Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the year ended December 31, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014

GOLDEN LEAF HOLDINGS LTD.

Consolidated Financial Statements
(Expressed in U.S. Dollars)
For the year ended December 31, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014

Independent Auditor's Report

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To the shareholders of
Golden Leaf Holdings Ltd.

We have audited the accompanying consolidated financial statements of Golden Leaf Holdings Ltd., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the year ended December 31, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Golden Leaf Holdings Ltd. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the year ended December 31, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which indicate the need to raise additional capital to fund future working capital and expansion plans. This condition, along with other matters as set forth in Note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Grant Thornton LLP

Toronto, Canada
May 31, 2016

Chartered Professional Accountants
Licensed Public Accountants

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Financial Position
As at December 31, 2015 and December 31, 2014
(Expressed in U.S. dollars)

			December 31, 2015		December 31, 2014
ASSETS					
CURRENT					
Cash		$	263,695	$	600,078
Accounts receivable	Note 7		726,625		358,987
Sales tax recoverable			94,002		47,535
Biological assets	Note 8		56,915		224,854
Inventory	Note 8		1,239,427		534,986
Prepaid expenses and deposits			472,034		339,788
Total current assets			2,852,698		2,106,228
Property, plant and equipment	Note 9		6,179,710		710,790
Intangible assets	Note 10		145,833		40,000
Total assets		$	9,178,241	$	2,857,018
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities		$	1,761,580	$	380,794
Income taxes payable	Note 22		455,136		32,202
Subscriptions payable			123,526		40,000
Current portion of long-term debt	Note 12		31,848		15,828
Convertible notes payable	Note 11		500,000		-
Total current liabilities			2,872,090		468,824
Convertible note payable	Note 11		1,690,000		-
Long term debt	Note 12		1,603,456		75,121
Warrant liability	Note 13		4,841,706		507,607
Total liabilities		$	11,007,252	$	1,051,552
SHAREHOLDERS' EQUITY					
Share capital	Note 14	$	15,481,051	$	4,747,153
Warrant reserve	Note 15		2,968,655		260,366
Stock option reserve	Note 16		319,091		-
Contributed surplus			59,940		-
Deficit			(20,657,748)		(3,202,053)
Total shareholders' equity			(1,829,011)		1,805,466
Total liabilities and shareholders' equity		$	9,178,241	$	2,857,018

Going Concern (Note 2)
Commitments (Note 17)
Subsequent Events (Note 23)

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Operations and Comprehensive Loss

For the year ended December 31, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014

(Expressed in U.S. dollars)

			2015	2014
Sales		$	9,925,137	$ 1,310,155
Inventory expensed to cost of sales			7,817,487	1,211,744
Production costs			904,497	-
(Gain)/Loss on changes in fair value of biological assets	Note 8		(832,493)	-
Cost of sales expense			7,889,491	1,211,744
Gross profit			2,035,646	98,411
Expenses				
General and administration			8,260,735	2,853,820
Professional fees paid with equity instruments	Note 14, 15		2,831,995	-
Listing expense	Note 1		830,179	-
Sales and marketing			1,407,121	404,857
Research and development			458,582	21,615
Depreciation and amortization			273,600	8,076
Total expenses			14,062,212	3,288,368
Loss before undernoted items			(12,026,566)	(3,189,957)
Interest expense			131,365	15,271
Other loss (income)			162,972	22,068
Loss (gain) on change in fair value of warrant liability	Note 13		4,334,099	(57,445)
Loss before income taxes			(16,655,002)	(3,169,851)
Incomes taxes	Note 22		800,693	32,202
Net Loss and comprehensive loss		$	(17,455,695)	$ (3,202,053)
Basic and diluted loss per share		$	(0.31)	$ (0.14)
Weighted average number of common shares outstanding			55,679,926	23,209,606

See accompanying notes consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statement of Changes in Shareholders' Equity
For the year ended December 31, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, April 8, 2014	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of common shares (note 14)	4,837,906	-	-	-	-	4,837,906
Share issuance costs (note 14)	(117,665)	-	-	-	-	(117,665)
Issuance of w arrants (note 13, 15)	-	271,020	-	-	-	271,020
Exercise of w arrants and options for common shares	26,912	(10,654)	-	-	-	16,258
Net loss and comprehensive loss for the period	-	-	-	-	(3,202,053)	(3,202,053)
Balance at December 31, 2014	$ 4,747,153	$ 260,366	$ -	$ -	$ (3,202,053)	$ 1,805,466

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2015	$ 4,747,153	$ 260,366	$ -	$ -	$ (3,202,053)	$ 1,805,466
Issuance of common shares (note 14)	10,492,046	-	-	-	-	10,492,046
Share issuance costs (note 14)	(51,811)	-	-	-	-	(51,811)
Issuance of w arrants (note 13 and 15)	-	2,823,480	-	-	-	2,823,480
Exercise of w arrants and options for common shares	353,603	(115,191)	-	-	-	238,412
Issuance of share-based compensation (note 16)	-	-	319,091	-	-	319,091
Shares cancellation and misc. contributed surplus	(59,940)	-	-	59,940	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(17,455,695)	(17,455,695)
Balance at December 31, 2015	$ 15,481,051	$ 2,968,655	$ 319,091	$ 59,940	$ (20,657,748)	$ (1,829,011)

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS INC.

Consolidated Statement of Cash Flows
For the year December 31, 2015 and from April 8, 2014 (date of incorporation) to
December 31, 2014 (Expressed in U.S. dollars)

		For the year ended December 31, 2015	For the year ended December 31, 2014
Cash provide by (used in):			
Operating activities:			
Net Loss		$ (17,455,695)	$ (3,202,053)
Depreciation of property, plant and equipment		384,000	8,076
Amortization of intangible assets		19,167	-
Loss on disposal of assets		30,294	
Interest expense		131,635	9,914
Income tax expense		800,693	32,202
Income taxes paid		(377,759)	-
Bad debt expense		375,119	-
Share based compensation	Note 16	918,275	-
Professional fees paid with equity instruments		2,831,995	578,708
Loss on fair value adjustment to warrants liability		4,334,099	(57,445)
Listing expense		830,179	-
Gain on fair value of biological assets		832,493	-
Other non-cash transactions		(295,994)	-
Changes in working capital items			
Accounts receivable		(417,144)	(358,987)
Sales tax recoverable		(46,467)	(47,535)
Accounts payable and accrued liabilities		1,159,151	380,794
Income taxes payable		-	-
Biological assets	Note 8	(664,554)	(379,894)
Inventory		(704,441)	(355,499)
Prepaid expenses and deposits		(132,246)	(246,300)
Cash used in operating activities		(7,447,200)	(3,638,019)
INVESTING ACTITIVES			
Deposits on property, plant and equipment		(338,370)	(93,488)
Purchase of property, plant and equipment	Note 9	(2,310,489)	(564,554)
Purchases of intangible assets		(35,000)	-
Cash used in investment activities		(2,683,859)	(658,042)
FINANCING ACTIVITIES			
Issuance of common shares		8,850,218	4,992,862
Payment of share issuance costs		(51,811)	(96,000)
Proceeds from issuance and exercise of warrants		496,269	0
Issuance of convertible notes payable	Note 11	500,000	-
Proceeds from long-term debt	Note 12	-	-
Repayment of long-term debt		-	(723)
Proceeds from related party loan		305,000	212,500
Repayment of related party loan		(305,000)	(212,500)
Cash provided by financing activities		9,794,676	4,896,139
Increase/(Decrease) in cash during the period		(336,383)	600,078
Cash, beginning of year		600,078	-
Cash, end of year		**$ 263,695**	**$ 600,078**
Interest paid during the year		$ 53,047	$ -

1. Incorporation and operations

Golden Leaf Holdings Ltd. ("Golden Leaf" or the "Company") was incorporated under the laws of the Canada Business Corporations Act on April 8, 2014 and began operations on July 1, 2014. On October 6th, 2015, the Company completed a reverse takeover of Longacre Resources Inc. ("Longacre"). Longacre had no significant assets other than cash with no commercial operations at the time. Golden Leaf is now traded on the Canadian Stock Exchange under the ticker CNSX:GLH. The Company carries on the business of growing, processing and distributing medical cannabis products in the State of Oregon in the United States of America ("USA"). The Company's corporate office is at 36 Toronto St. Suite 1000, Toronto, Ontario Canada M5C 2C5 and its principal place of business is at 517 SW 4th Ave. Suite 400, Portland, Oregon USA 97204.

On October 6, 2015, the Company executed a reverse takeover ("RTO") merger agreement with Longacre. Longacre acquired all of the issued and outstanding shares of the Company pursuant to a three-cornered amalgamation, whereby (i) Longacre incorporated a new Ontario subsidiary ("Subco") which amalgamated with the Company, to form an amalgamated subsidiary of Longacre, and (ii) Longacre issued common shares to the shareholders of the Company on a one-for-one basis. There were 775,000 common shares of Longacre issued and outstanding pre-closing. On closing, including completion of a private placement financing, there was 60,448,736 shares outstanding in the Company. As a result of the amalgamation, there was 61,223,736 issued and outstanding common shares on an undiluted basis.

In accordance with IFRS 3, Business Combinations, the substance of the transaction is a reverse takeover of a non-operating company. The transaction does not constitute a business combination as Longacre does not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with Golden Leaf being identified as the acquirer and the equity consideration being measured at fair value. The resulting statement of financial position is presented as a continuance of the original Golden Leaf and comparative figures presented in the financial statements after the reverse takeover are those of the original Golden Leaf.

IFRS 2, Share-Based Payments, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or service received in return. Because the Company would have issued shares with a value in excess of the assets received, IFRS 2 would indicate that the difference is recognized as a listing expense. The amount assigned to the listing expense of $830,179 is the difference between the fair value of the consideration and the net identifiable assets of Longacre acquired by Golden Leaf and included in the consolidated statement of loss and comprehensive loss.

(Expressed in U.S. dollars, unless otherwise stated)

1. Incorporation and operations (continued)

The fair value of the consideration is determined based on the percentage of ownership the legal parent's shareholders have in the amalgamated entity after the transaction. This represents the fair value of the shares that Golden Leaf would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of Golden Leaf acquiring 100% of the shares in Longacre. The percentage of ownership Longacre shareholders had in the combined entity is 1.27% after the issue of 775,000 Longacre shares. The fair value of the consideration in the RTO is equivalent to the fair value of the 775,000 Longacre shares controlled by original Longacre shareholders. The fair value of the Longacre shares was estimated to be $775,000 based on fair market value of $1.00 per share based on the last private placement value prior to the amalgamation. Based on the statement of financial position of Longacre at the time of the RTO, the net assets at estimated fair value that were acquired by Golden Leaf were ($55,179) and the resulting transaction cost charged to the statement of loss and comprehensive loss is as follows:

	Amount $
Consideration	775,000
Identifiable assets acquired	
Cash	2,584
Amounts receivable	1,399
Accounts payable and accrued liabilities	(59,162)
	(55,179)
Listing expense	830,179
Total net identifiable assets and listing expense	775,000

2. Going concern

Golden Leaf has been incurring operating losses and cash flow deficits since its inception, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the gradual relaxing of prohibitions in the United States on the cannabis industry. The Company's revenues have not yet been able to rise to levels materially capable of covering the costs related to the infrastructure investment (both capital and operating). As such, the Company has been depleting its invested capital as it simultaneously navigates regulatory evolution and uncertainty, awaits the imminent changes in the Oregon marketplace and other jurisdictions that will fuel market expansion, and continues to make necessary investments.

As of December 31, 2015 the Company's cash balances were $263,695. Despite raising funds in Q1 and Q2 2016, the Company's burn rate, including certain earmarked uses such as tax payments and the acquisition costs for BMF Washington in addition to unanticipated regulatory delays and disruption to the Company's core business, there continues to be a need to raise more capital. The date for legalization in Oregon of the recreational oils and edibles market (in which the Company has been approved to participate and intends to operate, as an extension of its existing medical oils and edibles business), is now firm at June 2, 2016. The Company is extremely encouraged by the realization of this long-awaited development.

2. Going concern (continued)

The Company is actively engaged in additional capital raising efforts to ensure the continued operations of the enterprise and capitalize on the imminent market expansion of its core activities. These efforts include, but may not be limited to, filling the remaining balance of the CDN $10 million convertible debenture financing previously initiated. However, although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to us or the Company will be able to generate sufficient cash flow from operations.

These circumstances indicate the existence of material uncertainty that casts significant doubt as to our ability to meet our business plan and our obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis that assumes we will be able to continue to realize our assets and discharge our liabilities in the normal course of business, and do not reflect the adjustments to assets and liabilities that would be necessary if we were unable to obtain adequate financing. Such adjustments could be material. If we are unable to raise funds and execute our business plan, we may not be able to continue as a going concern.

3. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements have been approved by the Company’s Board of Directors on May 31, 2016.

4. Basis of presentation

Except where specified, the consolidated financial statements have been prepared in U.S. dollars, which is the Company’s presentation currency, on a historical cost basis. The accounting policies set out below have been applied to all accounting periods. While the Company was incorporated and funded during the second quarter in 2014, operations commenced on July 1, 2014. Certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications had no effect on the reported results of operations.

5. Significant accounting policies

Basis of consolidation

The Parent company's functional currency is USD. The Company consolidates the financial statements of the following wholly owned subsidiaries:

Subsidiary	Place of Incorporation	Functional currency	Effective ownership	Principal activity
Greenpoint Holdings Delaware Inc.	Delaware	USD	100%	Holding company
Greenpoint Oregon Inc.	Oregon	USD	100%	Cannabis production and distribution
Left Coast Connections Inc.	Oregon	USD	100%	Retail Cannabis sales
GP Management Inc.	Nevada	USD	100%	Ownership and administration of intellectual property
Greenpoint Science Ltd.	Israel	USD	100%	Research and Development
Greenpoint Real Estate, LLC	Oregon	USD	100%	Ownership and administration of real estate
Greenpoint Equipment Leasing, LLC.	Oregon	USD	100%	Ownership and leasing activity related to company processing equipment

All inter-company transactions and balances with subsidiaries have been eliminated. All companies have the same reporting period.

5. Significant accounting policies (continued)

<u>Property, plant and equipment</u>

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of income (loss).

Expenditure to replace a component of an item of property, plant or equipment that is accounted for separately is capitalized and the existing carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in the statement of income (loss) as incurred.

Depreciation is charged to the income statement based on the cost, less estimated residual value, of the asset on a straight-line basis over the estimated useful life. Depreciation commences when the assets are available for use. The estimated useful lives are as follows:

Production equipment	5-7 years
Furniture and fixtures	5 years
Vehicles	5 years
Computer equipment	3 years
Leasehold improvements	5 years
Building improvements	5 years
Buildings	30 years

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value-in-use and fair value less costs to sell. Determining the value-in-use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. As at December 31, 2015, the Company did not record any impairment of non-financial assets (2014 - $nil).

Useful life of property and equipment and intangible assets

Property and equipment are amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the period.

5. Significant accounting policies (continued)

Currency translation and functional currency presentation

The consolidated financial statements are expressed in US Dollars, which is the presentation currency.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

See above table for functional currencies for all entities.

Intangible assets

Intangible assets are amortized over their estimated useful lives, unless the life is determined to be indefinite, in which case no amortization is taken. Intangible assets with indefinite useful lives are tested for impairment on an annual basis or when events occur that may indicate impairment.

Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of business, less any costs to complete and sell the goods. The cost of inventory includes expenditures incurred in acquiring raw materials, production and conversion costs, depreciation and other costs incurred in bringing them to their existing location and condition.

Judgment is required in determining whether the carrying cost of inventories is recoverable. In making this determination, the Company assesses the market conditions to determine what will be a reasonable future cash flow from the sale of inventory.

Biological assets

The Company's biological assets consist of cannabis plants cultivated and harvested in the Company's grow facilities in and around Portland, Oregon.

The significant assumptions used in determining the fair value of the biological assets are as follows:

- stage in the overall growth cycle;
- estimated harvest yield by plant; and
- estimated quality of produce, based on grow scenarios.

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield or quality will be reflected in future changes in the gain or loss on biological assets.

5. Significant accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

Revenue is recognized when the risk and rewards of ownership pass to the buyer, the amount of revenue can be reliably measured, the costs and possible return of goods can be reliably measured, there is no continuing management involvement or control with the goods, and when collection is reasonably assured. This generally occurs when the products are delivered to a customers' location, compliant documentation has been signed evidencing the arrangement. Revenue related to barter transactions is recognized when the aforementioned criteria are met and such that the goods exchanged are of a dissimilar nature.

Income taxes

The Company follows the deferred tax method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Offsetting of deferred tax

assets and liabilities occurs when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Company's subsidiaries, Greenpoint Oregon Inc. and Left Coast Connections Inc., are subject to U.S. Internal Revenue Code Section 280E. This section disallows deductions and credits attributable to a trade or business of trafficking in controlled substances. Under U.S. tax, marijuana is a schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to Section 280E.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Accounts receivable

Accounts receivable are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its allowance based on a number of factors, including length of time an account is past due, the customer's previous loss history, and the ability of the customer to pay its obligation to the Company. The Company writes off receivables when they become uncollectible.

5. Significant accounting policies (continued)

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: fair value through profit or loss, held-to-maturity, loans and receivables or available-for-sale.

Financial assets classified as fair value through profit or loss ("FVTPL") are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as held-to-maturity and loans and receivables are measured at amortized cost. The Company's accounts receivable are classified as loans-and-receivables. At December 31, 2015 the Company has not classified any financial assets as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) until the related asset is no longer recognized or impaired, at which time the amounts would be recorded in net income. At December 31, 2015 the Company has not classified any financial assets as available-for-sale.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the asset, the estimated future cash flows of the asset has been impacted.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception into one of the following two categories: fair value through profit or loss or other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured each subsequent reporting period end with changes in fair value recognized in to profit or loss. At December 31, 2015 the Company classified warrants associated with the private placement as FVTPL, see note 12. Warrants issued that fall within scope of IFRS 2 are always classified as equity. Warrants issued that fall within scope of IFRS 39 are equity only to the extent the meet the fixed for fixed criteria which requires the exercise price be denominated in the same functional currency as that of the issuing entity. If warrants are issued in a currency other than the entities functional currency they are classified as a financial liability and must be measured at FVTPL.

Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The Company's accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities. Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Basic and diluted loss per common share

Basic loss per share is computed by dividing net loss by the weighted average common shares outstanding at the end of the period. Diluted loss per share reflects the dilution of common share equivalents, such as outstanding warrants, in the weighted average common shares outstanding at the end of the period. The Company uses the treasury stock method for calculating diluted loss per share.

5. Significant accounting policies (continued)

Warrants

The Company is required to make certain estimates when determining the fair value of warrants. The Company uses the Black-Scholes pricing model to determine the fair value. The Black-Scholes option pricing model requires the input of subjective assumptions, such as stock price volatility.

Share based payments

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For stock options granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees or nonemployees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Future accounting pronouncements

The Company has identified new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018.

In May 2014, the IASB issued IFRS 15 Revenue from contracts with customers, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2018 and allows early adoption. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

5. Significant accounting policies (continued)

The IASB has published amendments to IAS 16 Property, Plant and Equipment, and IAS 41 Agriculture that change the accounting for bearer plants. The amendments specify that because the operation of bearer plants are similar in nature to manufacturing, they should be accounted for under IAS 16 rather than IAS 41. The produce growing on the bearer plants will continue to be within the scope of IAS 41.

The amendments are effective for annual periods beginning January 1, 2016 with early adoption permitted. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

In January 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard (IAS 17 Leases) and required the recognition of most leases as finance leases for lessees by removing the classification of leases as either finance or operating leases. Finance lease exemptions exists for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same, which provides the choice of classifying a lease as either a finance or operating lease. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

The IASB published Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to address depreciation and amortization methods which are based on revenue. Both standards currently require that a depreciation or amortization method reflect the expected pattern of consumption of the future economic benefits of the asset. The amendments prohibit the use of depreciation and amortization methods which are based on revenue as this does not reflect the expected pattern of consumption of the economic benefits of the asset. The Company is currently assessing the impact of these amendments.

6. Critical judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

Allowance for doubtful accounts

The Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, we establish an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

6. Critical judgments and key sources of estimation uncertainty (continued)

Useful lives of equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(Expressed in U.S. dollars, unless otherwise stated)

6. Critical judgments and key sources of estimation uncertainty (continued)

Impairment of non-financial assets

Non-financial assets include PPE and Intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Biological assets

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value.

7. Accounts receivable

	December 31, 2015		December 31, 2014	
Accounts Receivable	$	1,186,118	$	443,361
Allowance for doubtful accounts		(459,493)		(84,374)
	$	726,625	$	358,987

Continuity of allowance for doubtful accounts

	December 31, 2015		December 31, 2014	
Beginning balance	$	84,374	$	-
Increase in provision for doubtful accounts		375,119		84,374
Provision used for write-off of receivables		-		-
	$	459,493	$	84,374

Bad debt expense amounts for the year of $381,634 (2014 - $84,374) is included in general and administrative expenses.

All of the Company's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for doubtful accounts of $459,493 has been recorded accordingly (2014 - $84,374).

(Expressed in U.S. dollars, unless otherwise stated)

8. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The Company measures its biological assets at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Any production costs incurred during the growth cycle of the plants is expensed as incurred. During the year, the Company expensed $904,497 (2014 - $nil) of production costs.

During the year ended December 31, 2015 the Company recognized a gain of $832,493 (2014 - $nil) on the change in fair market value of biological assets reflecting the increased value relating to the growth and harvest of the flower from cannabis plants. This gain was calculated using a periodic of change in value based on plant count and estimated value of the various products from the plants.

Inventory consists of harvested cannabis flower and concentrated products such as oils and edibles. During the year ended December 31, 2015, $110,400 (2014 - $ 34,360) of depreciation, was allocated to inventory and expensed as cost of sales. Any costs incurred to bring inventory to the condition and location of sale are included in cost. The following provides a summary of the various costs incurred in key stages of production:

	Biological assets		Inventory	
Raw materials		-		230,969
Work-in-process		206,265		191,420
Finished goods		18,589		112,597
Balance, December 31, 2014	$	224,854	$	534,986
Raw materials		-		-
Work-in-process		56,915		534,471
Finished goods		-		704,956
Balance, December 31, 2015	$	56,915	$	1,239,427

The Company's biological assets at December 31, 2015 and December 31, 2014 is comprised of:

Balance, April 8, 2014	$	-
Gain/Loss on fair value of Biological assets		224,854
Transfer to Finished goods		-
Balance, December 31, 2014	$	224,854
Balance, December 31, 2014	$	224,854.00
Gain/Loss on fair value of Biological assets		(832,493)
Transfer to Finished goods		664,554
Balance, December 31, 2015	$	56,915

(Expressed in U.S. dollars, unless otherwise stated)

9. Property, plant and equipment

	Buildings	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, April 8, 2014	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions	-	-	312,795	231,377	63,547	41,835	103,672	753,226
Dispositions	-	-	-	-	-	-	-	-
Balance, December 31, 2014	-	-	312,795	231,377	63,547	41,835	103,672	753,226
Accumulated Amortization								
Balance, Apr 8, 2014	-	-	-	-	-	-	-	-
Expense	-	-	(23,540)	(11,309)	(4,305)	(1,554)	(1,728)	(42,436)
Dispositions	-	-	-	-	-	-	-	-
Balance, December 31, 2014	$ -	$ -	$ (23,540)	$ (11,309)	$ (4,305)	$ (1,554)	$ (1,728)	$ (42,436)
Carrying amount								
Balance, April 8, 2014	$ -	$ -	$ -	$ -	-	$ -	$ -	$ -
Balance, December 31, 2014	$ -	$ -	$ 289,255	$ 220,068	59,242	$ 40,281	$ 101,944	$ 710,790

	Buildings	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, December 31, 2014	$ -	$ -	$ 312,795	$ 231,377	$ 63,547	$ 41,835	$ 103,672	$ 753,226
Additions	2,038,634	1,800,000	1,737,505	29,079	84,225	68,242	188,546	5,946,231
Dispositions	-	-	-	-	-	-	(103,672)	(103,672)
Balance, December 31, 2015	2,038,634	1,800,000	2,050,300	260,456	147,772	110,077	188,546	6,595,785
Accumulated Amortization								
Balance, December 31, 2014	-	-	(23,540)	(11,309)	(4,305)	(1,554)	(1,728)	(42,436)
Expense	(39,980)	-	(235,256)	(27,759)	(33,075)	(15,234)	(32,696)	(384,000)
Dispositions	-	-	-	-	-	-	10,361	10,361
Balance, December 31, 2015	$ (39,980)	$ -	$ (258,796)	$ (39,068)	$ (37,380)	$ (16,788)	$ (24,063)	$ (416,075)
Carrying amount								
Balance, December 31, 2015	$ 1,998,654	$ 1,800,000	$ 1,791,504	$ 221,388	110,392	$ 93,289	$ 164,483	$ 6,179,710

The Company acquired a 96-acre property in the State of Oregon on September 28, 2015 with a purchase price of $3.3 million. See note 11(ii) and 12 for details of financing. The property will serve as the main facility for the Oregon based grow and manufacturing operations, as well as the main campus for the corporate offices in the U.S. The purchase transaction was conducted by Greenpoint Real Estate, LLC.

Total depreciation expense for the year was $384,000 (2014 - $42,436). Of the total expense, $110,400 (2014 - $34,360) was allocated to inventory during the year.

(Expressed in U.S. dollars, unless otherwise stated)

10. Intangible assets

Intangible assets consist of a two-year dispensary license for the Company's dispensary, Left Coast Connection and a five-year licensing agreement with Dixie Brands, Inc. This licensing agreement allows the Company to produce and distribute Dixie branded products throughout Oregon.

	Balance at January 1, 2015	Additions	Disposals / adjustments	Balance December 31, 2015
Cost				
Dispensary license	$ 40,000	$ -	$ -	$ 40,000
Licensing agreement	-	125,000	-	125,000
Total	$ 40,000	125,000	-	$ 165,000
Accumulated Amortization				
Dispensary license	-	(15,000)	-	(15,000)
Licensing agreement	-	(4,167)	-	(4,167)
Total	$ -	(19,167)	-	$ (19,167)
Net book value	$ 40,000	105,833		$ 145,833

11. Convertible notes payable

	December 31, 2015	December 30 2014
Proceeds from issuance of convertible notes (i)	$500,000	$ -
Proceeds from issuance of convertible notes - long term (ii)	$1,690,000	
Carrying amount of convertible note at December 31, 2015	$2,190,000	$ -

(i) During the first quarter of 2015, the Company issued two convertible notes included in current liabilities which have a security interest in the property discussed in (ii). The principal amounts are $250,000 each, with a rate of 8% per annum payable semi-annually. The maturity dates of the notes are March 9, 2016 and March 11, 2016 respectively. Prepayment of all or any portion is allowed without penalty at the option of the issuer with 30 days notice to the holder. The convertible notes also provide for a conversion option, in whole or in part, within the loan term at $1.00 per share. Conversion price may be adjusted in the case of certain dilutive events taken by the Company. The notes payable also provided for 25,000 warrants to each of the holders at inception, at $1.00 per common share. Interest payments due September 9 and 21, 2015 were paid during the fourth quarter.

Per IAS 32, the Company assessed the fair value of this debt at inception. Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

(Expressed in U.S. dollars, unless otherwise stated)

11. Convertible notes payable (continued)

(ii) In connection with the property acquisition discussed in Note 9, the Company issued $1.7 million of convertible debentures to a syndicate of investors for the purposes of financing the acquisition. All notes within the syndicate carry annual interest rates of 12% for a term of 24 months with all outstanding principal and interest due on September 17, 2017. Prepayment of all or any portion is allowed without penalty at the option of the issuer with 30 days notice to the holder. The convertible notes also provide for a conversion option, in whole or in part, within the loan term at $1 per share and a mandatory conversion feature at $1.00 if the traded share price reaches CDN $2.75 and include 100,000 warrants which are allocated amongst the individual note holders. Conversion price may be adjusted in the case of certain dilutive events taken by the Company.

Per IAS 32, the Company assessed the fair value of this debt at inception. Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

12. Long-term debt

Long term debt		December 31, 2015		December 30 2014
Secured promissory note	$	1,455,000	$	-
Auto loans		180,304		90,949
Less: current portion		(31,848)		(15,828)
Carrying amount of long-term debt at December 31, 2015	$	1,603,456	$	75,121

Long term debt consists of vehicle loans and a note payable secured by the real property discussed in Note 9. Vehicle loans of $180,304 are secured by the Company's vehicles, due in June 2021 and repayable in monthly blended installments of $3,184.

In connection with and secured by the property acquisition discussed in Note 9, the Company issued a secured promissory note payable for $1.5 million with a term of 24 months carrying interest at an annual rate of 9% with interest due in monthly installments and all outstanding principal due on September 14, 2017. The holder of this note has also been granted 45,000 warrants at an exercise price of $1.00 per common share as part of the financing arrangement.

Per IAS 32, the Company assessed the fair value of this debt at inception. Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

(Expressed in U.S. dollars, unless otherwise stated)

13. Warrant liability

During 2014, the Company issued 13,722,250 warrants in conjunction with private placements pertaining to (vii) and (viii) in Note 14. The warrants have an expiry period of 3 years from date of issuance and an exercise price of CDN $0.50 per common share. During the fourth quarter of the year ended December 31, 2015, 320,000 of these warrants were exercised.

The warrants were valued at $4,841,706 (2014 - $507,607). Per IAS 39, the warrants issued under these placements meet the definition of a derivative and must be measured at fair value at each reporting date. At December 31, 2015, a loss of $4,334,099 (2014 – gain of $57,445) was recorded in the statement of operations due to significant changes in the year end risk-free rate, foreign exchange rate, and reduction in the expected life of the warrants. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	December 31, 2015	**December 31, 2014**
Expected life	1.7 to 1.9 years	2.8 to 2.9 years
Risk-free interest rate	0.62%	1.21%
Dividend yield	0%	0%
Foreign exchange rate	.7212	.8950
Expected volatility	70%	70%

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the warrants granted are expected to be outstanding. The risk free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the warrants.

(Expressed in U.S. dollars, unless otherwise stated)

14. Share capital

Share capital consists of one class of fully paid Ordinary Shares, with no par value. The Company is authorized to issue an unlimited number of Ordinary Shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote and the Company's shareholders' meetings.

The following table reflects the continuity of share capital from April 8, 2014 to December 31, 2015:

	Number of Shares		Amount
Opening balance at April 8, 2014	-	$	-
Shares issued to founders for services (i)	16,662,666		278,063
Shares issued as consideration for assets purchased (ii)	4,850,000		97,000
Shares issued - Private placement (iii)	800,000		18,422
Shares issued - Private placement (iv)	2,000,000		44,749
Shares issued upon exercise of warrants (v)	1,000,000		26,912
Shares issued for consulting services (vi)	200,000		35,033
Shares issued - Private placement, net of issuance costs (vii)	6,780,000		1,200,000
Shares issued - Private placements (viii)	20,664,500		3,046,974
Balance, December 31, 2014	52,957,166	$	4,747,153
Shares issued – Private placements (ix)	221,000		204,532
Shares cancelled (x)	(2,997,000)		(59,940)
Shares issued – Private placements, net of issuance costs (xi)	7,098,500		6,922,260
Shares issued for services (xii)	1,122,070		1,122,079
Shares issued - Private placements (xiii)	1,037,000		1,017,833
Shares issued - Private placements (xiv)	1,010,000		398,540
Shares issued - Listing (xv)	775,000		775,000
Shares issued - Warrant exercises (xvi)	1,000,500		338,894
Shares issued - Option exercises (xvii)	100,000		14,700
Balance, December 31, 2015	62,324,236	$	15,481,051

(i) On April 8, 2014, the Company issued 16,662,666 common shares to its founders for contributions made prior to the Company's incorporation.

(ii) On May 12, 2014, the Company issued 4,850,000 common shares as part of the consideration for the purchase of assets. (Note 9).

(iii) On May 13, 2014, the Company completed a non-brokered private placement for 800,000 shares at an exercise price of CDN $0.025 per unit.

(iv) On September 2, 2014, the Company completed a non-brokered private placement for 2,000,000 shares at an exercise price of CDN $0.025 per unit.

14. Share capital (continued)

(v) On October 16, 2014, the Company issued 1,000,000 common shares for the exercise of warrants at an exercise price of CDN $0.02. The exercise price was settled in exchange for legal service of $18,385. The warrants were issued for legal services provided by a law firm as discussed in Note 13(i)

(vi) On November 20, 2014, the Company issued 200,000 common shares to a consultant for professional services rendered. The shares were issued at CDN $0.20 per share.

(vii) On November 10, 2014, the Company completed a brokered private placement for 6,780,000 units at CDN $0.20 per unit. Each unit includes one common share and one-half warrant. The warrants have an expiry date of November 10, 2017 and have an exercise price of CDN $0.50 per share. Warrants were valued using the Black-Scholes option pricing model which resulted in $137,426 of the proceeds being allocated to warrants. The Company paid $96,000 in commissions and issued 542,400 warrants with an expiry date of November 10, 2017 and exercise price of CDN $0.50 per share related to proceeds from the private placement.

(viii) During the period between June 13 and November 28, 2014, the Company completed a series of non-brokered private placements for 20,664,500 units at CDN $0.20 per unit. Each unit includes one common share and one-half warrant. The warrants have an expiry date of 3 years from the subscription date and have an exercise price of CDN $0.50 per share. Warrants were valued using the Black-Scholes option pricing model which resulted in $427,626 of the proceeds being allocated to warrants.

(ix) In February 2015, the Company initiated a second round of private placements. 221,000 common shares were issued at CDN $1.25 per share. The Company paid $16,469 in issuance costs related to these shares.

(x) The Company's board cancelled 2,997,000 shares related to an agreement with a company that was to provide services in exchange for shares. The company failed to deliver these services. The board resolution to cancel the shares was ratified March 15, 2015. The value for the cancelled shares was $59,940 and has been recorded in contributed surplus.

(xi) In June 2015, the Company completed a non-brokered private placement of an additional 7,098,500 shares. The shares were issued at CDN $1.25 per share. The Company paid $16,183 in issuance costs related to these shares.

(xii) Between July 21 and September 15, 2015 the Company issued 1,122,070 shares to key employees, vendors and investment advisors in exchange for services.

(xiii) On September 15, 2015 the Company completed a non-brokered private placement of 1,037,000 shares at $1 per share. The Company paid $19,167 in issuance costs related to these shares.

(xiv) On October 1 and 5, 2015 respectively, the Company completed a non-brokered private placement of 10,000 and 1,000,000 shares. Proceeds of $1,010,000 were recorded related to these issuances, however 3,000,000 warrants at $1.00 and 1,500,000 warrants at $0.50 were associated with the 1,000,000 shares therefore $611,460 was recorded to warrant reserve with the residual held in share capital.

(xv) On October 5, 2015 the Company issued 775,000 shares to the shareholders of Longacre at $1 per share in conjunction with the public listing.

(xvi) During the fourth quarter, the Company issued 1,000,500 shares upon exercise of warrants and recorded proceeds of $338,894 related to these issuances.

(xvii) The Company issued 100,000 shares upon exercise of employee stock options and recorded proceeds of $14,700 related to these issuances.

(Expressed in U.S. dollars, unless otherwise stated)

15. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Opening balance	-	-	-
Warrants issued - legal fees (i)	1,000,000	CDN $0.02	10,654
Warrants issued - consulting fees (ii)	853,000	CDN $0.02	141,940
Warrants issued - legal fees (iii)	250,000	CDN $0.20	21,588
Warrants issued - consulting fee (iv)	652,625	CDN $0.20	53,867
Warrants issued - legal fees (v)	250,000	CDN $0.20	20,635
Warrants issued - broker commissions (vi)	542,400	CDN $0.50	22,336
Exercise of warrants	(1,000,000)	CDN $0.02	(10,654)
Balance, December 31, 2014	2,548,025		$ 260,366
Warrants issued - consulting fees (vii)	4,075,000	CDN $0.20	322,698
Warrants issued - management consulting (viii)	1,000,000	CDN $0.20	138,591
Warrants issued - consulting fees (ix)	500,000	CDN $0.50	301,823
Warrants issued - security services (x)	100,000	CDN $0.20	7,935
Warrants issued - private placement fees (xi)	50,000	CDN $0.20	3,968
Warrants issued - management consulting (xii)	1,500,000	USD $1.00	693,224
Warrants issued - private placement fees (xiii)	340,450	USD $1.00	157,339
Warrants issued - loan interest expense (xiv)	26,000	USD $1.00	8,267
Warrants issued - property consulting fees (xv)	200,000	USD $1.00	92,430
Warrants issued - property consulting fees (xv)	200,000	USD $5.00	21,143
Warrants issued - in conjunction with employment (xvi)	652,778	USD $1.00	89,884
Warrants issued - in conjunction with employment (xvi)	405,556	CDN $0.20	189,990
Warrants issued - for services (xvii)	208,950	USD $1.00	71,896
Warrants issued - for services (xvii)	235,410	USD $0.50	112,831
Warrants issued - in conjunction with debt issuance (xviii)	195,000	USD $1.00	-
Warrants issued - for distribution services (xix)	1,175,000	USD $1.00	-
Warrants issued - in conjunction with private placement (xx)	3,000,000	USD $1.00	352,040
Warrants issued - in conjunction with private placement (xx)	1,500,000	USD $0.50	259,421
Warrants exercised (xxi)	(680,500)	CDN $0.20	(115,191)
Balance, December 31, 2015	17,231,669		$2,968,655

(i) On April 8, 2014, the Company issued 1,000,000 warrants for legal services provided by a law firm. The warrants have an expiry of 5 years from the date of issuance and an exercise price of CDN $0.02 per common share. The amount of $10,654 has been expensed.

(ii) On April 8, 2014, the Company issued 853,000 warrants for consulting fees for services provided by an individual. The warrants have an expiry period of 5 years from the date of issuance and an exercise price of CDN $0.02 per common share. The amount of 141,940 has been expensed.

(iii) On July 17, 2014, the Company issued 250,000 warrants for legal services provided by a law firm. The warrants have an expiry period of 3 years from the date of issue and an exercise price of CDN $0.20 per common share. The amount of $21,588 has been expensed.

(iv) On October 29, 2014, the Company issued 652,625 warrants for investment consulting services provided by a consulting firm. The warrants have an expiry period of 3 years from the date of issuance and an exercise price of CDN $0.20 per common share. The amount of $53,867 has been expensed.

15. Warrant reserve (continued)

(v) On November 5, 2014, the Company issued 250,000 warrants for legal services provided by a law firm. The warrants have an expiry period of 3 years from the date of issue and an exercise price of CDN $0.20 per common share. The amount of $20,635 has been expensed.

(vi) On November 20, 2014, the Company issued 542,400 warrants for commissions associated with the brokered private placement closed on November 10, 2014. The warrants have an expiry period of 3 years from date of issuance and an exercise price of CDN $0.50 per common share. The amount of 22,336 has been expensed.

(vii) During the three months ending March 31, 2015, the Company issued 4,075,000 warrants. These warrants were issued for consulting services related to the private placements, research and development, and marketing. These warrants have an exercise price of CDN $0.20. The amount of $322,698 has been expensed.

(viii) A member of the executive management team was awarded 1,000,000 warrants as a signing bonus issued at an exercise price of CDN $0.20. The amount of $138,591 has been expensed.

(ix) Consulting fees were settled with 500,000 warrants issued at an exercise price of CDN $0.50. The amount of $301,823 has been expensed.

(x) Security services firm was provided with 100,000 warrants at an exercise price of CDN $0.20. The amount of $7,935 has been expensed.

(xi) The Company issued 50,000 warrants for non-brokered private placement fees for services earlier in the year at an exercise price of CDN $0.20. The amount of $3,968 has been accounted for as a cost of private placement and netted against the proceeds.

(xii) Members of the executive management team were awarded 1,500,000 warrants as a signing bonus issued at an exercise price of $1.00. The amount of $693,224 has been expensed.

(xiii) The Company issued 340,450 warrants for non-brokered private place fees for services earlier in the year at an exercise price of $1.00. The amount of $157,339 has been accounted for as a cost of private placement and netted against the proceeds.

(xiv) In lieu of interest payments, 26,000 warrants were issued for a short-term loan from a related party at an exercise price of $1.00. The amount of $8,267 has been recorded as interest expense.

(xv) Property management services for the Aurora property were settled with two tranches of warrants. 200,000 units were issued at an exercise price of $1.00 and 200,000 units were issued at an exercise price of $5.00. The amounts of $92,430 and $21,143 have been expensed.

(xvi) The Company issued 2,375,000 warrants to employees as share based compensation. 1,000,000 of these were issued at an exercise price of CDN $1.00 and 1,380,000 were issued at an exercise price of $1.00. Of these, 1,316,666 have been forfeited as of December 31, 2015 and a total vesting stock based compensation amount of $279,874 has been recorded to date.

(xvii) The Company issued 444,360 warrants to advisors for services. 208,950 were issued at an exercise price of $1.00 and 235,410 were issued at an exercise price of $0.50. The amounts of $71,896 and $112,831 have been expensed.

(xviii) The Company issued 195,000 warrants in conjunction with the convertible debentures discussed in Note 11 (i) and (ii) and Note 12.

(xix) The Company issued 1,175,000 warrants to a strategic partner in conjunction with a distribution services agreement. The agreement has not been cancelled, however performance cannot occur and therefore no expense has been incurred or recorded.

(xx) The Company issued a set of “units” to a prospective board member in conjunction with a private placement offer. This package consists of the three units consisting of 1,000,000 warrants at an exercise price of $1.00 and 500,000 warrants at an exercise price of $0.50.

(xxi) 680,500 Warrants were exercised during the fourth quarter at an exercise price of CDN $0.20.

(Expressed in U.S. dollars, unless otherwise stated)

15. Warrant reserve (continued)

The warrants were valued based on the fair value of services received unless the fair value of services received cannot be reliably measure, in which case the warrants are valued at fair value based on the Black-Scholes option pricing model at the date of measurement with the following assumptions:

Expected life	3-5 years
Risk-free interest rate	0.57% - 1.44%
Dividend yield	0%
Expected volatility	70%

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the warrants granted are expected to be outstanding. The risk free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the warrants.

16. Stock option plan

On January 1, 2015, the Company's Board of Directors approved a Directors, Management, Employees and Consultants Stock Option Plan to provide an incentive to its directors, executives and employees. In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the Ordinary Shares. The total number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares. The options vest evenly over 3 years and have an expiry period of no more than 10 years from the grant date.

Of the total options, 2,475,000 stock options were issued with an exercise price of CDN $0.20 and 2,953,333 stock options were issued at an exercise price of $1.00.

16. Stock option plan (continued)

Total number of options at December 31, 2014		-
Number of options granted at $0.20 Canadian dollars		
Options granted in January 2015, expires January 2018		3,475,000
Number of options granted at $1.00 U.S. dollars		
Options granted in January 2015, expires January 2018		200,000
Options granted in February 2015, expires February 2018		350,000
Options granted in April 2015, expires in April 2018		170,000
Options granted in May 2015, expires in May 2018		150,000
Options granted in June 2015, expires in June 2018		1,200,000
Options granted in July 2015, expires in July 2018		600,000
Options granted in August 2015, expires in August 2018		900,000
Options granted in September 2015, expires in September 2018		200,000
Options granted in October 2015, expires October 2018		150,000
Options converted to warrants in conjunction with granting referenced below		(1,650,000)
Options cancelled		(277,778)
Options exercised (Note 14 xvii)		(100,000)
Total number of options at December 31, 2015		5,367,222
Number of exercisable options issued in Canadian dollars		855,556
Number of exercisable options issued in U.S. dollars		782,500
Weighted average exercise price of options at December 31, 2014	$	-
Weighted average exercise price of options at December 31, 2015 in U.S. dollars	$	0.63

The options were valued based on the Black-Scholes option pricing model at the date of measurement with the following assumptions:

Expected life	3 years
Risk-free interest rate	Various between 0.57% to 0.80%
Dividend yield	0%
Expected volatility	70%
Expected forfeiture rate	0%

	Options outstanding				**Options exercisable**		
Exercise price	Number outstanding at December 31, 2015	Weighted average remaining contractual life (years)	Weighted average fair value per share	Weighted average exercise price	Number exercisable at December 31, 2015	Weighted average exercise price	Weighted average fair value per share
$	#		$	$	#	$	$
1.00	3,061,667	2.54	0.45	1.00	782,500	1.00	0.46
CDN $							
CDN $0.20	2,305,555	2	0.8	CDN $0.20	855,556	CDN $0.20	0.08

During the year ended December 31, 2015, $319,091 (2014 - $nil) was included in stock compensation expense in the consolidated statement of operations.

(Expressed in U.S. dollars, unless otherwise stated)

17. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensary and corporate office. Future lease payments amount to:

2016		95,099
2017		19,469
	$	114,568

18. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration includes the following expenses:

		2015		2014
Salaries, commissions, bonuses and benefits	$	931,577	$	69,940
Consulting fees paid to officers of the Company		473,332		306,908
Stock compensation, including warrants and shares for officers and directors		412,827		-
	$	1,817,736	$	376,848

These transactions occurred in the normal course of operations of the Company and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the first and second quarters of 2015 respectively, loans for $150,000 and $155,000 were received from an employee. The loans were repaid during the same quarters in which the loans were made. The employee was issued 5,000 warrants and 21,000 warrants respectively for the loans. No additional interest was charged. The warrants issued are within the totals disclosed in Note 15(xiv).

On May 28 and June 8, 2015, two advances were provided to a member of the executive team to facilitate the payment of significant raw material purchases of trim in the southern region of the State of Oregon. Trim is the by-product of a harvested cannabis plant and is the raw material used in the production process to extract cannabis oils. The advances were $245,000 and $200,000, respectively. The advances were settled within the second and third quarter, respectively.

19. Capital management

The Company defines capital that it manages as its shareholders' equity, long-term debt and warrant liability. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As of December 31, 2015, total managed capital was $6,306,151 (2014 - $2,388,194).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue shares, acquire debt, or acquire or dispose of assets.

19. Capital management (continued)

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets are approved by the Company's Board of Directors.

20. Legal and regulatory matters

The Company settled one legal matter during the third quarter of 2015 in the amount of $208,500 related to disputed securities placement fees. No provision for any legal matters has been recorded at December 31, 2015 (2014 - $nil).

21. Financial instruments and risk management

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

(a) Fair value

Cash, accounts receivable, sales taxes recoverable, accounts payable and accrued liabilities, and subscriptions payable approximate their fair values because of the short-term maturities of these financial instruments.

The carrying value of long-term debt and convertible notes approximates fair value upon initial recognition. At December 31, 2015, its carrying value approximates fair value based on current market rates for similar instruments.

The following classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are as follows:

Level 1 – Quotes prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Inputs for the asset or liability that are not based on observable market data

The Company recognizes the warrants associated with the initial private placements during the year as financial liabilities designated as FVTPL where changes to fair value based on changes to the inputs are recognized in profit or loss. The estimated fair value of the warrants is categorized within Level 2 of the fair value hierarchy. Refer to note 12 and 14 for information regarding the valuation technique and inputs used to determine fair value.

(Expressed in U.S. dollars, unless otherwise stated)

21. Financial instruments and risk management (continued)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(b) Credit risk

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at December 31, 2015.

The Company's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment.

The Company does not have significant exposure to any individual customer and has estimated an allowance for doubtful accounts of $459,493 (2014 - $84,374).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its long-term debt instruments and convertible notes are carried at a fixed interest rate throughout their term.

(d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue common shares and debt in the future.

The following table summarized the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2015						
Trade and other payables	$ 1,750,580	$1,750,580	$ 1,750,580	$ -	$ -	$ -
Loans and other borrowing	1,635,304	1,947,252	165,636	1,685,291	76,451	19,874
Convertible debt	2,190,000	2,387,050	509,764	1,877,286	-	-
	$ 5,575,884	$6,084,882	$ 2,425,980	$ 3,562,577	$ 76,451	$ 19,874

(Expressed in U.S. dollars, unless otherwise stated)

22. Taxation

The Company reconciles the expected income tax recovery (expense) at the combined U.S. and Canadian statutory income tax rate of 34.4% (U.S. - 38%, Canada - 26.3%) to the amounts recognized in the consolidated statement of operations.

The Company has estimated an income tax liability, as follows:

Loss before income taxes	$	(16,655,002)	$	(3,169,851)
Estimated tax recovery at combined rate of 31.1%		(5,178,238)		(867,037)
Expenses not deductible in Canada		2,342,523		-
Losses - benefit not realized in Canada		227,499		394,877
Losses not deductible under IRC S 280E in the U.S.		3,389,107		504,362
Income tax expense	$	800,693	$	32,202

The Company made estimated tax payments to U.S. federal government and State of Oregon in the amounts of $377,759 during the year (2014 - $nil). Estimated Federal and State tax liabilities at December 31, 2015 are $400,427 and $54,709 respectively.

The Company had taxable income in the U.S. and has apportioned all of its U.S. income to the State of Oregon. It had tax losses in Canada in 2014 and for the year ended December 31, 2015.

The tax rate in the State of Oregon is 7.9% which is deductible for U.S. federal tax purposes. In aggregate, the estimated total U.S. federal and state tax rate is approximately 38%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its U.S. tax on the basis of gross receipts less cost of goods sold. Although other expenses have been incurred to generate the sales revenue, Code Section 280E denies deductions and credits attributable to a trade or business of trafficking in controlled substances.

Internal Revenue Code (“IRC”) Code 280E – Expenditures in connection with the illegal sale of drugs which states:

“No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.”

Although the production and sale of marijuana and related products for medical purposes is legal in the State of Oregon, it is still considered to be illegal from the perspective of Federal law.

The production and sale of marijuana and related products appears to fall into this IRC Code 280E. Case law shows that Cost of Goods Sold has been permitted as deduction in determining taxable income. The tax provision for 2015 has been prepared based on the assumption Cost of Sales is a valid expense for income tax purposes.

As of December 31, 2015, the Company has estimated Canadian non-capital losses of $9,300,000. This non-capital loss is available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expires between 2034 and 2035. The deferred tax benefit of these tax losses has not been set up as an asset.

23. Subsequent events

(i) The Company completed an acquisition of certain assets from BMF Washington, LLC ("BMF") on January 20, 2016 for a price of $15 million, of which $3 million was to be paid in cash within 45 days and $12 million to be paid in the form of shares of the Company, plus the issuance of 300,000 warrants with an exercise price of CDN $0.54 ($0.39). This was amended on March 4, 2016, such that $1.5 million of cash would be in the form of a note payable at 10% interest to be paid in installments over the next 9 months, provided that the Company has sufficient cash flow, with a final maturity of January 14, 2017. Don Robinson, CEO and Board member, provided a personal guarantee for the note. The balance of cash, equity consideration and warrants was paid in March upon closing of the Company's previously announced convertible debenture financing (details below). BMF (specifically owner Peter Saladino) received 30,767,777 shares given the Company share price of CDN $0.54 ($0.39) at the date of issuance, and the 300,000 warrants at $0.39.

The assets acquired included fixed assets and the rights to Intellectual Property including BMF's brands. BMF and the Company also entered into a strategic partnership, whereby BMF entered into both equipment leasing and royalty agreements with the Company in exchange for the provision of certain goods and services. The Company also negotiated an option to purchase from BMF for a nominal fee the license to operate a cannabis business in the state of Washington, at such time when regulations allowed the Company to own the license.

(ii) The Company completed a convertible senior unsecured debt financing in Q1 and Q2 2016. The offering allowed for up to CDN $10 million of debentures at 10% interest paid semi-annually with a term to September 11, 2017 and a convertible provision to a common share at CDN $0.67, through a syndicate of agents led by Dundee Capital and including Liberty North Capital as an advisor to the company. The Company raised a gross total of CDN $7,538,000 in two tranches, the 1st of CDN $5,863,000 closing March 14, 2016 and the 2nd of CDN $1,675,000 closing April 5, 2016 and included CDN $1,500,000 from Board Members Michael Cohl (CDN $500,000) and Don Robinson (CDN $1,000,000).

The 1st tranche resulted in proceeds of CDN $5,502,432 (less fees of CDN $360,568), and also resulted in 382,447 compensation options issued, each exercisable for one common share and on half of one warrant at an exercise price of CDN $0.67. Each whole underlying warrant is exercisable for one common share at an exercise price of CDN $0.85. In addition the 1st tranche resulted in shares issued of 853,164 to members of the syndicate. The 2nd tranche resulted in proceeds of CDN $1,564,127 (less fees of CDN $110,823), and also resulted in 140,298 compensation options issued, each exercisable for one common share and one half of one warrant at an exercise price of CDN$0.67. Each whole underlying warrant is exercisable for one common share at an exercise price of CDN $0.85. Due to anti-dilution provisions, there was also a "make whole" addition to the debentures payable of CDN $582,000 and CDN $216,000 for the 1st and 2nd tranches respectively for the lead institutions that participated in the financing resulting in total notes payable of CDN $8,336,000.

(iii) During Q1 2016, Golden Leaf's Board of Directors with recommendations from management agreed to wind down the Company's Israeli subsidiary Greenpoint Science (GPS) to refocus on U.S. Operations. Employees were notified in February, including Dr. Moshe Bar President of GPS who is entitled to a 4-mnth severance to be earned while overseeing the wind-down of the enterprise

23. Subsequent events (continued)

(iv) On January 20, 2016, the Company's Board of Directors approved the issuance of 700,000 more stock options to new employees with an exercise price of $0.48 per share. All the options vest evenly over 3 years and expire 10 years after issuance.

24. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.