Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the years ended December 31, 2016 and December 31, 2015

GOLDEN LEAF HOLDINGS LTD.

Consolidated Financial Statements
(Expressed in U.S. Dollars)
For the years ended December 31, 2016 and December 31, 2015

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, 2016 and 2015 and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended 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 1, 2017

Chartered Professional Accountants
Licensed Public Accountants

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Financial Position
As at December 31, 2016 and December 31, 2015
(Expressed in U.S. dollars)

			December 31, 2016		December 31, 2015
ASSETS					
CURRENT					
Cash		$	3,940,463	$	263,695
Accounts receivable	Note 8		97,538		726,625
Current portion of financing lease receivable	Note 9		44,328		-
Other receivables	Note 7		369,937		-
Income tax recoverable	Note 25		575,000		-
Sales tax recoverable			192,112		94,002
Biological assets	Note 10		-		56,915
Inventory	Note 10		942,450		1,239,427
Prepaid expenses and deposits			402,451		472,034
Assets held for sale	Note 11		2,156,000		-
Total current assets			8,720,279		2,852,698
Financing lease recievable	Note 9		388,228		-
Available for sale purchase option	Note 7		4,670,000		-
Property, plant and equipment	Note 11		1,713,285		6,179,710
Intangible assets	Note 12		9,350,000		145,833
Total assets		$	24,841,792	$	9,178,241
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities		$	1,626,443	$	1,683,262
Interest payable			188,200		78,318
Income taxes payable	Note 25		-		455,136
Current portion of long-term debt	Note 14		1,489,172		31,848
Current portion of convertible debentures carried at fair value	Note 13		10,315,555		-
Current portion of convertible debentures	Note 13		-		500,000
Related party note payable	Note 21		1,500,000		-
Warrant liability	Note 15		416,414		-
Total current liabilities		$	15,535,784	$	2,748,564
Convertible note payable	Note 13		-		1,690,000
Long term debt	Note 14		109,905		1,603,456
Convertible debentures carried at fair value	Note 13		12,132,000		-
Warrant liability	Note 15		-		4,841,706
Total liabilities		$	27,777,689	$	10,883,726
SHAREHOLDERS' EQUITY					
Share capital	Note 16	$	34,282,314	$	15,481,051
Warrant reserve	Note 17		3,501,409		2,968,655
Share option reserve	Note 18		993,211		319,091
Shares to be issued			267,701		123,526
Contributed surplus			59,940		59,940
Accumulated other comprehensive loss			(530,000)		-
Deficit			(41,510,472)		(20,657,748)
Total shareholders' equity			(2,935,897)		(1,705,485)
Total liabilities and shareholders' equity		$	24,841,792	$	9,178,241

Going Concern (Note 2)
Commitments (Note 20)
Subsequent Events (Notes 11, 21, and 27)

/s/ Don Robinson, Director
/s/ Alex Winch, Director

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2016 and December 31, 2015
(Expressed in U.S. dollars)

			2016		2015
Revenues					
Product sales		$	7,241,554	$	9,925,137
Royalties			419,934		-
Total Revenue		$	7,661,488	$	9,925,137
Inventory expensed to cost of sales	Note 10		6,962,331		7,817,487
Production costs			909,409		904,497
Gain on changes in fair value of biological assets	Note 10		(276,135)		(832,493)
Cost of sales expense		$	7,595,605	$	7,889,491
Gross profit		$	65,883	$	2,035,646
Expenses					
General and administration			7,009,610		7,941,644
Share based compensation	Note 18		1,026,504		319,091
Professional fees paid with equity instruments	Note 16		668,615		2,831,995
Listing expense			-		830,179
Sales and marketing			892,436		1,407,121
Research and development			185,136		458,582
Depreciation and amortization			208,922		273,600
Impairment of long-lived assets	Note 11		1,555,612		-
Total expenses		$	11,546,835	$	14,062,212
Loss before undernoted items		$	(11,480,952)	$	(12,026,566)
Interest expense			1,216,586		131,365
Transaction costs	Note 13		4,712,218		-
Loss on extinguishment	Note 13		11,215,118		-
Accretion interest expense			665,772		-
Impairment of financing lease receivable	Note 9		243,181		-
Other loss			256,203		162,972
Gain on change in fair value of warrant liabilities	Note 15		(4,152,077)		4,334,099
Gain on change in fair value of liabilities	Note 13		(4,234,000)		-
Loss before income taxes			(21,403,953)		(16,655,002)
Current incomes tax expense	Note 25		(74,136)		800,693
Net Loss		$	(21,329,817)	$	(17,455,695)
Other comprehensive loss					
Items that will be reclassified subsequently to profit or loss:					
Unrealized loss on available for sale purchase option, net of tax	Note 7	$	(530,000)	$	-
Comprehensive Loss		$	(21,859,817)	$	(17,455,695)
Basic and diluted loss per share		$	(0.23)	$	(0.31)
Weighted average number of common shares outstanding			91,207,720		55,679,926

See accompanying notes consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statement of Changes in Shareholders' Equity
For the years ended December 31, 2016 and December 31, 2015

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2015	$ 4,747,153	$ 260,366	$ -	$ -	$ -	$ -	$ (3,202,053)	$ 1,805,466
Issuance of common shares (note 16)	10,492,046	-	-	-	-	-	-	10,492,046
Share issuance costs (note 16)	(51,811)	-	-	-	-	-	-	(51,811)
Issuance of warrants and broker units (note 17)	-	2,823,480	-	-	-	-	-	2,823,480
Exercise of warrants and options for common shares	353,603	(115,191)	-	-	-	-	-	238,412
Issuance of share-based compensation (note 18)	-	-	319,091	-	-	-	-	319,091
Expiry of warrants and stock options	(59,940)	-	-	-	59,940	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	(17,455,695)	(17,455,695)
Shares to be issued	-	-	-	123,526		-		123,526
Balance at December 31, 2015	$ 15,481,051	$ 2,968,655	$ 319,091	$ 123,526	$ 59,940	$ -	$ (20,657,748)	$ (1,705,485)

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2016	$ 15,481,051	$ 2,968,655	$ 319,091	$ 123,526	$ 59,940	$ -	$ (20,657,748)	$ (1,705,485)
Issuance of common shares (note 16)	17,326,699	-	-	-	-	-	-	17,326,699
Issuance of warrants and broker units (note 17)	-	1,245,753	-	-	-	-	-	1,245,753
Exercise of warrants and options for common shares	1,279,934	(330,218)	(5,342)	-	-	-	-	944,374
Issuance of share-based compensation (note 18)	194,630	-	773,774	-	-	-	-	968,404
Expiry of warrants and stock options	-	(382,781)	(94,312)	-	-	-	477,093	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(530,000)	(21,329,817)	(21,859,817)
Shares to be issued	-	-	-	144,175	-	-	-	144,175
Balance at December 31, 2016	$ 34,282,314	$ 3,501,409	$ 993,211	$ 267,701	$ 59,940	$ (530,000)	$ (41,510,472)	$ (2,935,897)

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statement of Cash Flows

For the years ending December 31, 2016 and December 31, 2015 (Expressed in U.S. dollars)

			December 31, 2016		December 31, 2015
Cash provide by (used in):					
Operating activities:					
Net Loss		$	(21,329,817)	$	(17,455,695)
Depreciation of property, plant and equipment	Note 11		208,922		384,000
Amortization of intangible assets	Note 12		-		19,167
Loss on disposal of assets			-		30,294
Interest expense			1,216,586		131,635
Income taxes paid	Note 25		(956,000)		(377,759)
Income tax expense	Note 25		500,865		800,693
Income tax recovery	Note 25		(575,000)		-
Bad debt expense	Note 8		373,494		375,119
Share based compensation	Note 18		1,026,504		918,275
Professional fees paid w ith equity instruments	Note 16		668,615		2,831,995
(Gain)/loss on fair value adjustment to w arrants liability	Note 15		(4,152,077)		4,334,099
Transaction cost	Note 13		4,363,755		-
Listing expense			-		830,179
Gain on fair value of biological assets	Note 10		(276,135)		832,493
Impairment of finance lease receivable	Note 9		243,181		-
Impairment of assets	Note 9,10,12		1,537,097		-
Other non-cash transactions	Note 10,13		8,940,275		(295,994)
Changes in working capital items					
Accounts receivable	Note 8		255,593		(417,144)
Other receivables	Note 7		(369,937)		-
Sales tax recoverable			(98,110)		(46,467)
Accounts payable and accrued liabilities			(279,312)		1,159,151
Biological assets	Note 10		333,050		(664,554)
Inventory	Note 10		(794,023)		(704,441)
Prepaid expenses and deposits			69,583		(132,246)
Cash used in operating activities		$	(9,092,891)	$	(7,447,200)
INVESTING ACTITIVES					
Deposits on property, plant and equipment	Note 11		-		(338,370)
Purchase of property, plant and equipment	Note 11		(494,208)		(2,310,489)
Purchases of BMF assets	Note 7		(1,500,000)		-
Purchases of intangible assets	Note 12		-		(35,000)
Cash used in investment activities		$	(1,994,208)	$	(2,683,859)
FINANCING ACTIVITIES					
Issuance of common shares	Note 16	$	1,097,594	$	8,850,218
Payment of share issuance costs			-		(51,811)
Issuance of convertible notes payable	Note 13		14,864,969		996,269
Interest paid during the year			(660,145)		-
Repayment of long-term debt			(538,551)		-
Proceeds from related party loan	Note 21		290,000		305,000
Repayment of related party loan	Note 21		(290,000)		(305,000)
Cash provided by financing activities		$	14,763,867	$	9,794,676
Increase/(Decrease) in cash during the period		$	3,676,768	$	(336,383)
Cash, beginning of period			263,695		600,078
Cash, end of period		**$**	**3,940,463**	**$**	**263,695**
Interest paid during the year		$	770,027	$	53,047
Taxes paid during the year		$	956,000	$	290,490

See accompanying notes to these consolidated financial statements

1. Incorporation and operations

Golden Leaf Holdings Ltd. ("Golden Leaf" or the "Company") is a publicly traded corporation, incorporated in Canada, operating primarily in the Oregon market. The Company's shares are listed on the CSE, under the trading symbol "GLH."

The Company is in the business of producing and distributing cannabis oil and flower products within Oregon's adult-use regulated market, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc. and Left Coast Connection, Inc.

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 other jurisdictions that will fuel market expansion, and continues to make necessary investments. For a further description of the regulatory environment and other factors impacting the Company's operation during the year, see Note 10.

As of December 31, 2016 the Company's cash balances were $3,940,463 however the Company's burn rate, including inventory build, capital expenditures and debt repayment, has largely exhausted those funds as of the issuance of this report. The Company's revenues in 2016 have declined from 2015, and the Company continues to incur losses. As at December 31, 2016, the Company has negative working capital of $6,815,505 (2015 – $104,134) and a deficit of $41,510,472 (2015 - $20,657,748).

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, the C$35M fundraising underway as of the issuance of this report. 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 substantial 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 1, 2017.

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 except for certain financial assets and financial liabilities measured at fair value. The accounting policies set out below have been applied to all accounting periods. 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 Company consolidates the financial statements of the following:

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
Golden Leaf 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, Inc.	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)

Equipment leases

Equipment leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are carried at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Company less unearned finance income. Unearned finance income is recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return throughout the lease term.

Leases are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. When receivables are considered impaired, their book value is adjusted to their estimated realizable value based on the fair value of any collateral underlying the receivable, net of any costs of realization, by establishing an allowance for credit losses.

Property, plant and equipment

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

Assets held for sale

Assets for which a management decision has been made to advertise for sale on the open market and are expected to be sold in a twelve month period are adjusted to fair value less costs to sell and reclassified to current assets.

5. Significant accounting policies (continued)

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. For indefinite life intangible assets, impairment testing is required to be performed at least annually or more frequently when there are indicators of impairment. The recoverable amount is the greater of value-in-use and fair value less costs of disposal. 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, 2016, the Company recorded impairment of non-financial assets of $1.5M (2015 - $nil).

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.

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. The Company's intangible assets consist of brands, which have been determined to have indefinite useful lives.

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.

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.

The Company's revenue is derived from three sources: sales of cannabis and cannabis derivative products, royalties from the licensing of brands, and finance income from the leasing of equipment. Product sales of cannabis and cannabis derivative products are recognized when collection has taken place, compliant documentation has been signed evidencing the arrangement and the risks and rewards of ownership has passed to the buyer.

Brand licensing revenues are recognized in accordance with contractual terms, to the extent that collection is reasonably assured.

Equipment leasing finance income is recognized using the effective interest rate method, to the extent that collection is reasonably assured.

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 held-to-maturity and loans and receivables are measured at amortized cost. The Company's cash, accounts receivable, and finance lease receivable are classified as loans-and-receivables. At December 31, 2016 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. The Company's option contract to acquire BMF Washington LLC has been classified as available-for-sale (see Note 7).

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. The Company's convertible debentures and warrants not classified as equity are classified as financial liabilities at fair value through profit or loss.

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, long-term debt, and related party note payable 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.

Convertible debentures

Convertible debentures were initially recorded at amortized cost and accounted for as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the principal of the debt to arrive at the net principal to be accreted to face value over the life of the note. The derivative liability is measured at fair value each period subsequent to initial recognition.

During the year, convertible debentures accounted for as hybrid instruments were extinguished. After extinguishment, all issuances of convertible debentures were measured at fair value through profit or loss.

5. Significant accounting policies (continued)

Basic and diluted loss per common share

Basic earnings per share ("EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury method of calculating the weighted average number of common shares outstanding, except the if-converted method is use in assessing the dilution impact of convertible notes. The treasury method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. The if-converted method assumes that all convertible notes have been converted in determining diluted EPS if they are in-the-money except where such conversion would be anti-dilutive.

Warrants

Warrants issued that fall within the scope of IAS 39 are equity only to the extent they 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 entity's functional currency, they are classified as a financial liability and must be measured at FVTPL.

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 share based payments 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. 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:

5. Significant accounting policies (continued)

IFRS 9 Financial instruments

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. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

IFRS 15 Revenue

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.

IFRS 16 Leases

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.

Amendments to IAS 7 – Statements of Cash Flows

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with early application permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company is in the process of determining the impact of the amendments to IAS 7 on its consolidated financial statements.

5. Significant accounting policies (continued)

Amendments to IAS 12 – Income Taxes

On January 19, 2017, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company is in the process of determining the impact of the amendments to IAS 12 on its consolidated financial statements.

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.

Key Sources of Estimation Uncertainty

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.

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.

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

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. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as purchase options and convertible debentures held at fair value. Refer to Note 24 for information on methodology and key assumptions.

Fair value of intangible assets

Determining the fair value of intangible assets acquired in asset purchases requires management to make assumptions and estimates about future events. The methodology used to determine the fair value of the intangible assets at date of acquisition is the same as that used to determine fair value less costs of disposal at December 31, 2016 for purposes of annual impairment testing. Refer to Note 12.

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 of disposal and its value in use. The fair value less costs of disposal 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 recoverable amount is most sensitive to the discount rate and royalty rate. Refer to Note 12.

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.

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

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

Critical Judgment in Applying Accounting Policies

Classification of BMF asset acquisition

The Company has classified the acquisition of certain assets of BMF Washington, LLC (BMF) as an asset acquisition rather than a business combination. This is a critical judgment and was based primarily on the lack of control by the Company over BMF. BMF operates on a standalone basis but does accrue royalties and billings in the course of its equipment leasing arrangement. While the companies share best practices, no GLH management is involved in making decisions from an operational or financial standpoint at BMF. Further, because the Company did not acquire any assets which require a license from the Washington Liquor and Cannabis Board, including a processor license, it was determined that the transaction did not meet the definition of a business combination under IFRS 3 and it has instead been treated as an asset acquisition.

Useful lives of intangibles

The Company uses judgment to determine the useful life of brands and has determined that an indefinite life is most appropriate for its brands. The useful lives of these brands will be reviewed periodically for changes in the estimated useful lives.

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.

7. BMF Washington asset purchase

On January 20, 2016 the Company entered into an agreement to purchase certain assets of BMF Washington, LLC ("BMF") and Liberty Reach, LCC consisting of brands, fixed assets and an option to purchase the business at a future date, for total consideration of $14,719,000. Prior to this date, BMF was not a related party. This has been accounted for as a share-based payment asset acquisition which has been recorded at the fair value of the assets acquired. The assets purchased were recorded at fair value at inception as follows:

Assets acquired		
Brands	$	9,350,000
Option agreement		5,200,000
Fixed assets		169,000
Total	$	14,719,000
Consideration paid		
Cash	$	1,500,000
Promisorry note		1,500,000
Shares and w arrants		11,719,000
Total	$	14,719,000

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

7. BMF Washington asset purchase (continued)

The brands and trade names purchased include Liberty Reach, Liberty Reach Pure, Jackpot Seaweed which were proprietary to BMF prior to the acquisition by the Company. The fair value of these brands and trade names was determined using an income approach which is the same approach used to test the intangible assets for impairment at December 31, 2016. Refer to Note 12 for further information.

The option agreement provides the Company with the right to buy the shares of BMF for $10,000 when the laws in Washington allow for non-resident ownership of companies in the cannabis industry. The option agreement expires on January 1, 2021 but the Company will have up to two years from December 31, 2020 to purchase the shares if the laws change on this date. The option has been classified as an available for sale asset and is recorded at fair value at each reporting date in other comprehensive loss. A loss of $530,000 was recorded at December 31, 2016 in other comprehensive loss. Refer to Note 24 for information on valuation of the option agreement.

In conjunction with the purchase of these assets, the Company entered into brand licensing and equipment leasing arrangements with BMF. The one year automatically renewing brand licensing arrangement began May 1, 2016 with fixed monthly royalties of $80,000.

The equipment leasing arrangement began February 1, 2016 for 96 monthly payments of $14,000. The equipment leasing fee was subsequently amended to $14,600 to include an additional extraction machine starting June 1, 2016. This lease is accounted for as a finance lease and is discussed in Note 9.

The Company recorded $419,934 of royalties relating to the licensing of its brands to BMF Washington LLC. Included in this amount is $219,934 which were settled in lieu of amounts due to BMF Washington for working capital support advanced to NevWA, LLC (see Note 27) on behalf of the Company leading up the close of the acquisition. These amounts will be reduced from the cost of the transaction upon closing.

The cash and promissory note included in the consideration were recorded at fair value. The difference between the fair value of assets acquired and cash, promissory note and warrants issued was recorded to share capital. Refer to Note 21 for further information on the promissory note, Note 16(x) for further information on the number of shares issued and Note 17(xvi) for further information on warrants issued.

8. Accounts receivable

		2016		2015
Accounts Receivable	$	468,563	$	1,186,118
Allowance for doubtful accounts		(371,025)		(459,493)
	$	97,538	$	726,625

Continuity of allowance for doubtful accounts

		2016		2015
Beginning balance	$	459,493	$	84,374
Increase in provision for doubtful accounts		625,812		375,119
Provision used for write-off of receivables		(714,280)		-
	$	371,025	$	459,493

Bad debt expense amounts for the years ended are $373,494 and $375,119, respectively. These amounts are included in general and administrative expenses.

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

8. Accounts receivable (continued)

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 $371,025 has been recorded accordingly. Accounts receivable more than 90 days past due totaled $468,563 at December 31, 2016 (2015 - $459,493).

9. Financing leases receivable

Fixed assets purchased from BMF Washington, LLC ("BMF") on January 20, 2016 in addition to assets provided by the Company, were leased to BMF under a financing lease arrangement for 96 months at a rate of $14,600 per month beginning February 1, 2016 for an aggregate total of minimum payments due of $1,399,800. At December 31, 2016, no payments have been made against this lease receivable and no financing income has been recorded on this arrangement due to the collection status. As an indicator of impairment was present, the lease receivable balance was tested for impairment and was written down to the estimated fair value of the underlying assets which are secured under a separate agreement. An impairment loss of $243,181 was recognized in the impairment of financing lease receivable on the consolidated statement of operation and comprehensive loss.

Aggregate minimum payments	$ 1,399,800
Unearned income	(724,063)
Impairment of finance lease receivable	(243,181)
Equipment Leases	$ 432,556

Scheduled collections of minimum monthly lease payments based on the contractual terms as at December 31 are presented in the following schedule:

	Minimum payments	Principal reduction
2016	$ 158,800	$ 31,552
2017	175,200	44,329
2018	175,200	54,562
2019	175,200	67,158
2020	175,200	82,662
2021	175,200	101,745
2022 and thereafter	365,000	293,729
Total minimum lease payments	$ 1,399,800	$ 675,737
Impairment of finance lease receivable		(243,181)
Current portion of finance lease receivable		44,328
Long-term portion of finance lease receivable		388,228
Carrying value of equipment leases		$ 432,556

10. 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 years ended December 31, 2016 and 2015 the Company expensed production costs of $909,409 and $904,497, respectively.

During the years ended December 31, 2016 and 2015, the Company recognized $276,135 and $832,493, respectively, of gain 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.

On October 1, 2016, the State of Oregon implemented more stringent requirements regarding the testing of raw cannabis and cannabis products to better ensure public health and safety. Many farms in Oregon have reported that their crops have failed to pass the new testing standards, leading their products to be quarantined by regulators, creating supply shortages in the marketplace.

As such, the Company and other extractors and processors in Oregon, found it more difficult to locate and purchase sufficient quantities of lab-tested compliant materials during fourth quarter 2016. In addition, there currently exists only a small number of state-accredited cannabis testing labs in Oregon. Until more laboratories become accredited, operators in Oregon will continue to face lengthened turnaround times for testing cannabis products and subsequently a reduced supply of compliant products in the marketplace.

These stringent testing requirements resulted in a large quantity of oil inventory on hand, both in work in process and finished goods form, to become unsaleable in the current market in Oregon through any channel. The Company investigated a variety of methods of remediation and in the end, partnered with another processor in the state to attempt to process the oil for a byproduct which does not contain the pesticides. The project was successful, however, overall yield from this process was minor and the Company expects $70,000 of recovery from its oil inventory of $1.1M at wholesale cost at December 31, 2016. The Company chose to impair all of the oil and unsaleable inventory at December 31, 2016 given the limited means of remediation and no indication of regulatory relief. Subsequent to the balance sheet date, the product not sent for remediation was destroyed. An impairment charge of $1.1M has been included in Inventory expensed to cost of sales.

To compound the more stringent requirements, on October 14 and 15, 2016, the remnants of Typhoon Songda, one of the largest storms to hit Oregon in the past 70 years, made landfall and caused widespread damage to outdoor-grown crops. The Company's primary contract grow was severely damaged by the storm. Many plants were blown down by heavy winds, and substantial precipitation caused additional damage and facilitated the proliferation of mold. Overall, approximately forty-percent (40%) of the crop was impacted by the storm, affecting both its quality and quantity. In addition to the storm damage, remaining crop did not pass pesticide testing regulations and the Company considered the contract worthless. No cash payments were required per this contract, however the Company did sacrifice 15,000 immature plants which were provided to the grower with the intention being reduced from any balance owed once supply was delivered.

In addition to the above circumstances, the Company's crop at its Aurora location suffered from pesticide testing issues as well as damage from the typhoon and infestation issues. This resulted in a yield as much as 75% less than was expected when the plants began to flower.

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

10. Biological assets and inventory (continued)

Inventory consists of harvested cannabis flower and concentrated products such as oils and edibles. During the years ended December 31, 2016 and 2015, $471,312 and $110,400 of depreciation, respectively, 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	$	-	$	-
Work-in-process		56,915		534,471
Finished goods		-		704,956
Balance, December 31, 2015	$	56,915	$	1,239,427
Raw materials	$	-	$	245,557
Work-in-process		-		240,822
Finished goods		-		456,071
Balance, December 31, 2016	$	-	$	942,450

The Company's biological assets at December 31, 2016 and December 31, 2015 is comprised of:

Balance, December 31, 2014	$	224,854
Gain/Loss on fair value of Biological assets		(832,493)
Transfer to Finished goods		664,554
Balance, December 31, 2015	$	56,915
Balance, December 31, 2015	$	56,915
Gain/Loss on fair value of Biological assets		(276,135)
Transfer to Finished goods		219,220
Balance, December 31, 2016	$	-

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

11. Property, plant and equipment

	Buildings and improvements	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

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, December 31, 2015	$ 2,038,634	$ 1,800,000	$ 2,050,300	$ 260,456	$ 147,772	$ 110,077	$ 188,546	$ 6,595,785
Additions	75,569	-	191,572	194,444	2,311	30,312	-	494,208
Dispositions	-	-	(543,018)	-	(9,731)	-	-	(552,749)
Transfer to assets held for sale	(2,114,203)	(1,800,000)	-	-	-	-	-	(3,914,203)
Balance, December 31, 2016	$ -	$ -	$ 1,698,854	$ 454,900	$ 140,352	$ 140,389	$ 188,546	$ 2,623,041
Accumulated Amortization								
Balance, December 31, 2015	$ (39,980)	$ -	$ (258,796)	$ (39,068)	$ (37,380)	$ (16,788)	$ (24,063)	$ (416,075)
Expense	(162,611)	-	(407,213)	(65,425)	(39,148)	(22,244)	(34,174)	(730,815)
Dispositions	-	-	34,543	-	-	-	-	34,543
Impairment	(1,555,612)	-	-	-	-	-	-	(1,555,612)
Transfer to assets held for sale	1,758,203	-	-	-	-	-	-	1,758,203
Balance, December 31, 2016	$ -	$ -	$ (631,466)	$ (104,493)	$ (76,528)	$ (39,032)	$ (58,237)	$ (909,756)
Carrying amount								
Balance, December 31, 2016	$ -	$ -	$ 1,067,388	$ 350,407	$ 63,824	$ 101,357	$ 130,309	$ 1,713,285

The Company acquired a 96-acre property in Marion County in the state of Oregon during 2015. The intent for the property was to have it serve as the main facility for the Oregon based grow and manufacturing operations, as well as be the main campus for the corporate offices in the U.S. During the fourth quarter 2016, the citizens of Marion County voted against the sale and production of marijuana for either medical or recreational purposes. As a result, management has decided to discontinue all operations at this site and focus its operations and expansion plans in different locations.

Consequently, assets related to this property were classified as held for sale, and have been removed from the Company's property, plant, and equipment schedules and are shown as a single line item on the face of the consolidated statement of financial position.

As a result of this classification, the carrying value of the land, building, and building improvements were required to be stated at fair market value. Based on a countersigned offer from a purchaser, the property has been valued at $2.2M, which has resulted in a loss on impairment of $1.5M, recognized in the consolidated statement of operations and comprehensive loss.

Total depreciation expense for the years ending December 31, 2016 and 2015 was $730,815 and $384,000, respectively. Of the total expense, $471,312 and $110,400 was allocated to inventory during the years ending December 31, 2016 and 2015, respectively.

At December 31, 2016 the Company transferred the land, building, and improvements to Assets held for sale at the net value of $2,156,000.

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

11. Property, plant and equipment (continued)

In relation to the BMF acquisition, the Company leased certain production equipment to BMF, some of which were acquired from BMF and some which are owned by the Company. The lease was recorded as a finance lease (see Note 9) and accordingly, the leased equipment was derecognized by the Company. There was no gain or loss on this disposal as the present value of minimum lease payment was equal to the carrying value of the leased equipment.

Subsequent to the balance sheet date, the Company put its Aurora property up for sale and has received and accepted an offer of $2.2M. The Company and the purchaser have agreed to have the purchaser start occupancy prior to the closing of the sale.

12. Intangible assets

Intangible assets during the years ended December 31, 2016 and 2015 consisted of a two-year dispensary license for Left Coast Connection (the Company's dispensary), and a five-year licensing agreement with Dixie Brands, Inc. During 2016, the Company purchased indefinite-lived intangible assets consisting primarily of brands and trade names from BMF Washington, LLC (see Note 7).

During 2016, the Company mutually agreed to cease its licensing agreement with Dixie, which resulted in a write-off of intangible assets for $125,000 and accumulated amortization of $20,833, resulting in a net write-off of $104,167, and is recorded in the impairment of assets line on the consolidated statement of operations and comprehensive loss.

During 2016, the dispensary license for Left Coast Connection was fully amortized and removed from the balance sheet.

	Dispensary license	Licensing agreement	Brands	Total
Cost				
Balance, December 31, 2014	$ 40,000	$ -	$ -	$ 40,000
Additions	-	125,000	-	125,000
Disposals/adjustments	-	-	-	-
Balance at December 31, 2015	$ 40,000	$ 125,000	$ -	$ 165,000
Accumulated Amortization				
Balance, December 31, 2014	$ -	$ -	$ -	$ -
Expense	(15,000)	(4,167)	-	(19,167)
Dispositions	-	-	-	-
Balance at December 31, 2015	$ (15,000)	$ (4,167)	$ -	$ (19,167)
Net book value, December 31, 2015	$ 25,000	$ 120,833	$ -	$ 145,833

	Dispensary license	Licensing agreement	Brands	Total
Cost				
Balance, December 31, 2015	$ 40,000	$ 125,000	$ -	$ 165,000
Additions	-	$ -	9,350,000	9,350,000
Disposals/adjustments	(40,000)	$ (125,000)	-	(165,000)
Balance at December 31, 2016	$ -	$ -	$ 9,350,000	$ 9,350,000
Accumulated Amortization				
Balance, December 31, 2015	$ (15,000)	$ (4,167)	$ -	$ (19,167)
Expense	(25,000)	(16,666)	-	(41,666)
Dispositions	40,000	20,833	-	60,833
Balance at December 31, 2016	$ -	$ -	$ -	$ -
Net book value, December 31, 2016	$ -	$ -	$ 9,350,000	$ 9,350,000

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

12. Intangible assets (continued)

The recoverable amount was estimated based on its fair value less costs of disposal, under a discounted cash flow methodology, and specifically a Relief from royalty method, utilizing Level 2 and Level 3 inputs. Key assumptions include the royalty rate incorporated in the impairment testing determined as 15% of gross revenues and based on external market evidence, a blended tax rate of 34% and a pre-tax discount rate of 36%. Management projected cash flows for use in its impairment testing over five years with an assumed terminal growth rate of 3%.

13. Convertible debt and notes payable

	Balance sheet			Income statement			
	Debt host	Derivative liability	Debentures carried at FVTPL	Transaction costs	Accretion expense	Change in FV of debt	Loss on extinguishment
Opening balance January 1, 2015	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of debentures (i)	500,000	-	-	-	-	-	-
Issuance of debentures (ii)	1,690,000	-	-	-	-	-	-
Balance, December 31, 2015	$ 2,190,000	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of 1st tranche of debentures	$ 5,465,694	$ 1,461,000	$ -	$ -	$ -	$ -	$ -
Financing fees	(40,718)	-	-	40,718	-	-	-
Provision related to licensing condition	-	-	-	369,000	-	-	-
Issuance of debentures in respect of anti-dilution provisions	-	-	-	598,500	-	-	-
Accretion expense	665,772	-	-	-	665,772	-	-
Repayment	(500,000)	-	-	-	-	-	-
Change in FV of derivative liability	-	1,351,884	-	-	-	1,351,884	-
Carrying value before extinguishment	$ 7,780,748	$ 2,812,884	$ -	$ 1,008,218	$ 665,772	$ 1,351,884	$ -
Extinguishment and reissuance of 1st tranche of debentures	$ (7,780,748)	$ (2,812,884)	$ 21,808,750	$ -	$ -	$ -	$ 11,215,118
Deemed re-issuance of 1st tranche of debentures	-	-	-	-	-	-	-
Issuance of shares in respect of anti-dilution provisions	-	-	-	1,244,463	-	-	-
Issuance of 2nd tranche of debentures (iv)	-	-	9,000,000	-	-	-	-
Conversion to common shares	-	-	(2,775,311)	-	-	-	-
Financing fees	-	-	-	2,459,537	-	-	-
Change in FV of Debt	-	-	(5,585,884)	-	-	(5,585,884)	-
Balance, December 31, 2016	$ -	$ -	$ 22,447,555	$ 4,712,218	$ 665,772	$ (4,234,000)	$ 11,215,118
Current portion			$ 10,315,555				
Long-term portion			$ 12,132,000				

(i) During the first quarter of 2015, the Company issued two $250,000 convertible notes, with a rate of 8% per annum payable semi-annually. The loans are secured by the property discussed in (ii). The Company has a prepayment option to prepay all or any portion without penalty with 30 days' notice to the holder. The conversion option is exercisable, in whole or in part, within the loan term at $1 per share and a mandatory conversion feature at C$2.75, and may be adjusted in the case of certain dilutive events taken by the Company. In conjunction with issuing the convertible notes, the Company also provided for 25,000 warrants to each of the holders at inception, at $1.00 per common share. Since the fair value of the debt was 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. The loans matured and were paid during the fourth quarter of 2016.

(ii) In connection with the property acquisition discussed in Note 11, 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 C$2.75 and include 100,000 warrants which are allocated amongst the individual note holders.

13. Convertible debt and notes payable (continued)

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.

On December 14, 2016 the conversion price on these debentures was repriced to C$0.30, which resulted in an extinguishment of the original debentures instruments, and the re-issuance of new instruments. Due to a repayment provision allowing the Company to repay these instruments at face value plus interest at any time, the fair value equals face value and no gain or loss was recorded at re-issuance. Due to the aforementioned call feature, no gain or loss on extinguishment has been recorded related to these debentures.

(iii) During the spring and summer of 2016, the Company completed a private placement of senior unsecured convertible debentures of C$9.7 million in a series of settlements. The initial tranche of these debentures was completed in connection with the acquisition of certain assets of BMF Washington LLC (Note 7, Note 9). These debentures mature September 11, 2017, and carry an interest rate of 10% payable semi-annually with the first payment on June 30, 2016. The debentures also carry a conversion option, in whole or in part, at C$0.67 per share and a mandatory conversion feature if the Company's common shares trade at C$2.00 for twenty consecutive days. At initial recognition, these debentures were carried at amortized cost net of transaction costs and a derivative liability representing the conversion option held by the holder. The derivative liability is recorded separately at initial recognition and is adjusted to fair value each reporting date. The debt instrument, net of derivative liability and transaction costs is then accreted to face value throughout the amortization of the instrument.

Debentures issued to the two lead subscribers, included both a licensing condition and an anti-dilution provision. The licensing and anti-dilution provisions if triggered, would require the Company to issue to the lead subscribers, either (i) a cash or (ii) additional convertible debentures equal to the amount as determined under the condition/provision.

Under the licensing condition, if the Company did not obtain all necessary recreational cannabis licenses by October 1, 2016, they would be required to pay an amount equal to 10% of the convertible debentures held by the lead subscribers. The licensing condition has not been met, and the Company has recorded an expense to transaction costs in the amount of $369,000 (C$492,300).

Under the anti-dilution provision, should the Company issue financing within an 18 month period of time, with an equity pricing that would be lower than 10% of the conversion price, the provisions would be exercised which occurred on two occasions during the year. This first anti-dilution provision exercise occurred on the initial issuance of the debentures and BMF acquisition, which resulted in additional debentures totaling $598,500 (C$798,000) being issued, and was recorded in transaction costs. The second anti-dilution event occurred upon issuance of the convertible debentures with a conversion price of C$0.30 as noted at (iv) below. The Company was required to pay $1,244,463 (C$1,659,000), which was settled via issuance of 2.1 million common shares and was recorded as part of the transaction costs related to the issuance of the second tranche of debentures.

Upon receipt of the 2.1 million common shares, the lead subscribers' waived any and all future obligation of the Company under the anti-dilution provision.

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

13. Convertible debt and notes payable (continued)

In connection with this placement, the Company issued 522,745 broker units (note 17) with a value of $97,759 and paid commissions and fees of $353,393 to advisors for assistance with the private placement. The Company also granted 364,854 common shares for $159,996 to the lead subscribers as a sweetener on the transaction which was reduced from the proceeds allocated to the debt host. These charges were recorded to the debt and derivative liability on a pro-rata basis, of which the $137,646 was related to the derivative liability and was expensed to transaction cost immediately upon issuance.

(iv) On October 21, 2016, the Company resolved to reprice the conversion option on (iii) to C$0.30 and become subordinated to the C$12 million senior secured convertible debentures which were issued from October 24, 2016 through November 3, 2016 (second tranche of debentures). The change in conversion price from C$0.67 to C$0.30, represented an extinguishment of the first tranche convertible debentures, which resulted in a loss on extinguishment of $11,215,118.

The C$12 million senior secured debentures (second tranche), mature 18 months from issuance and carry an interest rate of 10% payable semi-annually. The senior secured debentures also carry a conversion option, in whole or in part, at C$0.30 per share and a mandatory conversion feature if the Company's common shares trade at C$1.00 for ten consecutive days.

In connection with the placement of the senior secured convertible debentures, the Company issued 3,200,000 broker units with a value $1,020,978 (C$1,495,600) and paid commissions and fees of $820,186 to advisors for assistance with the private placement. These charges were recorded to transaction cost in profit and loss

The Company has elected to account for the convertible debentures at fair value through profit and loss on initial recognition for those debentures noted in (iv), and as of the date of extinguishment for those convertible debentures noted in (i) and (ii).

14. Long-term debt

	2016	2015
Long term debt	$1,599,077	$1,635,304
Less: current portion	(1,489,172)	(31,848)
Carrying amount of long-term debt at December 31	$ 109,905	$1,603,456

Long term debt consists of vehicle loans and a note payable secured by the real property discussed in Note 11. 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 2015 property acquisition discussed in Note 11, 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 as part of the financing arrangement.

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

15. Warrant liability

		Amount
Balance, December 31, 2014	$	507,607
Warrants issued		-
Change in fair market value		4,334,099
Balance, December 31, 2015	$	4,841,706
Warrants exercised		(273,214)
Change in fair market value		(4,152,078)
Balance, December 31, 2016	$	416,414

During 2014, the Company issued 13,722,250 warrants in conjunction with various private placements. The warrants have an expiry period of 3 years from date of issuance and an exercise price of C$0.50 per common share. In the year ended December 31, 2016, 1,225,000 of these warrants were exercised (2015 – 320,000). The total number of warrants outstanding relating to these private placements at December 31, 2016 is 12,177,250.

The warrants were valued at $416,414 (2015 - $4,841,706). 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, 2016, a gain of $4,152,078 (2015 – loss $4,334,099) was recorded in the statement of operations due to significant changes in the Company's share price 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:

	2016	2015
Expected life	0.7 to 0.9 years	1.7 to 1.9 years
Risk-free interest rate	0.68%	0.62%
Dividend yield	0%	0%
Foreign exchange rate	0.7424	0.7212
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)

16. 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 December 31, 2014 to December 31,2016:

	Number of Shares		Amount
Balance at December 31, 2014	52,957,166	$	4,747,153
Shares issued – Private placements (i)	221,000		204,532
Shares cancelled (ii)	(2,997,000)		(59,940)
Shares issued – Private placements, net of issuance costs (iii)	7,098,500		6,922,260
Shares issued for services (iv)	1,122,070		1,122,079
Shares issued - Private placements (v)	1,037,000		1,017,833
Shares issued - Private placements (vi)	1,010,000		398,540
Shares issued - Listing (vii)	775,000		775,000
Shares issued - Warrant exercises (viii)	1,000,500		338,894
Shares issued - Option exercises (ix)	100,000		14,700
Balance, December 31, 2015	62,324,236	$	15,481,051
Shares issued – BMF Asset purchase (x)	30,769,777		11,665,284
Shares issued in conjunction with debt financing (xi)	364,854		178,275
Shares issued - warrant exercises (xii)	3,295,843		1,259,100
Shares issued - option exercises (xiii)	103,611		20,835
Shares issued - executive stock compensation (xiv)	333,333		194,630
Shares issued - services rendered (xv)	2,070,000		1,017,020
Shares issued in conjunction with debt financing (xvi)	2,100,000		1,244,250
Shares issued - conversion of debentures (xvii)	6,399,997		2,775,311
Shares issued - debenture interest (xviii)	1,587,764		446,559
Balance, December 31, 2016	109,349,415	$	34,282,314

(i) In February 2015, the Company completed a brokered round of private placements for 221,000 common shares issued at C$1.25 per share. The Company paid $16,469 in issuance costs related to these shares.

(ii) 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, and 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.

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

(iv) 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.

(v) 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.

(vi) 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.

16. Share capital (continued)

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

(viii) During the fourth quarter 2015, the Company issued 1,000,000 shares upon exercise of warrants and recorded proceeds of $338,894 related to these issuances.

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

(x) In March 2016, the Company issued 30,769,777 common shares to the owner of BMF Washington, LLC in conjunction with the asset purchase agreement.

(xi) In conjunction with the completion of the first tranche of a convertible senior unsecured debt financing, the Company issued 364,854 common shares as a sweetener to the lead subscribers.

(xii) During 2016, the Company issued 3,295,843 shares upon exercise of warrants.

(xiii) The Company issued 103,611 shares upon exercise of employee stock options.

(xiv) The Company issued 333,333 shares as stock compensation for an executive.

(xv) The Company issued 2,070,000 shares in lieu of amounts owed to organizations for services rendered. The shares reflected a value of $1,017,020.

(xvi) During the fourth quarter 2016, the Company issued 2,100,000 in settlement of the anti-dilution provision as noted in Note 13.

(xvii) During the fourth quarter 2016, 6,399,997 shares were issued in respect of conversion of convertible debentures.

(xviii) During December 2016, 1,587,764 shares were issued to settle debentures interest.

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

17. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2014	2,548,025		$ 260,366
Warrants issued - consulting fees (i)	4,075,000	CDN $0.20	322,698
Warrants issued - management consulting (ii)	1,000,000	CDN $0.20	138,591
Warrants issued - consulting fees (iii)	500,000	CDN $0.50	301,823
Warrants issued - security services (iv)	100,000	CDN $0.20	7,935
Warrants issued - private placement fees (v)	50,000	CDN $0.20	3,968
Warrants issued - management consulting (vi)	1,500,000	USD $1.00	693,224
Warrants issued - private placement fees (vii)	340,450	USD $1.00	157,339
Warrants issued - loan interest expense (viii)	26,000	USD $1.00	8,267
Warrants issued - property consulting fees (ix)	200,000	USD $1.00	92,430
Warrants issued - property consulting fees (ix)	200,000	USD $5.00	21,143
Warrants issued - in conjunction with employment (x)	652,778	USD $1.00	89,884
Warrants issued - in conjunction with employment (x)	405,556	CDN $0.20	189,990
Warrants issued - for services (xi)	208,950	USD $1.00	71,896
Warrants issued - for services (xi)	235,410	USD $0.50	112,831
Warrants issued - in conjunction with debt issuance (xii)	195,000	USD $1.00	-
Warrants issued - for distribution services (xiii)	1,175,000	USD $1.00	-
Warrants issued - in conjunction with private placement (xiv)	3,000,000	USD $1.00	352,040
Warrants issued - in conjunction with private placement (xiv)	1,500,000	USD $0.50	259,421
Warrants exercised (xv)	(680,500)	CDN $0.20	(115,191)
Balance, December 31, 2015	17,231,669		$2,968,655
Warrants issued (xvi)	300,000	USD $0.39	$ 56,584
Warrants issued - consulting (xvii)	522,745	CDN $0.67	97,759
Warrants issued - consulting (xviii)	1,000,000	CDN $1.50	58,920
Warrants issued - consulting (xix)	3,200,000	CDN $0.30	1,020,978
Expensed on staged vesting (xx)	-	US $1.00	102,518
Warrants exercised (xxi)	(2,070,843)	CDN $0.20	(330,218)
Warrants expired (xxii)	(2,841,667)	USD $1.00	(473,787)
Balance, December 31, 2016	17,341,904		$3,501,409

(i) 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 C$0.20. The amount of $322,698 has been expensed.

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

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

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

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

(vi) 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.

(vii) 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.

(viii) 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.

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

17. Warrant reserve (continued)

(ix) 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.
(x) The Company issued 2,380,000 warrants to employees as share based compensation. 1,000,000 of these were issued at an exercise price of C$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.
(xi) 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.
(xii) The Company issued 195,000 warrants in conjunction with the convertible debentures discussed in Note 13 (i) and (ii).
(xiii) 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.
(xiv) 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.
(xv) During fourth quarter 2015, 680,500 Warrants were exercised at an exercise price of C$0.20.
(xvi) Warrants issued in conjunction with purchase of BMF Washington assets.
(xvii) The Company issued 522,745 broker units to advisors for services in conjunction with convertible debt financing at C$0.67.
(xviii) The Company issued 1,000,000 warrants for services in lieu of accounts payable.
(xix) The Company issued 3,200,000 broker units to advisors for services in conjunction with the convertible debentures discussed in Note 13.
(xx) Employee warrants vesting during the period were expensed in the amount of $102,518.
(xxi) Through December 31, 2016, 2,070,843 warrants were exercised.
(xxii) Through December 31, 2016, 2,841,667 warrants were cancelled related to expiry provisions.

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:

	2016	2015
Expected life	3-5 years	3-5 years
Risk-free interest rate	0.57% - 1.44%	0.57% - 1.44%
Dividend yield	0%	0%
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.

18. 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 maximum aggregate number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares at the time of the grant. The options vest evenly over 3 years and have an expiry period of no more than 10 years from the grant date.

Total number of options at December 31, 2014	-
Options granted at $0.20 Canadian dollars	3,475,000
Options granted at $1.00 U.S. dollars	3,920,000
Options converted to warrants in conjunction with granting referenced below	(1,650,000)
Options expired	(277,778)
Options exercised (Note 16 ix)	(100,000)
Total number of options at December 31, 2015	5,367,222
Options granted at $0.77 Canadian dollars	700,000
Options granted at $0.30 Canadian dollars	800,000
Options granted at $0.51 Canadian dollars	1,000,000
Options granted at $0.27 U.S. dollars	560,000
Options exercised	(103,611)
Options expired	(890,833)
Total number of options at December 31, 2016	7,432,778
Number of exercisable options issued in Canadian dollars	2,193,333
Number of exercisable options issued in U.S. dollars	1,377,222
Weighted average exercise price of options at December 31, 2016 in U.S. dollars	$ 0.66

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

	2016	2015
Expected life	3 years	3 years
Risk-free interest rate	0.57% to 1.06%	0.57% to 0.80%
Dividend yield	0%	0%
Expected volatility	70%	70%
Expected forfeiture rate	0%	0%

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

18. Stock option plan (continued)

	Options outstanding				Options exercisable		
Exercise price	Number outstanding at December 31, 2016	Weighted average remaining contractual life (years)	Weighted average fair value per share	Weighted average exercise price	Number exercisable at December 31, 2016	Weighted average exercise price	Weight average fair value per share
USD $	#		$	$	#	$	$
1.00	2,794,445	1.54	0.45	1.00	1,267,500	1.00	0.46
0.27	560,000	2.67	0.13	0.27	76,389	0.27	0.13
CDN $	#		$	$	#	$	$
0.20	1,911,666	1	0.08	0.20	883,333	0.20	0.08
0.77	366,667	2	0.25	0.77	143,334	0.77	0.25
0.30	800,000	2.83	0.13	0.30	200,000	0.30	0.13
0.51	1,000,000	2.92	0.18	0.51	1,000,000	0.51	0.18

During the year ended December 31, 2016, $1,026,504 (2015 - $918,725) was included in stock compensation expense in the consolidated statement of operations.

19. Loss per share

Net loss per common share represents the net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the year.

Diluted net loss per common share is calculated by dividing the applicable net income (loss) by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

For all the periods presented, diluted net loss per share equals basic loss per share due to the antidilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follows:

	2016	2015
Warrants	28,725,887	30,634,418
Stock options (ESOP)	7,432,778	5,367,222
Vesting share aw ards	1,499,444	1,777,778
Convertible debt	58,750,516	2,190,000
Total	96,408,625	39,969,418

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

20. 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 $919,950:

2017	$ 163,980
2018	164,535
2019	121,796
2020	61,148
2021	63,593
Thereafter	344,898
	$ 919,950

21. Related party transactions

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

	2016	2015
Salaries, commissions, bonuses and benefits	$ 765,000	$ 931,577
Consulting fees paid to officers of the Company	107,500	344,582
Stock Compensation, including warrants and shares	487,156	412,827
	$ 1,359,656	$ 1,688,986

Included in accounts payable and accrued liabilities is $59,980 (2015 – $48,920) owing to key management personnel.

In the first tranche of the convertible debt offering referenced in note 10, Don Robinson, CEO, purchased C$1,000,000 of debentures and Rick Miller, former Board Chairman purchased C$664,000 of debentures.

Don Robinson, CEO provided a personal guarantee of the $1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director. This note bears interest at 10% per annum and was due on January 14, 2017 and has not been paid.

In February 2016, Sam Pillersdorf, Board Member, provided a short-term loan of $90,000 to the Company which was repaid in March 2016 shortly after completion of the first tranche of convertible debt financing, for consideration of 20,000 warrants with an exercise price of $0.42.

The Company is engaged in a licensing and leasing arrangement with BMF Washington, LLC in connection with the assets purchased in January 2016. BMF Washington is 100% owned by Peter Saladino, Director.

In the second tranche of convertible debentures completed April 2016, Michael Cohl, Board Member, purchased C$500,000 of debentures.

In the third tranche of convertible debentures completed in June 2016, Peter Saladino, Board Member, Purchased C$318,000 of debentures.

In the fourth tranche of convertible debentures, completed in June 2016, Sam Pillersdorf and Michael Cohl, Board Members, purchased C$100,000 of debentures and C$319,000 of debentures, respectively.

21. Related party transactions (continued)

In the fifth tranche of convertible debentures, completed in July 2016, Don Robinson purchased C$500,000 of debentures.

In the sixth tranche of convertible debentures completed in August 2016, Peter Saladino purchased C$129,000 of debentures.

In September 2016, Peter Saladino, Board Member, provided a short-term loan of $100,000 to the Company, which was repaid in October 2016.

In September 2016, Michael Cohl, Board Member, provided a short-term loan of $100,000 to the Company, which was repaid in October 2016.

During the year the Company recorded $419,934 of revenue from BMF Washington, LLC, a related party and strategic partner, under its equipment leasing and brand licensing arrangements. Recognition of $618,866 of billings as revenue has been omitted due to collectability issues during 2016 and subsequent to the balance sheet date.

22. 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, 2016, total managed capital was $9,306,008. Total managed capital at December 31, 2015 was $6,429,677.

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.

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.

23. Legal matters

The Company expects to settle an employment related claim which arose during 2014 by paying $175,000 composed of $75,000 cash and 400,000 common shares which has been accrued for as at December 31, 2016.

24. 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.

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

24. Financial instruments and risk management (continued)

(a) Fair value

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

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

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

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

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

December 31, 2016	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets					
Available for sale purchase option	FVTPL	-	-	$ 4,670,000	$ 4,670,000
Financial Liabilities					
Warrant liability	FVTPL	-	-	416,414	416,414
Convertible debentures	FVTPL	-	-	22,447,555	22,447,555

December 31, 2015	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Liabilities					
Warrant liability	FVTPL	-	-	$ 4,841,706	$ 4,841,706

The Group’s finance team performs valuations of financial items for financial reporting, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

The option acquired in connection with the BMF acquisition (see Note 7) was recorded on acquisition at its fair value of $5,200,000. The fair value of the option was recalculated at December 31, 2016 using the same methodology as at its inception. The purchase option was valued using an income approach, using the multi-period excess earnings method but adjusting the cash flows attributable to the option for the expected probability of the option being exercised. The rationale behind this approach is that, if the option is exercised, the Company will effectively take over the BMF business, and will secure its net cash flows. Therefore, the fair value of the option, is the equal to the sum of the present value of the future cash flows of the BMF business, from the date the option is exercised. The valuation is most significantly impacted by changes in the discount rate, probability of the law in Washington changing, and forecasted future cash flows. The discount rate used to value the option was 37.2% (January 20, 2016 – 40.7%).

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

24. Financial instruments and risk management (continued)

The convertible debentures were valued using a binominal option pricing model to estimate the value of the combined convertible instrument. The most significant assumption used in this valuation is the expected volatility of the Company's shares which has been estimated at 70%.

Refer to Note 15 for further information on valuation of warrant liability.

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

(b) Credit risk

The carrying amounts of cash and accounts receivable on the consolidated statement of financial position represent the Company's maximum credit exposure at December 31, 2016.

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 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 bad debts of $373,494 and $375,119 at December 31, 2016 and 2015, respectively.

(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 summarizes 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, 2016						
Trade and other payables	$ 1,814,643	$ 1,814,643	$ 1,814,643	$ -	$ -	$ -
Loans and other borrowings	3,099,077	3,099,077	2,989,172	114,677	19,874	-
Convertible debt	22,447,555	22,447,555	10,315,555	12,132,000	-	-
Total	$ 27,361,275	$ 27,361,275	$ 15,119,370	$ 12,246,677	$ 19,874	$ -

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

25. Taxation

The Company reconciles the expected income tax recovery (expense) at the combined U.S. and Canadian statutory income tax rate of 31.9% (U.S.-40.8%, Canada-26.5%) to the amounts recognized in the consolidated statement of operations.

The Company has estimated an income tax liability for the years ended December 31, are as follows:

		2016		2015
Loss before income taxes	$	(21,403,953)	$	(16,655,002)
Estimated tax recovery at combined rate of 31.9% (2015 - 31.3%)		(6,827,861)		(5,178,238)
Expenses not deductible in U.S.		4,121,181		2,362,325
Expenses not deductible in Canada		560,963		-
Losses - benefit not realized in Canada		-		227,499
Losses not deductible under IRC S 280E in the U.S.		2,071,581		3,389,107
Income tax expense	$	(74,136)	$	800,693

Deferred tax assets (liabilities) arising from temporary differences and unused tax losses are summarized as follows:

	January 1, 2016	Recognized in income	December 31, 2016
Loss carryforwards	-	$ (948,900)	$ 948,900
Convertible debentures	-	1,554,600	(1,554,600)
Warrant liability	-	110,400	(110,400)
Financing fees	-	$ (716,100)	$ 716,100
	-	-	-

The Company made estimated tax payments to US federal government, State of Oregon, and municipal governments in the amounts of $956,000 during the year ended December 31, 2016.

The combined tax rate in the State of Oregon and municipal governing bodies is 6.8% which is deductible for U.S. federal tax purposes. In aggregate, the estimated total U.S. federal and state tax rate is approximately 40.8%. 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. ORS 317.763 allows Oregon taxpayers filing a corporate excise or income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by ORS 475B.010 to 475B.395.

25. Taxation (continued)

As of December 31, 2016, the Company has estimated Canadian non-capital losses of $5,700,000. 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 2036. The deferred tax benefit of these tax losses has not been set up as an asset.

26. Comparative figures

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

27. Subsequent events

On March 14, 2017, the Company announced the signing of a binding letter of intent to acquire Canadian based Medical Marijuana Group Corporation ("MMGC"). Pursuant to the Transaction, and subject to adjustment in certain circumstances, shareholders of MMGC will receive an aggregate of C$10 million of common shares of GLH on the closing date of the Transaction and contingent consideration of C$5 million of common shares of GLH in the event that certain gross sales targets of GLH branded products in the Canadian medical cannabis market are met within 18 months of marketing efforts commencing in Canada.

On March 16, 2017, the Company announced the signing of a binding letter of intent to acquire the assets and business of JuJu Joints. Pursuant to the Transaction, JJ 206, LLC ("JuJu Co") will receive cash consideration of $2.25 million and, subject to adjustment in certain circumstances, an aggregate of $2.25 million of common shares of GLH on the closing date of the Transaction.

On March 22, 2017, the Company announced the signing of a binding letter of agreement to acquire Chalice LLC ("Chalice Farms"). In conjunction with the Transaction, the Company has entered into an engagement agreement with Canaccord Genuity Corp. ("Canaccord" or the "Agent") with respect to a best efforts brokered private placement of subscription receipts (the "Subscription Receipts") for anticipated gross proceeds of up to approximately $35 million (the "Offering"). The net proceeds from the Offering are to be used to satisfy the cash component of the purchase price for the Chalice Farms Transaction, as well as to fund the Company's recently announced acquisitions and for existing operations. The Subscription Receipts will be priced in the context of the market. Pursuant to the transaction, Chalice Farms will receive from GLH, (i) $15.05 million in cash; and (ii) common shares of GLH having a value of three times Chalice Farms' annualized Q1 2017 gross sales revenue, less $6.05 million, of which $4.2 million of common shares will be sold to a third party for cash consideration to Chalice Farms at closing. In addition, Chalice Farms will also receive an amount equal to 1.25 times its audited gross sales revenue for the year-ended December 31, 2017 payable in cash or common shares of GLH, subject to an obligation to pay in cash in certain circumstances.

On March 27, 2017, the Company announced the signing of a binding letter of agreement to acquire a cultivation license and an extraction license in Nevada from NevWa, LLC ("NevWA") (doing business as Grassroots). Pursuant to the Transaction, NevWa will receive from GLH $1.925 million. The Transaction is subject to certain conditions, including receipt of all regulatory and stock exchange approvals and all other necessary third party consents and approvals.

27. Subsequent events (continued)

In February 2017, the Company entered into a lease for 23,000 sf in Eugene, Oregon for 3 years at $1.10 per sf. The facility will become the primary production facility for Greenpoint Oregon. The facility in Portland will be kept and used primarily for distribution.

Subsequent to the balance sheet date, $11,629,705 of debentures have been converted into 38,765,679 shares.