

# **WESTLEAF INC.**

## **Management Discussion and Analysis**

**For the three and nine months ended September 30, 2019  
(In Canadian Dollars)**

## **WESTLEAF INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

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This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Westleaf Inc. (the "Company" or "Westleaf") is dated as of November 28, 2019. It should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and 2018, inclusive of the accompanying financial statements notes, and in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018 and period ended December 31, 2017, inclusive of the accompanying financial statement notes, all of which were prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A has been prepared with reference to the National Instrument 51-102 *Continuous Disclosure Obligations* established by the Canadian Securities Administrators.

All amounts presented within this MD&A are in thousands of Canadian dollars, except share and per share amounts, unless otherwise noted.

Additional information concerning Westleaf can be found on SEDAR at [www.sedar.com](http://www.sedar.com), and the Company's website at [www.westleaf.com](http://www.westleaf.com).

### **Forward-Looking Information**

This MD&A may contain "forward-looking information" with respect to the Company. This information may take the form of statements found within this document expressing the Company's expectations as to future outcomes and events based on the information currently available. All statements contained herein are given as at the date of this MD&A and the Company undertakes no obligation to update the information for new events or circumstances other than as required by securities laws.

Forward-looking information and statements may be identifiable by the use of words such as "achieve", "anticipate", "budget", "could", "estimate", "expect", "future", "forecast", "intend", "may", "might", "occur", "plan", "potential", "prospective", "should", "will", "would" and other similar expressions.

By nature, forward-looking information and statements are inherently subject to the risk that the actual results can be materially different from the expected outcomes. The Company does not provide any assurance as to the accuracy of this forward-looking information and statements and cautions readers not to place undue reliance on such.

Certain forward-looking statements in this MD&A include, but are not limited to:

- expectations described in the Company's critical accounting judgements, estimates and assumptions;
- the Company's expectations regarding the adoption and impact of certain accounting pronouncements;
- the Company's expectations regarding future development and operation of the Company's cannabis production, processing, and manufacturing facilities including but not limited to the expected outputs and additional required funds for The Plant (as defined herein) and Thunderchild Cultivation Facility (as defined herein);
- the Company's ability to produce cannabis products and the demand and quality of such products;
- expected demand for cannabis and cannabis derivatives in the adult use recreational market;
- the Company's expectations regarding future development and operation of the Company's retail locations;
- the expectation for certain Canadian provinces and municipalities to allow the private retail of cannabis products;
- the Company's expectations regarding the receipt of licensing from Health Canada and other applicable regulatory authorities with respect to the cultivation, production, processing and sale of cannabis products by the Company, its subsidiaries and its partnerships;
- the ability to operate as a vertically integrated entity;
- the development of brands and brand equity;
- the Company's expectations of product sales;
- The Company's expectations regarding the acquisition of all of the shares of We Grow (as defined herein)

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- the Company's expectations regarding the expected revenue to be received under white labelling agreement;
- future corporate development;
- expectations regarding future expenditures, including but not limited to both operational and capital expenditures;
- the Company's interpretation and future expectations of municipal, provincial, and federal regulations;
- the Company's expectation for the use of proceeds received from fund raising activities;
- the Company's ability to achieve profitability and the need for further fund-raising activities; and
- the Company's ability to access debt financing contingent on future events.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: (a) results and performance of Westleaf; (b) failure to receive licences from Health Canada for the Thunderchild Cultivation Facility; (c) failure to receive retail licences for any of the proposed retail locations; (d) growth expectations and any proposed acquisitions by Westleaf; (e) the tax horizon of Westleaf; (f) changes in market dynamics including business relationships and competition; (g) capital expenditure programs and the timing and funding thereof; (h) the impact of federal, state, provincial, territorial, and other governmental regulation on Westleaf, relative to other issuers of similar size participating in similar business environments; (i) increased governmental regulation; (j) expectations relating to the ability of Westleaf to raise capital; (k) treatment under governmental regulatory regimes and tax laws; (l) conflicts of interest; (m) changes in key management; (n) expansion plans of Westleaf not being completed as expected or at all; (o) trademark challenges (p) realization of the anticipated benefits of acquisitions and dispositions; and (q) the failure of the parties to satisfy the conditions of the acquisition of shares of We Grow may result in the transaction not being completed on the proposed terms, or at all, and the failure of a party to comply with certain terms of the arrangement agreement may result in non-completion fees

There are many risks and other factors beyond Westleaf's control which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A. These risks and other factors include, but are not limited to the risk factors considered under *Other MD&A Disclosures* in this MD&A.

### **Company Overview**

The Company was first incorporated as 433034 BC Ltd. under the Business Corporations Act (British Columbia) on September 28, 1992 and continued into the Yukon Territory under the Business Corporations Act (Yukon) on March 3, 2000. Effective July 21, 2004, the Company was continued out of the Yukon Territory back into British Columbia and changed its name to IGC Resources Inc. The Company initially traded on the TSX Venture Exchange ("TSX-V"), but was moved to the NEX board on July 10, 2014, as the Company had ceased to carry on an active business. On December 28, 2018, the Company completed a Reverse Takeover ("RTO") and concurrently continued into the province of Alberta and changed its name to Westleaf Inc. The Company's common shares are traded as a Tier 1 issuer on the TSX-V under the trading symbol "WL", and on the OTCQB Venture Market under the trading symbol "WSLFF". The Company's convertible debentures trade on the TSX-V under the trading symbol "WL.DB".

### **Description of Business and Corporate Strategy**

Westleaf's strategy is to build a cannabis company based on a vertically integrated business model. The three components of the model are:

- i) Cannabis retail;
- ii) Extraction, processing and manufacturing of a variety of cannabis products; and
- iii) Cultivation

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#### *Retail Locations and Operations*

Westleaf has a portfolio of prospective retail locations across Western Canada. Westleaf has created a retail store design to attempt to differentiate itself from competitors. Westleaf is targeting jurisdictions with privatized cannabis retail models to build a recognized retail brand and secure a share of the Canadian cannabis market. As of the date of this MD&A, Westleaf has four Prairie Records cannabis retail stores in operation.

To date, the Company has applied for licences for Prairie Records stores in British Columbia, Alberta, and Saskatchewan and was selected for the opportunity to open a cannabis retail store in Altona, Manitoba by way of lottery draw on May 15, 2019. Westleaf intends to continue to pursue additional retail store licences, where appropriate, in the aforementioned provinces.

#### *Saskatchewan*

Westleaf opened its first retail location in Warman, Saskatchewan, on February 21, 2019. The licence to operate its Warman location also allowed the Company to sell cannabis online. The Company began operating e-commerce cannabis sales throughout the province of Saskatchewan on March 27, 2019, under its Prairie Records brand in accordance with provincial regulations. On April 17, 2019 and April 18, 2019, Westleaf exercised options to acquire two new retail locations in Saskatoon, Saskatchewan.

#### *Alberta*

Westleaf continues to move through Alberta Gaming, Liquor and Cannabis ("AGLC") application process in Alberta. On August 30, 2019, Westleaf began operations in one store in Calgary, Alberta. As at September 30, 2019, Westleaf had approval for twenty four municipal development permits including five in Calgary, Alberta, seven in Edmonton, Alberta, three in northern Alberta and nine in central/south Alberta. Subsequent to period end, the Company received one additional development permit in central/south Alberta. Each of these locations is subject to AGLC licensing upon completion of construction.

#### *Manitoba*

On May 15, 2019, Westleaf won the provincial lottery draw for Altona, Manitoba, granting it the opportunity to open a cannabis store in Altona. Opening a cannabis store in Manitoba also grants the right to sell cannabis products through e-commerce province wide. On October 22, 2019 Westleaf received approval on a Conditional Use Application from the Town of Altona to allow for the sale of cannabis in the prospective location. The opening and operation of this store remains subject to a number of conditions, including, but not limited to receiving a Retail Cannabis License from the Liquor, Gaming and Cannabis Authority of Manitoba.

#### *British Columbia*

In the Province of British Columbia, Westleaf has applied for two development permits, has one treaty approved location, and has submitted applications for provincial licences at three locations.

#### *Cannabis Extraction, Processing and Manufacturing*

Westleaf prepared and submitted its final evidence package in respect of its standard processing licence in August 2019, for final Health Canada approval. Subsequent to period end, on October 11, 2019, Westleaf received its standard processing license from Health Canada for its large-scale cannabis extraction, processing and product formulation facility, The Plant by Westleaf Labs ("The Plant").

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#### *Cannabis Cultivation*

Westleaf's standard cultivation licence application under the Cannabis Act has been entered into the Cannabis Tracking and Licensing System ("CTLS") and is currently under review with Health Canada. Such licence, if granted, will allow Westleaf to cultivate cannabis and sell wholesale dried cannabis flower from its Thunderchild Cultivation Facility.

#### *Expansion Plans*

The Company's expansion plans are subject to suitable lease arrangements for future retail locations, required approval from applicable municipal, provincial, and federal regulatory authorities and additional financing. The Company secured additional debt financing in the quarter which it estimates is sufficient to complete the buildout of its Thunderchild Cultivation Facility and The Plant. Additional financing will be required to buildout the entirety of Westleaf's retail portfolio in order to meet all Westleaf's corporate objectives. The Company's ability to meet its expansion goals for retail locations may also be limited by moratoriums, and other licensing restrictions, as imposed by the provinces in which the Company intends to operate. If the Company is not able to obtain financing, or obtain the licensing it requires, it may be required to scale back its expansion plans accordingly. There can be no assurance that additional debt or equity financing will be available to meet the Company's requirements, or if available, on acceptable terms, and there can be no assurance that the Company will be able to enter into appropriate lease arrangements or receive applicable regulatory approvals to meet all of its expansion plans at this time. For more information, refer to *Liquidity and Capital Resources, Going Concern and Forward-Looking Information*.

#### *Going Concern*

Westleaf's condensed consolidated interim financial statements and MD&A have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the three and nine month periods ending September 30, 2019, the Company incurred a loss of \$5.0 million and \$18.2 million, respectively, utilized funds in operations amounting to \$5.1 million and \$11.1 million, respectively, and had net current liabilities of \$5.0 million. In addition, the Company had \$18.9M of undrawn available debt capital as well as an additional borrowing amount of \$14.5M pending lender approval for additional construction phases, refer to *Liquidity and Capital Resources* for further information. In order to continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance working capital and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations and maintain compliance with covenants relating to the lending agreement, generate sufficient funds from operations, continue receiving financial support from its shareholders and lenders, and obtain new financing. There is no certainty that the Company will raise these necessary funds from financing or operations. As a result of these factors, there is a material uncertainty that may result in significant doubt as to the ability of the Company to meet its obligations as they come due and continue as a going concern.

Westleaf's condensed consolidated interim financial statements and MD&A do not reflect adjustments that may be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

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#### Highlights

##### *Financial Highlights*

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	\$	\$	\$	\$
Revenue	1,661	913	73	-
Loss	(4,969)	(4,362)	(8,890)	(4,316)
Loss attributable to Westleaf	(4,969)	(4,362)	(8,766)	(4,246)
Selling, general, and administration	3,079	3,810	3,404	3,012
Cash used in operating activities	(5,115)	(1,060)	(4,954)	(1,861)
Cash used in investing activities	(1,379)	(14,802)	(6,085)	(8,719)
Cash from financing activities	650	10,264	650	26,540

As at September 30, 2019, Westleaf had an unrestricted cash balance of \$6.0 million (December 31, 2018 - \$27.8 million).

##### *Revenue*

Total revenue for the three and nine months ended September 30, 2019, of \$1.7 million (2018 - \$nil) and \$2.6 million (2018 - \$nil), respectively, relates to initial sales from the Company's four cannabis retail locations. These locations had grand opening dates of February 21, 2019, April 17, 2019, April 18, 2019 and August 30, 2019. For the three and nine months ended September 30, 2019, the Company's gross margin as a percentage of sales was 39% (2018 - nil) and 39% (2018 - nil), respectively.

##### *Loss*

Loss for the third quarter of 2019 increased over the second quarter of 2019 as a result of a decrease in deferred tax recoveries of \$2.3 million, partially offset by a decrease of share-based compensation of \$1.3 million and selling, general and administration costs of \$731. The deferred tax recoveries in the comparative period were the result of one-time items including deferred tax recoveries resulting from decreases in corporate tax rates, and a reversal of deferred income tax asset impairments. Reductions in share-based compensation is a result of a reduction in new grants for the nine months ended September 30, 2019. Selling, general, and administration has decreased over the prior quarter as a result of cost cutting measures employed by management.

##### *Selling, General and Administration*

Selling, general and administration costs decreased over prior quarter primarily as a result of management's focus on cost cutting measures including staffing changes to eliminate positions and lower salaries, and a tightening of the Company's expense budget which resulted in a reduction to marketing and branding, professional fees, consulting fees and travel and accommodations expenditures in the current quarter.

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#### *Financing*

During the quarter, the Company amended its credit facility agreements with ATB Financial ("ATB") resulting in an additional \$5.7 million of capital available for use by the Company. This included the elimination of the \$2.0 million minimum liquidity balance to the Thunderchild Cultivation Facility, a \$2.7 million increase on the term loan related to The Plant, and a \$1.0 million revolving credit facility for working capital on The Plant. Refer to *Liquidity and Capital Resources* for more information.

As at September 30, 2019, the Company had \$18.9M of undrawn available debt capital as well as an additional borrowing amount of \$14.5M pending lender approval for additional construction phases.

#### *Capital Projects*

For the three and nine months ended September 30, 2019, the Company incurred a total of \$0.8 million (2018 - \$1.4 million) and \$7.0 million (2018 - \$1.5 million), respectively, in equipment and construction costs related to Phase I of The Plant. Construction on Phase I of The Plant was completed in the third quarter of 2019. Inception to date, the Company has incurred \$15.5 million on Phase I of this project, which was \$0.5 million under the Phase I budget of \$16.0 million. The additional \$0.5 million of budgeted expenditure is expected to be used on additional production equipment and installation as the Company completes its procurement plan for The Plant's operations.

For the three and nine months ended September 30, 2019, the Company incurred a total of \$9.8 million (2018 - \$3.2 million) and \$19.8 million (2018 - \$5.8 million), respectively, for construction costs on Phase I of the Company's Thunderchild Cultivation Facility. Inception to date, the Company has incurred \$25.6 million in capital costs on Phase I of this project, and the remainder of this phase will require an estimated additional \$5.0 million of available funds to complete construction. The ability of the Thunderchild Cultivation Facility to produce and sell cannabis is also subject to the receipt of a standard cultivation licence from Health Canada.

For the three and nine months ended September 30, 2019, the Company recorded capital additions of \$nil (2018 - \$nil) and \$2.0 million (2018 - \$nil), respectively, on leasehold improvements related to its retail locations, of which \$nil million (2018 - \$nil) and \$1.1 million (2018 - \$nil), respectively, was acquired in business combinations.

For the three and nine months ended September 30, 2019, capital additions of \$250 (2018 - \$42) and \$925 (2018 - \$80), respectively, related to furniture, fixtures, computer hardware and software.

#### *Business Combinations*

Subsequent to period end, Westleaf announced it has entered into a definitive arrangement agreement to combine with We Grow BC Ltd ("We Grow"), an ultra-premium cannabis cultivator located in Creston, BC. As part of this arrangement, Westleaf will issue shares from treasury in exchange for 100% of the outstanding shares of We Grow.

#### *Health Canada Licensing*

Subsequent to period end, Westleaf received a Standard Processing Licence for The Plant, allowing Westleaf to process bulk cannabis to create and sell derivative products.

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**Operations**

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Total revenue (a)	1,661	-	2,647	-
Cost of goods sold	1,019	-	1,620	-
Gross profit	642	-	1,027	-
Selling, general and administration	3,079	1,488	10,293	2,738
Depreciation and amortization expense	343	13	579	19
Interest revenue	(33)	(27)	(199)	(27)
Finance costs	608	1	957	1
Foreign exchange loss	14	1	31	2
Share compensation expense	1,533	-	7,205	-
Loss on disposal of property, plant and equipment	224	-	259	-
Listing expense	6	-	81	-
Loss on step acquisition	-	-	95	-
Transaction costs	44	8	2,680	124
Loss before income taxes	(5,176)	(1,484)	(20,954)	(2,857)
Current income taxes	1	-	17	-
Deferred income taxes	(208)	-	(2,750)	-
Loss and comprehensive loss	(4,969)	(1,484)	(18,221)	(2,857)
Loss and comprehensive loss attributable to:				
Westleaf	(4,969)	(1,396)	(18,097)	(2,687)
Non-controlling interest	-	(88)	(124)	(170)
Loss and comprehensive loss	(4,969)	(1,484)	(18,221)	(2,857)

(a) Revenue for the three and nine months ended September 30, 2019 was for a partial period of sales. Refer to *Revenue* for more details.

For the three and nine months ended September 30, 2019, the Company recorded a net loss of \$5.0 million (2018 - \$1.5 million) and \$18.2 million (2018 - \$2.9 million), respectively. This increase in net loss is primarily due to increased selling, general and administration expenses, share compensation expense, and transaction costs, partially offset by the Company's initial retail earnings and deferred income tax recoveries. Selling, general and administration expense increased primarily as a result of increased salaries, wages and office costs due to an increase in headcount over the comparative period. Share compensation expense increased over the comparative period as a result of the Company implementing a restricted share unit ("RSU") and stock option plan concurrent with its RTO on December 28, 2018, as well as due to performance warrants and share-based payments granted in relation to services. Transaction costs for the nine months ended September 30, 2019, primarily related to a one-time share-based payment incurred as a finder's fee in relation to the acquisition of Canndara Canada Inc.. Deferred income tax recoveries are the result of a decrease in Alberta corporate tax rates, partial recognition of the Company's deferred income tax assets, and deferred income tax recoveries recognized primarily on non-capital losses in the third quarter of 2019.

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#### Revenue

Total revenue for the three and nine months ended September 30, 2019, of \$1.7 million (2018 - \$nil) and \$2.6 million (2018 - \$nil), respectively, relates to sales from the Company's four cannabis retail locations. These locations had grand opening dates of February 21, 2019, April 17, 2019, April 18, 2019 and August 30, 2019. For the three and nine months ended September 30, 2019, the Company's gross margin as a percentage of sales was 39% (2018 - nil) and 39% (2018 - nil), respectively.

#### Selling, General and Administration

Details of the most significant expense items in selling, general and administration, are as follows:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Salaries and wages	1,246	497	3,716	1,068
Office and general	1,186	202	2,952	498
Marketing and branding	209	110	1,817	267
Professional fees	159	428	838	552
Consulting fees	168	169	535	182
Travel and accommodation	111	82	435	171
<b>Total selling, general and administration expense</b>	<b>3,079</b>	<b>1,488</b>	<b>10,293</b>	<b>2,738</b>

For the three and nine months ended September 30, 2019, salaries and wages, and office and general increased over the comparative periods primarily as a result of an increase in headcount over the comparative periods. Marketing and branding, professional fees and travel and accommodation increased as a result of the Company ramping up to operations which resulted in an increase in expenditure related activities. Consulting fees for the nine months ended September 30, 2019, increased over the comparative period as a result of the majority of Westleaf's consultants being brought on in the second half of 2018.

#### Share Compensation Expense

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Warrants	103	-	570	-
Stock options	128	-	699	-
RSUs	1,156	-	5,400	-
Other	146	-	536	-
<b>Total share compensation expenses</b>	<b>1,533</b>	<b>-</b>	<b>7,205</b>	<b>-</b>

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Stock compensation expense for the three and nine months ended September 30, 2019, increased over the comparative periods as a result of the Company implementing an RSU and stock option plan concurrent with its RTO on December 28, 2019, performance warrants issued concurrent with the RTO in relation to services, and a share-based payment arrangement for services. The share-based payment arrangement was entered into on June 3, 2019 and includes a fixed dollar value of shares which will be issued over a service period of approximately two years in relation to consulting and contracting services for The Plant.

#### *Transaction Costs*

Transaction costs for three and nine months ended September 30, 2019, totalled \$44 (2018 - \$8) and \$2.7 million (2018 - \$124), respectively. Transaction costs for the nine months ended September 30, 2019, primarily related to a share-based payment of 1.1 million shares incurred as a finder's fee in relation to the acquisition of Canndara Canada Inc. See *Business Acquisitions* for further details.

#### *Income Taxes*

Current income tax expense for the three and nine months ended September 30, 2019, was \$1 (2018 - \$nil) and \$17 (2018 - \$nil), respectively.

For the three and nine months ended September 30, 2019, the Company realized deferred income tax recoveries of \$208 (2018 - \$nil) and \$2.8 million (2018 - \$nil), respectively. The recoveries for the three months ended September 30, 2019, relate to the recognition of deferred tax assets primarily as a result of increases in non-capital losses. The recoveries for the nine months ended September 30, 2019 were the result of Alberta corporate tax rate reductions that were substantively enacted in the second quarter of 2019, a partial recognition of deferred income tax assets in the Company's retail subsidiaries, and increases in deferred tax assets primarily as a result of non-capital losses. The Alberta general corporate income tax rates decreased from 12% to 11% effective July 1, 2019 and will further decrease by one percent on January 1 of each subsequent year until it reaches 8% in 2022. The partial recognition of deferred income tax assets in Westleaf's retail subsidiaries were due to operations commencing for four retail locations during the nine months ended September 30, 2019, which led to a change in estimate on the Company's ability to utilize deferred income tax assets on future income.

### **Statement of Financial Position**

#### *Inventory*

As at September 30, 2019, the Company had \$757 (2018 - \$nil) in inventory related to cannabis, cannabis accessories, and apparel held for retail operations. The increase over comparative period is the result of the Company opening four retail locations in 2019.

#### *Other current assets*

As at September 30, 2019, the Company had other current assets of \$1.6 million (2018 - \$1.2 million). This balance primarily consisted of refundable deposit amounts for retail location leases, and deposits paid on inventory in transit. The increase over prior period is primarily due to increases in deposits on prospective retail locations and inventory in transit.

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#### *Capital Additions*

For the three and nine months ended September 30, 2019, the Company incurred a total of \$0.8 million (2018 - \$1.4) and \$7.0 million (2018 - \$1.5 million) in equipment and construction costs related to the initial 15,000 square feet of Phase I of The Plant. Construction on Phase I of The Plant was completed in the third quarter of 2019. Inception to date, the Company has incurred \$15.5 million on Phase I of this project, which is \$0.5 million under the Phase I budget of \$16.0 million. The additional \$0.5 million of budgeted expenditure is expected to be used on additional production equipment as the Company completes its procurement plan for The Plant's operations. The Plant has expansion capacity of up to an additional 45,000 square feet. Subsequent to period end, the Company received a Health Canada Standard Processing license for this facility. Phase I of The Plant is designed for R&D, processing, extraction, manufacturing and order fulfillment.

For the three and nine months ended September 30, 2019, the Company incurred a total of \$9.8 million (2018 - \$3.2 million) and \$19.8 million (2018 - \$5.8 million), respectively, for costs on construction in progress on Phase I of the Thunderchild Cultivation Facility. Inception to date, the Company has incurred \$25.6 million in capital costs on Phase I of this project, and the remainder of this phase will require an estimated additional \$5.0 million of available funds to complete construction. Phase I is an approximately 80,000 square feet cannabis indoor cultivation facility including a central processing and packaging hub designed to accommodate Phase II production as well as a second-floor office and administrative space. The ability of the Thunderchild Cultivation Facility to produce and sell cannabis is also subject to the receipt of a standard cultivation licence from Health Canada.

Westleaf estimates that the build out of its retail stores will cost around 175 dollars to 325 dollars per square foot, depending on a number of factors including the size of the store, cost of labour in the regional market, store location, and provincial regulations for store requirements. For the three and nine months ended September 30, 2019, the Company recorded capital additions of \$nil (2018 - \$nil) and \$2.0 million (2018 - \$nil), respectively, on leasehold improvements related to its retail locations, of which \$nil (2018 - \$nil) and \$1.1 million (2018 - \$nil), respectively, was acquired in business combinations. Westleaf opened its first Prairie Records location in Warman, Saskatchewan in February 2019, acquired and opened two new locations in Saskatoon in April 2019, and opened one new location in Calgary, Alberta in August 2019.

For the three and nine months ended September 30, 2019, capital additions of \$250 (2018 - \$31) and \$925 (2018 - \$52), respectively, primarily related to furniture, fixtures, computer hardware and software.

#### *Business Acquisitions*

Pursuant to a Share Purchase Agreement dated December 19, 2018, (the "SPA"), Westleaf acquired an interest in Canndara Canada Inc. ("Canndara"), a cannabis retail company with over fifty prospective retail locations across Canada, for a cash purchase price of \$7.5 million in return for a 21.4% interest in the outstanding common shares of Canndara (the "Canndara Acquisition"). In addition to this investment, on December 19, 2018, Westleaf was granted an option to purchase the remaining 78.6% of outstanding shares of Canndara in an all-share transaction of \$52.2 million for 21.6 million Westleaf shares. This acquisition occurred as a step acquisition as acquisition of control was achieved in stages. The effective date of the business combination was December 28, 2018. As at December 28, 2018, the Company recorded a gain on change in fair value of \$4.5 million. As of January 31, 2019, there was a loss in fair value of \$5.9 million on the acquisition of the non-controlling interest, which was recorded as an adjustment to deficit.

On January 31, 2019, the Company purchased its partner's 50% non-controlling interest in Westleaf Labs Inc. ("WLABS") and Westleaf Labs LP ("WLABLP") from Delta 9 Cannabis Inc. ("Delta 9") (the "Delta 9 Acquisition"). These entities held the ownership interests of The Plant, Westleaf's extraction, process, and manufacturing facility located in Calgary, Alberta, Canada. This was completed in an all-share transaction. A total of 5.6 million shares were issued at closing of market at a share price of \$3.60 for total consideration value of \$20.1 million.

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As Westleaf had defacto control over the acquired entities prior to the closing date, the Delta 9 acquisition does not qualify as a business combination under IFRS 3 Business Combinations. As a result, the closing of the 50% ownership of The Plant was accounted for as an acquisition of non-controlling interests under IFRS 10 Consolidated Financial Statements. This resulted in the fair value of the non-controlling interest in The Plant in excess of the book value, totalling \$17.4 million, to be recorded as an adjustment to deficit.

On April 17, 2019 and April 18, 2019, Westleaf executed on its option to purchase agreements to acquire two cannabis retail stores in Saskatoon, Saskatchewan. These options were exercised by the Company once the permits were issued to their respective applicants and received regulatory approval from the SLGA. These retail locations were acquired for cash, share-based payments and settlement of debt for a combined total of \$2.2 million in consideration.

#### *Intangible assets*

As at September 30, 2019, Westleaf had intangible assets of \$26.2 million (2018 - \$24.5 million). The increase over the comparative period is primarily related to store permits on the acquisition of two cannabis retail stores in Saskatoon, Saskatchewan. Refer to Business Acquisitions for further details.

#### *Right of use assets and liabilities*

As at September 30, 2019, right of use assets totalled \$5.9 million (2018 - \$52), and right of use liabilities totalled \$480 (2018 - \$34) short-term and \$5.5 million (2018 - \$14) long-term. The increase over comparative period relates to four operating retail locations, six prospective real property leases, Westleaf's new corporate head office, and the land lease for the Thunderchild Cultivation Facility.

#### **Cash Flows**

For the three and nine months ended September 30, 2019, the Company expended total cash of \$5.8 million (2018 – generated \$11.9 million) and \$21.8 million (2018 – generated \$11.3 million), respectively. In the comparative period, the Company was raising funds for future operating and capital activities, and in the current period, the Company was primarily spending funds on their capital programs and ramping up to operations.

For the three and nine months ended September 30, 2019, cash used in operating activities totalled \$5.1 million (2018 - \$1.2 million) and \$11.1 million (2018 - \$1.7 million), respectively. The increased outflow over the comparative periods were primarily related to selling, general, and administration of \$2.9 million (2018 - \$1.5 million) and \$10.3 million (2018 - \$2.7 million), respectively, and reductions in non-cash working capital of \$2.9 million and \$2.3 million, respectively, partially offset by initial retail gross margin of \$224 (2018 - \$nil) and \$1.0 million (2018 - \$nil), respectively.

For the three and nine months ended September 30, 2019, cash used in investing activities totalled \$1.4 million (2018 - \$2.0 million) and \$22.3 million (2018 - \$11.6 million), respectively. The Company's primary use of cash for investing activities was for the construction in progress on the Thunderchild Cultivation Facility and The Plant, manufacturing equipment related to The Plant and leasehold improvements related to the build out of Prairie Records retail locations. Refer to Capital Additions for further details.

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For the three and nine months ended September 30, 2019, the Company generated \$650 (2018 - \$15.0 million) and \$11.6 million (2018 - \$24.6 million), respectively, in cash from financing activities. Cash from financing activities for the three months ended September 30, 2019, primarily related to drawdowns of the Company's credit facilities, partially offset by changes in restricted cash. Cash generated in financing activities for the three-month comparative period were primarily related to equity issuances. Cash from financing for the nine months ended September 30, 2019 primarily related to the issuance of convertible debentures, totalling \$10.7 million net of financing costs and drawdowns of the Company's credit facilities, partially offset by changes in restricted cash. Cash generated in financing in the comparative periods primarily related to equity issuances, as well as term loan debt financing.

#### *Subsequent Events*

The following significant items occurred subsequent to the report date for the period ended September 30, 2019:

- (a) Subsequent to period end, Westleaf received a Health Canada Standard Processing Licence for The Plant.
- (b) Subsequent to period end, Westleaf announced it has entered into a definitive arrangement agreement to combine with We Grow BC Ltd ("We Grow"), an ultra-premium cannabis cultivator located in Creston, BC. As part of this arrangement, Westleaf will issue shares from treasury in exchange for 100% of the outstanding shares of We Grow. In conjunction with this arrangement, Westleaf's convertible debenture holders have given consent for a waiver and modification of terms of their associated indenture agreement. As such, Westleaf will not be required to repay or refinance the convertible debentures as a result of the arrangement agreement with We Grow.

#### **Summary of Quarterly Results**

The following table sets out certain financial information for each of the Company's prior quarterly reporting periods:

	Revenue	Loss	Loss attributable to Westleaf	Loss per share basic/diluted
	\$	\$	\$	\$
Quarter 4 ended December 31, 2017	-	(215)	(215)	(1.07) / (1.07)
Quarter 1 ended March 31, 2018	-	(310)	(310)	(0.02) / (0.02)
Quarter 2 ended June 30, 2018	-	(1,063)	(981)	(0.02) / (0.02)
Quarter 3 ended September 30, 2018	-	(1,484)	(1,396)	(0.02) / (0.02)
Quarter 4 ended December 31, 2018	-	(4,316)	(4,246)	(0.05) / (0.05)
Quarter 1 ended March 31, 2019	73	(8,890)	(8,766)	(0.07) / (0.07)
Quarter 2 ended June 30, 2019	913	(4,362)	(4,362)	(0.03) / (0.03)
Quarter 3 ended September 30, 2019	1,661	(4,969)	(4,969)	(0.03) / (0.03)

For the period from inception until the third quarter ended September 30, 2019, losses quarter over quarter have seen a general increasing trend as a result of increasing overhead costs as the Company ramps up to operations on The Plant and the Thunderchild Cultivation Facility, and as the Company adds new locations to its retail portfolio. These increases in loss have been partially offset by gross margins on initial retail sales which began with Westleaf's first store opening in February 2019 and has seen an increasing trend quarter over quarter as the Company brings new stores online, and gains market share in its established locations. In addition, losses quarter over quarter have been affected by significant one-time expenses and recoveries that have varied between periods.

## WESTLEAF INC.

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The significant changes in overhead costs from inception to the third quarter of 2019 include selling, general and administration, financing costs, and share compensation expense. The increase in selling, general and administration from inception to the second quarter of 2019 was the result of increased head count leading to higher salary and wages and higher office costs as the Company has been building its management team and staffing required to achieve its corporate objectives. From the second quarter of 2019 to the third quarter of 2019, selling, general, and administration costs decreased by \$786 as a result of cost cutting measures employed by management which have resulted in lower salaries and wages, marketing and branding, professional fees, consulting fees and travel and accommodations. The increase in finance costs from the fourth quarter of 2018 to the third quarter of 2019 are the result of increases in debt financing, as well as accretion on lease liabilities. The introduction of the Company's RSU and share option plans on December 28, 2018, as well as other share-based payments arrangements, have led to an increase in loss as a result of share-based compensation expense incurred from the fourth quarter ended December 31, 2018, to the second quarter ended June 30, 2019. In the third quarter of 2019, share-based compensation expense decreased as a result of a decrease in compensation grants over the first three quarters of 2019.

Significant one-time expenses and recoveries that have led to changes in net loss over the previous eight quarters include:

- For the fourth quarter ended December 31, 2018, a one-time expense of \$5.8 million related to the RTO as described in the *Company Overview* section, which was partially offset by a \$4.4 million fair value gain on the Canndara Acquisition.
- For the first quarter ended March 31, 2019, the Company incurred a \$2.5 million one-time share-based finder's fee on the Canndara Acquisition recorded in transaction costs.
- For the second quarter ended June 30, 2019, the Company recorded \$2.5 million in deferred income tax recoveries as a result of a drop in future Alberta corporate tax rates, and reversals of deferred income tax impairments on the Company's deferred income tax assets.

There were substantial changes in share capital over the last eight fiscal quarters, which is demonstrated in the loss per share above.

### Liquidity and Capital Resources

For the three and nine months ended September 30, 2019, the Company had limited liquidity due to the start-up nature of the business. Westleaf has primarily financed its activities through the issuance of common equity and convertible debentures. Additionally, the Company has secured funding for certain projects in the form of senior secured debt with a Canadian financial institution. The Company manages its liquidity through the preparation and use of cash flow forecasts and budgets to ensure it has sufficient funds to meet obligations as they become due. Westleaf manages its working capital as part of this process, and in doing so may limit its funding needs by pursuing additional financing sources, managing the timing of capital expenditures and other measures. Westleaf's future business activities require additional capital to develop and operate. Refer to *Going Concern* for more details.

As at September 30, 2019, the Company had unutilized borrowing room on its ATB credit facilities of \$9.1 million associated to The Plant, and \$24.3 million associated to the Thunderchild Cultivation Facility. \$3.2 million of borrowing room associated to The Plant is specified for use in the construction of Phase II of this facility. \$11.2 million of the borrowing room related to the Thunderchild Cultivation Facility is specified for use in the construction of Phase II of this facility.

**WESTLEAF INC.****Management's Discussion and Analysis**

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The Company's working capital details are as follows:

	As at September 30, 2019	As at December 31, 2018
	\$	\$
Cash	6,013	27,844
Restricted cash	4,033	766
Accounts receivable	436	529
Inventory	757	-
Other current assets	1,645	1,222
Accounts payable and accrued liabilities	(11,125)	(3,610)
<b>Total working capital<sup>(a)</sup></b>	<b>1,759</b>	<b>26,751</b>

(a) Working capital is a non-GAAP performance measure. Refer to *Cautionary Statement Regarding Certain Non-GAAP Performance Measures* for further details

In addition to the working capital requirements, Westleaf had the following borrowing obligations:

	As at September 30, 2019	As at December 31, 2018
	\$	\$
The Plant Loan Facility - current portion (a)	3,818	311
Thunderchild Cultivation Facility (b)	2,466	-
Current portion of lease liabilities (c)	480	34
Unsecured demand loan from related parties (d)	-	10
<b>Total current borrowings</b>	<b>6,764</b>	<b>355</b>
The Plant Loan Facility (a)	-	3,739
Convertible debentures (e)	8,649	-
Long-term lease liabilities (c)	5,509	14
<b>Total long-term borrowings</b>	<b>14,158</b>	<b>3,753</b>
<b>Total borrowings</b>	<b>20,922</b>	<b>4,108</b>

(a) On April 19, 2018, WLABS and WLABLP entered into a two-year term loan facility arrangement with ATB ("The Plant Loan Facility"). The Plant Loan Facility provides for an initial financing in the amount of \$4.3 million and is based on a ten-year amortization time period with the first renewal occurring at the end of the initial two-year term. The loan contains a restricted cash component ("pledged cash") which holds a portion of the loan draw in trust to be applied against the quarterly payment requirements. At the time of the draw, an amount of \$1.2 million was pledged and subsequent payments have reduced this amount to \$334 as at September 30, 2019 (2018 - \$766). As at September 30, 2019, The Plant Loan Facility had an effective interest rate of 6.95%. The loan is subject to a fixed charge coverage ratio financial covenant based on a four-quarter rolling average of 1.50:1, and a minimum current ratio of 1.25:1.00. The fixed charge coverage ratio is calculated as net income plus interest expense plus depreciation and amortization less maintenance related capital expenditures divided by principal plus interest. The current ratio is calculated as current liabilities divided by current assets.

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### Management's Discussion and Analysis

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The loan also provides for an additional borrowing amount up to \$3.2 million to be used towards Phase II of The Plant facility upon obtainment of the standard processing licence and additional lender approval.

Westleaf signed amendments to The Plant Loan Facility on April 15, 2019 and September 27, 2019. These amendments included an additional equipment finance term loan facility in the amount of \$2.2 million ("The Plant Facility #2") bearing interest at prime plus 2%, a non-revolving leasehold improvement facility of \$2.7 million bearing interest at prime plus 3% and a revolving operating loan facility of \$1.0 million bearing interest at a rate of prime plus 3.25%. The Plant Facility #2 has a four-year term with payments of blended principal and interest. The amendment also modified the fixed charge coverage ratio financial covenant to defer the commencement date until the three months ending March 31, 2020.

(b) On September 7, 2018, the Company entered into a loan agreement for \$24.0 million for construction of the Thunderchild Cultivation Facility. This facility was amended on April 15, 2019 and September 11, 2019 increasing the credit limits on the underlying facilities to \$26.8 million. After amendments, the Thunderchild Loan Facility consists of two facilities:

- Facility #1 is a non-revolving development loan facility in the amount of up to \$15.5 million, by way of prime-based loans and guaranteed notes, to be used to finance the development of Phase I of the Thunderchild Cultivation Facility.
- Facility #2 is a non-revolving reducing term loan facility in the amount of up to \$15.5 million by way of prime-based loans and guaranteed notes. Facility #2 will be available by way of single draw, and is intended to be used to repay Facility #1.

The Thunderchild Loan Facility is accompanied by a second installment facility whereby the Company may request further financing up to \$11.3 million relating to Phase II of the Thunderchild Cultivation Facility. This additional facility will be dependent on the Company obtaining a cannabis production licence and lender approval.

The effective interest rate on the Thunderchild Loan Facility as at September 30, 2019, is 5.95%. The Thunderchild Loan Facility is subject to financial covenants including a fixed charge coverage ratio financial covenant of 1.50:1 and a working capital ratio of 1.25:1 for Westleaf's subsidiary company that is the beneficiary of this loan. The fixed charge coverage ratio will be effective for the second full fiscal quarter that occurs subsequent to substantial completion of the Thunderchild Cultivation Facility. The working capital ratio was in effect as of the effective date of the Thunderchild Loan Facility. The Company's working capital ratio is calculated as current assets divided by current liabilities.

The Thunderchild Cultivation Facility is currently subject to standby fees on the Facility #1 described above at a rate of 0.65% per annum. The Company paid standby fees in the amount of \$24 (2018 - \$nil) and \$96 (2018 - \$nil), respectively, for the three and nine months ended September 30, 2019.

Westleaf was in compliance with all financial covenants of its loan facilities as at September 30, 2019.

(c) The lease liabilities are comprised of:

- i. Computer software and hardware – a two-year lease for an annual subscription to a software program. The lease is a fixed US dollar denomination and can be subject to variations in valuation due to foreign exchange. There were no such revaluation adjustments in this reporting period.

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- ii. Real property leases – these are comprised of leases for commercial space including Westleaf's head office, current and prospective Prairie Records retail locations and a land lease for the Thunderchild Cultivation Facility. Lease terms vary by location and inclusion of renewal periods also vary based on location.
- (d) For the year ended December 31, 2018, an amount owed to the previous shareholders of Canndara totalling \$10 was outstanding at the time of acquisition. This amount was repaid in full to the previous shareholders during the nine months ended September 30, 2019.
- (e) On May 10, 2019, the Company closed on a bought deal financing with a syndicate of underwriters for 12,000 convertible debenture units of Westleaf (the "Units") at a price of 1,000 dollars per Unit for aggregate gross proceeds to the Company of \$12 million (the "Offering"). Each Unit consists of one 9.5% senior unsecured convertible debenture (each a "Convertible Debenture") of the Company having a principal amount of 1,000 dollars and 385 common share purchase warrants of the Company (each a "Warrant"). The Convertible Debentures will mature and be repayable on May 10, 2022 and will accrue interest at the rate of 9.5% per annum payable in arrears on the last business day of September and December of each year commencing September 28, 2019. Interest is computed on the basis of a 360-day year composed of twelve 30-day months. The Convertible Debentures will be convertible at a conversion price of \$1.30 per share, subject to adjustment in certain events, and certain anti-dilution provisions. If the holder elects to convert the convertible debenture after a period that is eighteen months and one day following the closing date, the holder will also receive the elective interest, being an amount equal to the interest the holder would have received if the holder had held the convertible debentures until maturity payable at the Company's option in cash and/or common shares. Each Warrant will be exercisable to acquire one common share for a period of 36 months from the closing date of the Offering, at an exercise price of \$1.65 per Warrant.

As consideration for their services in connection with the Offering, the underwriters received a cash commission equal to 7.0% of the gross proceeds of the Offering and, as additional consideration, the Company issued the underwriters 645,154 non-transferable compensation warrants (the "Compensation Warrants") equal to 7.0% of the gross proceeds of the Offering divided by the Conversion Price. Each Compensation Warrant entitles the holder thereof to acquire one common share for an exercise price of \$2.13 per common share until May 10, 2022, subject to adjustment in certain customary events.

The Company has the following contractual obligations;

As at September 30, 2019:

	Total	<1 year	1-5 years	5-10 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	11,125	11,125	-	-
Lease liabilities	8,829	775	4,408	3,646
Term Loan Debt	6,578	6,578	-	-
Convertible debentures	15,262	1,140	14,122	-
<b>Total</b>	<b>41,794</b>	<b>19,618</b>	<b>18,530</b>	<b>3,646</b>

## **WESTLEAF INC.**

### **Management's Discussion and Analysis**

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#### *Restricted cash*

As at September 30, 2019, Westleaf had a restricted cash balance of \$4.0 million (2018 - \$766). These balances are restricted to be used for the servicing of debt as required by Westleaf's loan agreements with ATB.

#### *Capital*

Authorized as at September 30, 2019 and December 31, 2018:

Unlimited number of common shares

Unlimited number of preferred shares

Founders' common shares and the common shares held by the largest shareholder, Thunder Developments Inc., totalling 23.1 million shares (December 31, 2018 – 41.6 million shares) are held in escrow under a staged release schedule which was initially over a thirty-nine-month period that commenced January 7, 2019. This period was decreased to an eighteen-month period from January 7, 2019, in connection with the Company's graduation from Tier 2 to Tier 1 issuer status on the TSX-V.

As at the date of this MD&A, the Company had 143.7 million common shares outstanding, 23.5 million warrants outstanding, 8.8 million RSUs outstanding, and 3.0 million stock options outstanding.

#### **Commitments**

On June 3, 2019, Westleaf entered into an exclusive consulting services agreement with Xabis Inc. whereby they will provide various consultative services surrounding the design, buildout and operations of the extraction, processing and manufacturing facility. The consideration consists of six monthly fixed fee service-based cash payments estimated to amount to \$138 as well as share-based payments to occur over three tranche dates beginning July 3, 2019 and each of the subsequent two years thereafter.

The Company is committed to payments of \$194 pertaining to equipment purchases for The Plant, currently in the process of being manufactured by the supplier.

#### **Off-Balance Sheet Arrangements**

The Company has no such arrangements at the period ended in the referenced financial statements nor as at the date of this MD&A.

#### **Related Parties**

All transactions with related parties are recorded at fair value.

## WESTLEAF INC.

### Management's Discussion and Analysis

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#### *Related party transactions*

Transactions with related parties are recorded at their fair value amounts:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Rent fees paid to a company owned by a Director of the Company	30	-	81	-
Total	30	-	81	-

The Company leases one of its retail locations from a company owned by a Director of Westleaf. The lease includes an initial 5-year term as well as two optional 5-year terms. Rent is charged at a fair market price based on the store location.

The following related party balances were included in the consolidated statements of financial position related to management and directors of the Company:

	As at September 30, 2019	As at December 31, 2018
	\$	\$
Assets - Management and Directors of the Company	1,010	-
Liabilities - Management and Directors of the Company	1,026	30
Total	2,036	30

As at September 30, 2019, the lease contract owned by a Director of Westleaf is recorded as a right-of-use asset in the amount of \$1.0 million and as a current lease liability and a long term lease liability of \$39 and \$987, respectively.

As at December 31, 2018, accounts payable and accrued liabilities included \$20 pertaining to Board and committee director fees. In addition, an amount of \$10 was recorded as short-term loans related to an amount owed to the previous shareholders of Canndara that was outstanding at the time of the acquisition. All related party amounts as at December 31, 2018 were repaid in full subsequent to the year-end.

#### **Changes in accounting policies**

Westleaf's accounting policies for the three and nine months ended September 30, 2019, were consistent with the accounting policies disclosed in its December 31, 2018, audited consolidated financial statements as filed on SEDAR at [www.sedar.com](http://www.sedar.com) with the exception of the addition of the following policies for inventory, revenue, and cost of goods sold in relation to the financial results of Westleaf's retail locations which began operations in the current period:

##### (a) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined based on a first-in, first-out basis. Cost includes the acquisition cost at the date of the purchase and costs directly attributable to bringing the asset to the location and condition necessary for distribution to the customers. Net realizable value is the estimated selling price, in the ordinary course of business, less the estimated selling and distribution expenses.

## **WESTLEAF INC.**

### **Management's Discussion and Analysis**

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When inventory is sold, the carrying amount of the inventory is recognized as an expense in cost of goods sold in the period in which the related revenue is recognized.

#### **(b) Revenue**

Revenue is recognized at the fair value of consideration received or receivable from the sale of goods to customer, net of discounts and sales tax in the ordinary course of the Company's activities. Revenue from the sales of goods is recognized when the significant risk and rewards of ownership of the goods are transferred to the customer, it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliability, which generally arises on receipt of the goods by the customer.

#### **(c) Cost of goods sold**

Cost of goods sold includes the cost of inventory expensed.

#### *New and amended standards and interpretations not yet adopted*

New standards or amendments to standards and interpretation not yet effective for the three and nine months ended September 30, 2019 and which have not been applied in preparing these condensed consolidated interim financial statements are outlined below.

The Company is assessing the impact of any changes on future consolidated financial statements. Any pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

#### **IFRS 3 Business combinations**

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

#### **Critical Accounting Estimates**

Critical judgements, estimates and assumptions that have the most significant effect on the amounts recognized on Westleaf's financial statements remain unchanged from that discussed in the annual MD&A and amended and restated AIF for the year ended December 31, 2018, as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## WESTLEAF INC.

### Management's Discussion and Analysis

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#### Financial Instruments

IFRS requires that the Company disclose information about the fair value of our financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, term loan debt, and convertible debentures. Management estimates that the fair value of its cash, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values as at September 30, 2019, due to the relatively short maturity periods of these instruments. Term loan debt approximates fair value as it bears a floating rate of interest. The fair value of the convertible debentures as at September 30, 2019, was \$7.8 million.

#### Cautionary Statement Regarding Certain Non-GAAP Performance Measures

This MD&A contains certain financial performance measures that are not recognized or defined under IFRS (termed "Non-GAAP Measures"). As a result, this data may not be comparable to data presented by other licensed producers and cannabis companies. For an explanation of these measures to related comparable financial information presented in the consolidated financial statements prepared in accordance with IFRS, refer to the discussion below. The Company believes that these Non-GAAP Measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. These Non-GAAP Measures include, but are not limited, to the following:

- Working Capital: this is an indicative measure of the Company's ability to service its short-term financial obligations with short-term assets. Management believes this measure provides useful information about the Company's current short-term liquidity. Refer to *Liquidity and Non-Capital Resources* for a detailed calculation of this measure. The numbers that are input into this calculation can be found in the statement of financial position in the Company's consolidated financial statements.

#### Other MD&A Disclosures

##### *Industry Trends and Risks*

Westleaf's industry trends and risks remain unchanged from that discussed in the annual MD&A and amended and restated AIF for the year ended December 31, 2018, as filed on SEDAR at [www.sedar.com](http://www.sedar.com).