cannabis retail and CBD-infused personal care and beauty products. These two complimentary lines of business allow GGB to participate in both high-growth industries.

Management experience in retail allows them to critically assess the existing cannabis retail industry and vastly improve the customer experience. These enhancements include, intentional product development, assortment architecture, store and packaging design, real estate selection, accurate inventory demand forecasting, and associate training and retention. All GGB cannabis stores will have the same fundamental retail best practices but will be branded under different names. Store brands and locations will be based upon the local market to best align with local culture and values.

GGB's focus is on presenting an authoritative, broad assortment of high quality, affordably priced CBD-infused topical personal care and beauty products. The products will be sold in prime locations throughout the malls of the United States., via eCommerce, through wholesale retail partners, and in standalone stores.

## **Background**

On September 4, 2018, the Company, through GGB Nevada, completed the NOR Acquisition pursuant to which it acquired all of the issued and outstanding membership interests of NOR for aggregate consideration of \$56,750,000 payable by a combination of cash and a promissory note. NOR is a vertically-integrated cannabis operator with cultivation, processing, and retail facilities in Nevada.

On July 16, 2018, the Company advanced on signing of the NOR agreement the deposit of \$2,000,000. On September 4, 2018, the Company through GGB Nevada, made the initial cash payment of \$30,347,500 required pursuant to the NOR Agreement in connection with the closing of the NOR Acquisition. In addition, on closing of the NOR Acquisition, GGB Nevada delivered to the NOR Members a secured promissory note (the "Purchase Note") in the principal amount of US\$21,565,000. The Purchase Note matures on March 4, 2019 and bears interest at 6% per annum and is fully secured by general security interest over the assets of NOR. However, if the subsequently announced acquisition of Henderson Organic Remedies LLC doesn't close prior to March 4, 2019 up to \$15,485,000 plus unpaid accrued interest shall be extended to May 4, 2019. The balance of US\$2,837,500 owing to the NOR Members was settled with the issuance of common shares of the Company. Until such time as the Purchase Note is settled, the remaining 5% is retained by the NOR Members as security.

### *Business Combination*

On July 13, 2018, the Company entered into a business combination agreement (the "**Definitive Agreement**") with GGB Ltd., as amended on August 30, 2018 and as amended and restated on October 30, 2018, pursuant to which GGB Ltd. and a wholly-owned subsidiary of the Company would effect a three-cornered amalgamation (the "**Amalgamation**") to form a wholly owned subsidiary of the Company (the "**Business Combination**"). The Business Combination was completed on November 9, 2018.

Following the close of the Business Combination, all the issued and outstanding shares in the capital of GGB Ltd. Shares were acquired by the Company and as consideration, the Company issued to the GGB Ltd. shareholders, on a 3.43522878-for-one basis, 598,613,452 common shares in the capital of the Company in exchange for the then issued and outstanding GGB Ltd. shares. In addition, the Company reorganized its share structure and consolidated all of its issued and outstanding shares (the "**Consolidation**") on the basis of four (4) pre-consolidation shares for one (1) post-Consolidation share.

Following the completion of the Business Combination, previous GGB Ltd. shareholders held approximately 134,382,404 shares in the capital of the Company, representing approximately 81% of the Company's issued and outstanding capital on a non-diluted basis. A deemed value of C\$1.44 per share was placed on the Company's shares issued in connection with the Business Combination, post-Consolidation.

Prior to the Business Combination, GGB Ltd. completed a private placement for gross proceeds of C\$55,000,000. GA Opportunities Corp. ("GA") subscribed for 15,271,040 common shares in the capital of the Company at C\$2.00 per share and 12,228,960 common share purchase warrants of the Company, which warrants could be exercised at an exercise price of C\$2.00 for a further 12,228,960 common shares in the capital of the Company. GA exercised its warrants prior to closing on the Business Combination and was issued 12,228,960 additional common shares upon payment of the aggregate exercise price on December 4, 2018.

The Company resumed trading on the CSE on November 13, 2018, following the approval and closing of the Business Combination on November 9, 2018.

For more information on the Business Combination please refer to the Company's listing statement as filed under the Company's profile on SEDAR on November 12, 2018.

### Business Combination Accounting

The Business Combination constituted a reverse takeover transaction by GGB, and the Company is considered to have met the definition of a business, as defined in IFRS 3 – *Business Combinations* due to its productive operating potential. The consideration paid was determined based on the fair value of CAD\$1.44 per common share based on the price of the GGB convertible debentures conversion ratio at the time of the Business Combination. Therefore, fair value ascribed to Xanthic was \$4,582,299 based on what GGB would have paid to acquire 100% of the Company from Xanthic.

As a result of the adoption of IFRS 3, GGB was considered the accounting acquirer and legal acquiree. Therefore, operating results of the Company for the three- and six-month periods ended December 31, 2018, includes the operations of GGB Ltd. and its subsidiaries from July 1, 2018 to December 31, 2018, and operating results of Xanthic and NOR from the Business Combination date of November 9, 2018 to December 31, 2018.

The following represents the allocation of the purchase price by GGB of the Company and the step purchase on the NOR acquisition and subsequent GGB RTO:

	NOR	Xanthic	Total
Cash	\$ 877,027	\$ 285,393	\$ 1,162,420
Accounts receivable	276,449	-	276,449
Other receivables	58,777	67,781	126,558
Inventory	1,624,095	177,665	1,801,760
Property, plant and equipment	347,704	122,153	469,857
Equity Investment	-	838,688	838,688
Investment in NOR	-	56,750,000	56,750,000
Intangible assets	32,235,000	-	32,235,000
Goodwill	22,144,742	3,937,893	26,082,635
Accounts payable and accrued liabilities	(813,794)	(547,274)	(1,361,068)
other financial liabilities	-	(3,137,500)	(3,137,500)
Interest bearing Loans	-	(53,912,500)	(53,912,500)
	<b>\$ 56,750,000</b>	<b>\$ 4,582,299</b>	<b>\$ 61,332,299</b>

#### Fair value of consideration paid:

Cash	\$ 32,347,500	\$ -	\$ 32,347,500
Promissory note	21,565,000	-	21,565,000
Common Shares	2,837,500	4,582,299	7,419,799
	<b>\$ 56,750,000</b>	<b>\$ 4,582,299</b>	<b>\$ 61,332,299</b>

## OVERALL FINANCIAL PERFORMANCE

(Expressed in United States dollars)

	Three months 2018	Six months 2018
Revenue	\$ 3,142,620	\$ 3,142,620
Revenue per sq ft. (annualized)	15,177	15,177
Gross profit	1,343,751	1,343,751
Adjusted gross margin - Cannabis segment <sup>1</sup>	1,231,678	1,231,678
Adjusted EBITDA <sup>1</sup>	(8,503,186)	(12,283,533)
Net loss before income taxes	(12,828,815)	(17,010,044)
Net loss per share	(0.08)	(0.15)
Cash and cash equivalents	31,483,284	31,483,284
Working capital	\$ 26,873,304	\$ 26,873,304

- Revenue reflects revenue from the Company’s cannabis segment (the “**Cannabis Segment**”) of \$3,077,857 and from the Company’s CBD segment (the “**CBD Segment**”) of \$64,763.
- Our Cannabis Segment continues to enjoy one of the highest sales per sq. ft. in the retail industry as evidenced by its annualized \$15,177 per sq. ft. rate for the period.
- The Company’s gross profit was \$1,343,751 for the three and six months ended December 31, 2018, after fair value adjustments for the sale of inventory and fair value adjustments on biological assets
- The Company’s adjusted gross margin, before fair value adjustments for the sale of inventory and fair value adjustments on biological assets, for its Cannabis Segment for the three and six months ended December 31, 2018, was \$1,231,678.
- The Company’s adjusted EBITDA, as reconciled below, was a loss of \$8,503,186 and \$12,283,533 for the three and six months ended December 31, 2018, respectively, reflecting primarily the start-up activities of the CBD Segment.
- The Company’s net loss before income taxes was \$12,828,815 and \$17,010,044 for the three and six months ended December 31, 2018, respectively, and reflects the Company’s start-up phase.
- The Company had cash and cash equivalents of \$31,483,284 at December 31, 2018.

### Review of Operations for the three and six months ended December 31, 2018

Results from operations for the three and six months ended December 31, 2018, includes activity of GGB Ltd. from July 1, 2018 to December 31, 2018, and of Xanthic and NOR from the Business Combination date of November 9, 2018 to December 31, 2018.

During the three months ended December 31, 2018, the Company incurred a net loss after income taxes attributable to owners of the parent of \$13,191,991, or \$0.08 per share, which included non-operating expense of \$4,104,127. During the six months ended December 31, 2018, the Company incurred a net loss after income taxes attributable to owners of the parent of \$17,373,220, or \$0.15 per share, which included non-operating expenses of \$4,499,704.

During the three and six months ended December 31, 2018, the Company recorded fair value adjustments on the sale of inventory of \$593,670 and a fair value gain on biological assets of \$757,564 (see “Cannabis Segment”).

Included in the results of operations for three and six months ended December 31, 2018, was a loss on the disposition of its equity investment in Xanthic Beverages USA, LLC (“**Xanthic Beverages**”). The Company previously had a 45% interest in Xanthic Beverages, which it sold back to the other controlling member of Xanthic Beverages for gross proceeds of \$300,000. Gross proceeds included cash of \$50,000 and a note receivable of \$250,000, which bears interest at 3%. Xanthic Beverages investment no longer fit in the Company’s corporate strategy and as a result the Company recorded a loss on its equity investment in Xanthic Beverages for the three and six months of \$671,578.

In addition, the Company incurred a loss on investment for the three and six months of \$1,000,000 as a breakup fee on the cancellation of a potential acquisition.

The Company has raised its funds in Canadian dollars since inception and holds a significant amount of its cash in Canadian dollars along with its short-term investment. As result, and with the variability in the foreign exchange rate

between Canadian and United States dollars, during the three and six months ended December 31, 2018, the Company incurred foreign exchange losses of \$585,529 and \$741,414, respectively. The Company does not currently hedge against these foreign exchange fluctuations.

Included in non-operating expenses is interest expenses of \$1,887,378 and \$1,887,595 for the three and six months ended December 31, 2018, respectively, which included \$1,544,742 of interest expense on the convertible debentures that were converted into common shares of the Company on the close of the Business Combination. The convertible debentures bore interest at 12%. The Company also incurred interest expense of \$187,881 for the period of November 9, 2018 to December 31, 2018, on the \$21,565,000 promissory note with NOR, which bears interest at 6%.

In addition, at December 31, 2018, the Company held a short-term investment of \$17,260,064 in shares of Aphria. The investment had appreciated by \$500,073 in unrealized gains for the period.

### *Adjusted EBITDA*

One of the measures the Company uses to evaluate its objectives is adjusted EBITDA. Adjusted EBITDA is a non-IFRS financial measure that does not have a standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA as net income (loss) before taxes plus (minus) finance income, net, plus depreciation and amortization, interest and bank charges, plus share-based compensation, plus (minus) non-cash fair value adjustments on sale of inventory and on growth of biological assets, plus impairment of intangible assets, plus transaction costs, plus (minus) loss (gain) on disposal of capital assets, plus (minus) loss (gain) on foreign exchange, plus (minus) loss (gain) on marketable securities, plus (minus) loss (gain) from equity investee, minus deferred gain on sale of intellectual property, plus (minus) loss (gain) on dilution of ownership in equity investee, plus (minus) unrealized loss (gain) on convertible notes receivable, plus (minus) loss (gain) on long-term investments, listing fees and certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by (used for) operations.

*(Expressed in United States dollars)*

	Three months 2018	Six months 2018
Net loss after listing fees before income taxes	\$ (12,828,815)	\$ (17,010,044)
Fair value adjustment on sale of inventory	593,670	593,670
Fair value adjustment on biological assets	(757,564)	(757,564)
Stock based compensation	182,335	187,640
Depreciation and amortization	203,061	203,061
Interest and bank charges	1,887,378	1,887,595
Loss on equity investment in Xanthic Beverages USA, LLC	671,578	671,578
Foreign exchange loss	585,529	741,414
Unrealized gain on short term investment	(500,073)	(500,073)
Loss on acquisition	1,000,000	1,000,000
Listing fees	459,715	699,190
	4,325,629	4,726,511
Adjusted EBITDA	(8,503,186)	(12,283,533)

For the three and six months ended December 31, 2018, the Company had negative adjusted EBITDA of \$8,503,186 and \$12,283,533, respectively. The Company continued to build out its infrastructure and team during the three and six months ended December 31, 2018.

### **CANNABIS SEGMENT**

At December 31, 2018, the Cannabis Segment represents its operations in Nevada through its subsidiary NOR.

NOR produces high quality medical and retail marijuana products that are sold through its retail location and sold wholesale to various other dispensaries. NOR's Las Vegas area dispensary is considered a premier dispensary, receiving top ratings by multiple local publications. NOR operates its dispensary under the brand "The +Source" and offers a comprehensive line of medicinal and retail marijuana, edibles, concentrates, CBD, and topicals.

NOR also operates 12,000 square feet of cultivation and production space. NOR's cultivation capabilities include the use of energy-efficient LED lights during cultivation, integrated pest management practices that reduce the need for pesticides and use of CO2 as a more environmentally conscious extraction method. NOR also utilizes rockwool as a growing medium, providing a more efficient use of space and reducing the waste of thousands of pounds of soil and soil amendments in the cultivation process.

The following reflects operating results of the Cannabis Segment from the Business Combination date on November 9, 2018 to December 31, 2018.

#### Revenue

Below is breakdown of revenue from NOR between its direct to consumer business and its wholesale business. NOR sells excess production capacity to other dispensaries in the state of Nevada.

<i>For the period November 9, 2018 to December 31, 2018</i>		<b>Total</b>
Direct to Consumer	\$	2,594,583
Wholesale		483,274
		3,077,857

One the key metrics the Company follows and manages is annualized revenue per square foot. The Cannabis Segment achieved an annualized revenue per square foot of \$15,177 for the period of November 9, 2018 to December 31, 2018. This continues to represent one of the highest revenues per square feet metrics in United States retail.

#### Gross profit

The Cannabis Segment had gross profit of \$1,395,572 for the three and six months ended December 31, 2018, after fair value adjustments for the sale of inventory and fair value adjustments on biological assets.

In accordance with IFRS, the Company is required to record its biological assets at fair value. As biological assets move through the production process, capitalized production costs and the fair value on the eventual sale of the cannabis from the plants are both recognized under IFRS based on the stage of completion of the biological assets. The fair value portion of the biological assets is recognized as unrealized gains from the change in fair value of biological assets in the statement of comprehensive income for the reporting period. At the time of harvest, the biological assets are transferred to inventory and include capitalized production costs to date and the related fair value portion, which is adjusted to the lower of cost or inventory net realizable value. On the eventual sale of inventory, the fair value portion is relieved through unrealized loss on change in fair value on sale of inventory reported in the results of operations.

As illustrated in the table below, the Cannabis Segment had gross profit before fair value adjustments of \$1,231,678 for the three- and six-months end December 31, 2018.

<i>For the period November 9, 2018 to December 31, 2018</i>		<b>Total</b>
Revenue	\$	3,077,857
Cost of Sales		
Production costs		(1,144,721)
Other cost of sales		(701,458)
Gross profit before fair value adjustments		1,231,678
Gross margin		40%

The Cannabis Segment had a 40% gross margin before fair value adjustments for three and six months ended December 31, 2018. Due to the shortened reporting time period from the Business Combination on November 9, 2018 to December 31, 2018, and some discreet personnel costs related to incentive compensation, gross margin is below management expectations of approximately 50%.

### Operating costs

<i>For the period November 9, 2018 to December 31, 2018</i>		<b>Total</b>
General and administration	\$	1,295,923
Sales and marketing		822,161
Depreciation and amortization		158,954
<b>Total</b>	<b>\$</b>	<b>2,277,038</b>

Since the Business Combination date on November 9, 2018, NOR had operating expenses of \$2,277,038, which included a \$1,000,000 bonus payment to one of the NOR members in connection with an employment agreement and was tied to the successful award of the additional seven Nevada dispensary licenses. The bonus was settled for common shares of the Company (See Note 16 to December 2018 Financial Statements).

Operating expenses included sales and marketing expenses at its dispensary the Source of \$822,161. Sales and marketing expenses include all costs to run its dispensary operations. General and administrative costs also included salaries of \$274,143 and occupancy costs of \$21,780.

### *Cannabis Segment liquidity and capital resources*

Cash flow generated from the Cannabis Segment operations since the Business Combination date on November 9, 2018 to December 31, 2018 was \$126,769. The Cannabis Segment maintains and operates its own cash flow and capital resources to fund its operations. As at December 31, 2018, the Cannabis Segment had \$1,161,000 in cash and cash equivalents and a positive working capital of \$2,290,000.

In December 2018, the Company was awarded seven additional retail dispensary licenses in the state of Nevada by the Nevada Department of Taxation. The estimated capital of \$10 million required to develop and build the production capacity to service the increased number of dispensaries in the state of Nevada will require capital resources from corporate head office and is dependent on the Company's ability to raise additional finances to fund its operations.

At December 31, 2018, the Company's inventory and biological assets consists of the following:

### *Inventory*

	<b>December 31, 2018</b>
Cannabis harvested	\$ 255,455
Cannabis oil	220,256
Retail inventory	963,256
	<b>\$ 1,438,967</b>

### *Biological assets*

Balance at June 30, 2018	\$ -
Production costs capitalized	676,722
Changes in fair value less costs to sell due to biological transformation	(163,894)
Transferred to inventory	(81,017)
<b>Balance at December 31, 2018</b>	<b>\$ 431,811</b>

## CBD SEGMENT

The CBD Segment sells CBD-infused personal care and beauty products, along with other categories, directly to consumers through mall-based kiosk shops, free-standing stores, and eCommerce under the Seventh Sense brand. The products are also sold wholesale through a network of stores. The products include body lotion, muscle balm, body wash, bath salt, sugar scrub, bath bomb, lip balm, foot cream, and face oil. Offering the most dominate assortment of CBD-infused personal care and beauty products in the industry.

The CBD Segment completed a ten store test with DSW Inc. (“DSW”) during the period. The objective of the test was to understand consumer preference of CBD-infused personal care and beauty products, including: form, price, fragrance, and presentation. Insights from the test were then used to inform adjustments to the assortment for larger future distribution.

The following reflects operating results of the CBD Segment from July 1, 2018 to December 31, 2018.

<i>For the period July 1, 2018 to December 31, 2018</i>		\$
Revenue		\$ 64,763
Cost of Sales		(116,584)
Gross profit		(51,821)
Gross margin		-80%

As previously mentioned, for the period of July 1, 2018 to December 31, 2018, the CBD Segment conduct a test at DSW in which the main objective was to determine customer response. Cost of sales reflects the costs associated with a low production run, as well as the write-off any remaining inventory from the test. In addition, as previously mentioned, subsequent to December 31, 2018, the Company launched its first kiosk location in Lexington, Kentucky and launched its eCommerce website.

### *Operating Costs*

	<b>Three months</b>	<b>YTD</b>
General and administration	\$ 1,746,052	\$ 2,009,276
Legal and professional fees	217,224	959,717
Sales and marketing	354,892	364,369
Depreciation and amortization	17,179	17,679
Total	\$ 2,335,347	\$ 3,351,041

During the three and six months ended December 31, 2018, the CBD Segment incurred operating expenses of \$2,335,347 and \$3,351,041, respectively. Legal and professional costs related to general legal work and consulting fees related to CBD product development.

### *General and administrative costs*

	<b>Three months</b>	<b>YTD</b>
Salaries	\$ 1,638,053	\$ 1,851,985
Travel	69,954	69,954
Other	38,045	87,337
Total	\$ 1,746,052	\$ 2,009,276

General and administrative costs for the three and six months ended December 31, 2018, were \$1,746,052 and \$2,009,276, respectively, which included salaries of \$1,638,053 and \$1,851,985, respectively. Travel expenses were \$69,954 for the three and six months ended December 31, 2018.

### *CBD Segment liquidity and capital resources*

The CBD Segment is currently in a startup phase and, as of December 31, 2018, had positive working capital of \$12,523,983. The CBD Segment expects to begin to launch its products nationally during the next quarter through its wholly-own retail kiosk shops in mall locations and e-commerce sites and through wholesale arrangements.

The CBD Segment will continue require capital resources from head office in order to fully execute on its business strategy of opening up to 300 kiosks locations over the next 12 months.

### **HEAD OFFICE**

#### *Operating Costs*

	<b>Three months</b>		<b>Six months</b>	
General and administration	\$	2,603,479	\$	3,914,382
Legal and professional fees		2,627,834		4,091,561
Advertising and promotion		15,478		6,001
Stock based compensaton		182,335		187,640
Depreciation and amortization		26,928		26,428
	\$	5,456,054	\$	8,226,012

#### *General and administrative costs*

	<b>Three months</b>		<b>YTD</b>	
Salaries	\$	1,222,277	\$	1,911,658
Rent and Utilities		32,374		290,668
Public company fees (listing, filing fees, insurance)		128,829		128,829
Travel		1,125,724		1,417,968
Other		94,275		165,259
Total	\$	2,603,479	\$	3,914,382

During the three and six months ended December 31, 2018, the Company incurred operating expenses of \$5,456,054 and \$8,226,012, respectively. General and administrative costs were \$2,603,479 and \$3,914,382 for the three and six months ended December 31, 2018, respectively. This included head office salaries of \$1,222,277 and \$1,911,658, rent and utilities of \$32,374 and \$290,668, public company costs such as transfer agent and insurance of \$128,829, and travel related costs of \$1,125,724 and \$1,417,968 for the three and six months ended December 31, 2018, respectively. The Company is continuing to build out its infrastructure in order to execute on its business plan.

During the three and six months ended December 31, 2018, the Company incurred \$2,627,834 and \$4,091,561, respectively, on legal and professional fees. This includes accounting, general legal, corporate finance work and strategic advisory services.

The Company incurred, during the three and six months ended December 31, 2018, stock-based compensation expense of \$182,335 and \$187,640, respectively, in connection with stock options and restricted stock units granted.

### **SELECTED QUARTERLY FINANCIAL INFORMATION**

For the three months ended,	<b>December 31, 2018</b>		<b>September 30, 2018</b>		<b>June 30, 2018</b>	
Current Assets	\$	54,468,123	\$	67,702,121	\$	4,706,580
Current Liabilities		27,594,819		73,380,719		316,768
Revenue		3,142,620		-		-
Net loss from Operations		(7,724,688)		(1,554,620)		(2,626,609)
Net Loss per share	\$	(0.07)	\$	(0.02)	\$	(0.03)

Other than \$18,477,000 in cash and \$17,260,064 in short term investments all of the Company's assets and liabilities are in the United States and all of the Company's operations are located in the United States.

As previously indicated, the Company was accounted for under IFRS 3 in which GGB was identified as the accounting acquirer and, as such, the Company operations reflect GGB operations since July 1, 2018 to December 31, 2018, and the operations of Xanthic and NOR from the Business Combination on November 9, 2018 to December 31, 2018.

- At December 31, 2018, the Company's current assets represent cash and cash equivalents, short term investment, receivables, note receivable, prepaids, inventory, biological assets and due from related parties.
- At September 30, 2018, the Company had convertible debentures included in current liabilities. The convertible debentures converted to common shares of the Company on of the Business Combination

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company had cash of \$31,483,284, short term investment of \$17,260,064, and total current assets of \$54,468,123 and current liabilities of \$27,594,819 as at December 31, 2018. The Company, therefore, had working capital of \$26,873,304.

Despite positive working capital, the Company does not have sufficient liquidity and capital resources at December 31, 2018, to fully execute on its business plan and satisfy its commitments as outlined below over the next twelve months. The Company expects it will have negative operating cashflow while it executes on its business plan through the start-up phase.

The Company plans to complete further financings over the next twelve months in order to fund its ongoing expenditures and execute on its business plan. However, there is no assurance that the Company will be successful in these endeavors.

### **Outstanding Share Data**

At December 31, 2018, the Company had 182,267,971 common shares outstanding, 38,194 proportionate voting shares that have super voting rights of 500 votes per share, 27,491,644 warrants outstanding and 475,000 stock options outstanding and on February 27, 2018, the Company had 186,683,111 GGB Shares, 40,698 proportionate voting shares, 25,615,262 warrants, 2,120,000 restricted stock units, and 450,000 stock options outstanding.

## **OFF BALANCE SHEET ARRANGEMENTS**

In the normal course of business, the Company has entered into arrangements with several third-party goods and services providers. In certain instances, the Company, directly and through its subsidiaries, has provided indemnities and/or guarantees to these third parties for the payment of goods or services provided, or otherwise. Generally, there are no pre-determined amounts or limits included in these arrangements, and the occurrence of an event that would trigger the Company's obligations pursuant to these arrangements is difficult to predict. Therefore, the Company's potential future liability cannot be reasonably estimated.

## **COMMITMENT AND CONTINGENCIES**

In addition to the commitments disclosed in Note 24 to the December 2018 Financial Statements, the Company has the following additional commitment disclosure noted below.

Subsequent to December 31, 2018, the Company announced it had completed the previously announced deal with Just Healthy. Just Healthy holds provisional certificates of registration for a registered medical cannabis dispensary, cultivation, and processing site in Northampton, Massachusetts. Pursuant to the terms of the Just Healthy membership interest purchase agreement, the Company issued 1,741,244 GGB Shares at a price of CAD\$2.88 per GGB share (representing a 15% discount to the closing market price of the GGB Shares on the CSE on December 11, 2018 (being the date immediately preceding the date of the news release announcing this transaction)). The Company has also assumed and satisfied \$455,000 of Just Healthy corporate debt.

Finally, as previously disclosed, the Company's Cannabis Segment was awarded seven additional retail dispensary licenses in the state of Nevada by the Nevada Department of Taxation. The capital required to develop, secure the locations, and build the production capacity to service the increased number of dispensaries in the state of Nevada will require capital resources.

### *Contingencies*

The Company, through its NOR operations, is subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its consolidated operations, or losses of permits that could result in the NOR ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as of December 31, 2018, cannabis regulations continue to evolve and area subject to differing interpretations. As a result, NOR may be subject to regulatory fines, penalties or restrictions in the future.

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are no proceedings in which any of the Company's directors, officers, or affiliates is an adverse party or has a material interest adverse to the Company's interest.

### **RELATED PARTY TRANSACTIONS**

Other than as described in Note 19 to the December 2018 Financial Statements, there are no additional related party transactions.

### **ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND ESTIMATES**

The preparation of the Company's December 2018 Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and other items in net earnings or loss, and the related disclosure of contingent assets and liabilities, if any. Critical judgments and estimates represent estimates made by management that are, by their very nature, uncertain. The Company evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and other items in net earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Summaries of the significant accounting policies applied, and significant judgments, estimates and assumptions made by management in the preparation of its financial statements are provided in Notes 2 and 3 to the December 2018 Financial Statements.

### **CONTROLS AND PROCEDURES**

Internal Control over financial reporting ("ICFR") is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Company's Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as at December 31, 2018, the Company's disclosure controls and procedures were effective.

The Chief Executive Officer and the Chief Financial Officer of the Company have also evaluated whether there were changes to the Company's internal control over financial reporting during the three and six months ended December 31, 2017, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting. There were no changes identified during their evaluation.

## **ISSUERS WITH U.S. CANNABIS-RELATED ASSETS**

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352 Issuers with U.S. Marijuana-Related Activities (the “**Staff Notice**”) which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. cannabis-related activities.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that cannabis is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's U.S. cannabis-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have “ancillary industry involvement”, all as further described in the Staff Notice.

As a result of the Company’s existing operations and recent acquisitions in the United States, GGB is properly subject to the Staff Notice and accordingly provides the following disclosure:

### **Nature of Involvement in the U.S. Marijuana Industry**

#### *Nevada*

The Company, through its wholly-owned subsidiary, NOR, is licensed to possess, cultivate, process, dispense and sell medical and recreational cannabis in the State of Nevada. NOR operates a facility which is approximately 12,000 square feet located in Clark County, Nevada, where cultivation, production, and distribution take place.

#### *Massachusetts*

The Company, through its wholly owned subsidiary Just Healthy, holds provisional certificates of registration for a registered medical marijuana dispensary in Northampton, Massachusetts, as well as a cultivation and processing site, also located in Northampton. The license allows for a total of up to three medical dispensaries with preferred treatment for adult use cannabis. The Company anticipates completing the adult-use cannabis licensing process at some point in 2019.

### **Status of Medical and Recreational Cannabis under United States Federal Law**

Ownership, investment, or control of, or engaging in transactions with entities which manufacture, distribute, dispense, or possess cannabis may create a risk of criminal or civil liability. Cannabis is illegal under federal law and the laws of some states and territories in the United States. Thirty-one states and territories in the United States have legalized medical or recreational cannabis, but the legal and regulatory frameworks in each of these jurisdictions vary and impose substantial restrictions on the manufacture, distribution, dispensation, or possession of cannabis, and on related business activities, including employment, advertising, and finance within the state and territory. Federal criminal laws continue to apply in those states and territories which have legalized cannabis.

Although the Company’s activities are compliant with applicable state and local law in the United States, strict compliance with state and local laws may not act as a shield to federal criminal liability.

The risk of federal enforcement and other risks associated with the Company’s business are described under the heading “Risk Factors” below.

## **Ability to Access Public and Private Capital**

While the Company is not able to obtain bank financing in the United States or financing from other federally regulated entities, the Company's executive team and board of directors have relationships with potential sources of private capital (such as funds and high net worth individuals).

While there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to participants in the United States cannabis industry. There can be no assurance that additional financing will be available to the Company when needed or on acceptable terms. The Company's inability to raise financing to fund its ongoing operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability and operations.

## **Massachusetts History and Regulatory Framework**

Massachusetts' medical cannabis market was established by "An Act for the Humanitarian Medical Use of Marijuana" in November 2012 when voters passed Ballot Question 3 "Massachusetts Medical Marijuana Initiative."

In November 2016, Massachusetts voters legalized adult-use cannabis by passing ballot Question 4 – "The Regulation and Taxation of Marijuana Act." In July 2017, the state enacted legislation setting forth the adult-use cannabis framework. In March 2018, the Cannabis Control Commission (the "Commission"), the regulatory body set up to regulate the adult-use market, approved the rules that will govern the industry. While the Commission originally aimed to launch adult-use sales on July 1, 2018, administrative delays resulted in the first adult-use cannabis retail store opening in November 2018.

### *Licensing Requirements*

935 CMR 502.000, promulgated pursuant to the Regulation and Taxation of Marijuana Act, provides the framework for co-located medical and adult use cannabis in Massachusetts. An applicant, among other things, must (i) be registered to do business in Massachusetts, (ii) disclose interests in other marijuana businesses in other states, (iii) execute a host community agreement with the municipality hosting the marijuana facility, (iv) provide documentation that it has conducted a community outreach meeting within six months of the application, (v) provide a description of its plans to ensure that such plans are compliant with local codes, ordinances, and bylaws, and (vi) provide a plan to positively impact areas subject to disproportionate impact. All applicants are subject to mandatory background checks.

### *Security Requirements*

Marijuana establishments must implement safety measures to deter and prevent unauthorized entrance into areas containing marijuana and theft of product. Establishments must undertake at least the following measures, which are not exhaustive of security requirements: (i) positive identification of individuals entering the establishment, (ii) securing all entrances and exits and adopting policies to prevent loitering, (iii) ensuring that the outside perimeter of the establishment is sufficiently lit to facilitate surveillance, and (iv) implementing certain security and alarm requirements related to the facility, to including perimeter fencing, video at all entrances/exits, the ability to operate electronic monitoring devices during power outages, and designs that limit access to security employees and those essential to such operations.

### *Transportation and Storage Requirements*

Massachusetts provides a separate license option for marijuana transportation. Marijuana products may be transported only by registered marijuana establishment agents. All marijuana moving in transport must be linked to the seed-to-sale tracking program. Vehicles transporting marijuana must be staffed with no less than two agents, and one must be in the vehicle at all times. All products must be packaged and sealed in tamper/child-resistant packaging prior to and during any transportation.

### *Department Inspections*

The Commission may inspect an establishment and any affiliated vehicles at any time without notice to ensure compliance with the relevant regulations. This includes a “Secret Shopper” program aimed at compliance with laboratory standards and identification requirements. Establishments are required to make reasonable efforts to facilitate the Commission’s inspection, including providing samples, photographs, and video.

### **Nevada Regulatory Framework**

Nevada Revised Statutes Chapter 453D (“**Chapter 453D**”) provides a regulatory framework that outlines the function of the Department of Taxation’s (“DOT’s”) marijuana program. Chapter 453D also outlines 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 through 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 through 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, and (ix) that all local land use, zoning, and planning notices have been followed in the development of the licensed site.

### *Security Requirements*

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

Cultivation and product manufacturing sites are not open to the public. 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 through the state mandated seed-to-sale tracking system prior to being transported.

### *Department Inspections*

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

## **Compliance of Nevada Operations**

NOR, a wholly-owned subsidiary of GGB, is in compliance with Nevada state law and the related licensing framework. NOR uses reasonable commercial efforts to confirm, through the advice of its legal counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. NOR has not received any noncompliance orders, citations or notices of violation that may have an impact on its licenses, business activities or operations.

## **On-Going Compliance Procedures**

NOR has a full time Compliance Officer on staff in Nevada whose responsibilities are to monitor the day-to-day activities of staff, including ensuring that the established standard operating procedures are being adhered to at each stage of the cultivation, processing and distribution cycle, to identify any non-compliance matters and to put in place the necessary modifications to ensure compliance. The Compliance Officer performs monthly, unannounced audits against NOR's established standard operating procedures and state regulations. Each employee is provided with an employee handbook outlining the standard operating procedures and state regulations upon hiring, and is then provided with quality and regulatory training by the Compliance Officer. The Company has 24 hour surveillance of every room in which marijuana is cultivated, processed, and stored. This footage is kept for at least 45 days as per the requirements of the Department. Security officers also perform a walk through every four hours to check each room and look for unusual activity. The Company also utilizes state approved software for tracking marijuana inventory from seed to sale. The Compliance Officer's duties also include ongoing education of staff on the state regulations. State inspections to date have not resulted in any non-compliance issues.

NOR has worked with its legal advisors to implement measures designed to ensure compliance with applicable state laws in the United States on an ongoing basis, including:

- weekly correspondence and updates with advisors;
- development of standard operating procedures with respect to cultivation, processing and distribution;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure compliance with the FCEN Memo.

## **Foreign Operations**

See below under the heading "*Risk Factors*".

## **Bankruptcy and Similar Procedures**

There have been no bankruptcy, receivership or similar proceedings against the Company or any of its subsidiaries, or any voluntary bankruptcy, receivership or similar proceedings by the Company or any of its subsidiaries, within the three most recently completed financial years or during or proposed for the current financial year.

## **Reorganizations**

On December 15, 2017, Xanthic was formed pursuant to a reverse takeover involving Aurquest and a privately held Ontario corporation, Xanthic Biopharma Limited, with the objective of becoming a leader in developing innovative, non-combustible alternative delivery methods for cannabis-infused products.

On November 9, 2018, Xanthic and GGB completed the Business Combination.

## **RISK FACTORS**

### **Risks Specifically Related to Operating under the United States Regulatory System**

The cannabis business in the United States is subject to additional risk the Company will be engaged in the medical and adult-use marijuana industry in the United States in compliance with local and state law. While the cannabis industry in all markets is highly regulated and rapidly evolving, presenting challenges to management to operate effectively and accurately predict financial results contained in any forward looking statements, GGB is subject to additional risks in its United States operations. Investors are cautioned that in the United States, cannabis is illegal under United States federal law. Notwithstanding the more permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substance Act and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States. To management's knowledge, there are to date a total of 31 states, and the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam that have legalized cannabis in some form, including Nevada where GGB operates.

The United States Congress has passed appropriations bills each of the last four years that have expressly not appropriated funds for prosecution of cannabis offenses of persons who are in compliance with state medical cannabis laws. Courts in the United States have construed these appropriations bills to prevent the federal government from prosecuting persons when those persons comply with applicable state medical cannabis law. However, because this conduct continues to violate federal law, U.S. courts have observed that should United States Congress at any time choose to appropriate funds to fully prosecute offences under the Controlled Substances Act of 1970 (the "CSA"), any individual or business - even those that have fully complied with state law - could be prosecuted for violations of federal law. If United States Congress restores funding, the government will have the authority to prosecute individuals for violations of the law during the time it lacked funding, subject to the CSA's five-year statute of limitations.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, judgments or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, criminal convictions, disgorgement of profits, cessation of business activities, divestiture or civil asset forfeiture. This could have a material adverse effect on GGB, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the United States, the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for management 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.

The Company will derive a significant portion of its revenue from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The enforcement of relevant laws is a significant risk.

### **Approach to the enforcement of cannabis laws is subject to change**

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the United States Department of Justice memorandum drafted by former Deputy Attorney General James Michael Cole in 2013 (the "Cole Memorandum"), acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is

less likely to be a priority at the federal level. Notably, however, the Department of Justice did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where cannabis had been legalized were not characterized as a high priority. In March 2017, newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he disagreed that it had been implemented effectively and, on January 4, 2018, Mr. Sessions issued the Sessions Memorandum, which rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principles are included in chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

Following the issuance of the Sessions Memorandum, Annette Hayes, U.S. Attorney for the Western District of Washington, released a statement on January 4, 2018 affirming that her office will continue to investigate and prosecute “cases involving organized crime, violent and gun threats, and financial crimes related to marijuana” and that “enforcement efforts with our federal, State, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve”.

In Oregon, the United States Attorney for the District of Oregon Billy J. Williams released an official statement on May 18, 2018 ("Williams Memo"), which clarified his office's position with regards to the priorities in enforcement of federal laws involving marijuana in the District of Oregon. The priorities set out in the Williams Memo are as follows:

1. Priority 1: Overproduction and Interstate Trafficking. Prioritizing enforcement of federal marijuana violations that have national or interstate implications, particularly when the Oregon-based criminal activity adversely affects states that have not legalized marijuana, which will remain a top priority until overproduction that feeds exportation of marijuana across Oregon's borders stops.
2. Priority 2: Protecting Oregon's Children. Prioritizing enforcement of federal marijuana violations that threaten public health, with particular emphasis on the access to marijuana by minors.
3. Priority 3: Violence, Firearms, or other Public Safety Threats. Prioritizing enforcement of federal marijuana violations that involve or pose a substantial risk of violence or other threats to public safety in our communities, especially those involving firearms and illegal manufacture of butane hash oil that has potential to result in dangerous explosions and fires.
4. Priority 4: Organized Crime. Prioritizing enforcement of federal marijuana violations that serve to fuel other criminal activity, especially through racketeering and the involvement of organized crime. This includes not only violent crimes, but also non-violent criminal activity, such as federal income tax evasion or systematic money laundering to evade detection of illegal proceeds.
5. Priority 5: Protecting Federal Lands, Natural Resources, & Oregon's Environment. Prioritizing enforcement of federal marijuana violations that have serious adverse effects on federal land or natural resources, including water, air, and listed species. Examples falling within this priority include cultivating marijuana on federally managed lands, using unlawful pesticides that pose a threat to human health, wildlife, and our environment, or using large amounts of water for grow operations without proper authorization.

To the knowledge of management of the Company, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Washington, Oregon, or Nevada.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in

relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Leahy Amendment to H.R.1625 – a vehicle for the Consolidated Appropriations Act of 2018 which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to United States Congress restoring such funding. Due to the ambiguity of the Sessions Memorandum, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation and prospects, even if such proceedings were concluded successfully in favour of the Company. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company or the seizure of corporate assets.

### **The Leahy Amendment must be renewed to protect the medical cannabis industry**

The Leahy Amendment, as discussed above, prohibits the Department of Justice from spending funds appropriated by United States Congress to enforce the tenets of the CSA against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The Leahy Amendment expired on September 30, 2018. As a result, it may or may not be included in the next omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes.

### **Anti-money laundering laws and regulation**

The Company will be 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 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), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

Banks often refuse to provide banking services to businesses involved in the marijuana industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses in the marijuana industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services.

In February 2014, the Department of the Treasury Financial Crimes Enforcement Network issued a memo (the "FinCEN Memo") providing instructions to banks seeking to provide services to cannabis-related businesses. 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 James M. Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. While the FinCEN Memo has not been rescinded by the Department of Justice at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the Department of Justice continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct and the Department of Justice's current enforcement priorities could change for any number of reasons, including a change in the opinions of the President of the United States or the United States Attorney General. A change in the Department of Justice's enforcement priorities

could result in the Department of Justice prosecuting banks and financial institutions for crimes that previously were not prosecuted.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, affect other distributions or subsequently repatriate such funds back to Canada.

Furthermore, while there are no current intentions to declare or pay dividends on the Common Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice for an indefinite period of time.

The illegality of cannabis in the United States presents additional legal and operational challenges. Because the use of cannabis is illegal under federal law, many judges and courts have denied cannabis businesses bankruptcy protections, enforcement of contracts, and protection of intellectual property – all of which may have a materially adversely effect on the Company's results of operations and its investors return on investment. Without bankruptcy protections, it would be very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. In addition, there remains doubt and uncertainty that the Company will be able to legally enforce its contracts. The Company cannot be assured that it will have a remedy for breach of contract, which may have a material adverse effect on its business. Similarly, the benefit of federal laws and protections which are otherwise available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. The Company's strategy is highly focused on creating brand equity and identity in its markets, by building strong brand awareness. The Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. While many states do offer the ability to protect trademarks independent of the federal government, patent protection is wholly unavailable on a state level, and state-registered trademarks provide a lower degree of protection than would federally-registered marks. This position may prevent the Company from effectively marketing and selling its cannabis-infused and CBD-infused consumable products using technology that management believes should otherwise be afforded patent protection. As a result of the United States regulatory position on cannabis businesses, the Company may not be able to effectively prevent competitors from using its technology to market similar products in the markets in which it operates.

### **Restriction of entry into the United States**

In the past, U.S. Customs and Border Protection (the "U.S. CBP") was given the discretion to question Canadians entering the U.S. about their marijuana use and whether to use their response as a barrier to entry. Recently, the U.S. CBP has been focusing on the whole cannabis industry, including investors. Several highly publicized instances of U.S. CBP detaining and even banning Canadian investors from the United States have occurred in recent months. The restriction of travel to the United States of the Company's executives and investors would seriously impair the ability of the Company to conduct business and could materially impact the Company's results of operations.

In addition to those stated above, there are a number of inherent risks associated with the Company's activities. These risks are described in the Company's CSE listing statement filed on [www.sedar.com](http://www.sedar.com) under "Business Risks" as filed on November 12, 2018 and under "Risk Factors" in the Company's annual information form filed on November 26, 2018. At December 31, 2017, the Company had not identified any material changes to the risk factors affecting its business, and its approach to managing those risks, from those discussed in the document referred to above. These business risks should be considered by interested parties when evaluating the Company's performance and outlook.

**INFORMATION CONCERNING GREEN GROWTH BRANDS INC.**

Additional information relating to the Company, may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com) under Green Growth Brands Inc. and the Company's website at [www.greengrowthbrands.com](http://www.greengrowthbrands.com).

Toronto, Ontario  
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