GOLDEN LEAF HOLDINGS LTD.
24075 Klupenger Rd NE
Aurora, Oregon 97002

Management's Discussion & Analysis of Financial Condition and Results of Operations for the Financial Year Ended December 31, 2016

Date: May 1, 2017

General

This Management's Discussion & Analysis ("MD&A") of Golden Leaf Holdings Ltd. ("Golden Leaf", "GLH" or the "Company") has been prepared by management and should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2016. The audited financial statements, together with the following MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to future performance. The audited financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include the operating results of the Company.

This MD&A was reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 1, 2017. The information contained within this MD&A is current to May 1, 2017.

The Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in U.S dollars unless noted otherwise.

Additional information relating to the Company, including regulatory filings, can be found on the SEDAR website at www.sedar.com.

IMPORTANT NOTE TO READERS: This MD&A includes amended and restated financial results of the Company with respect to Q1, Q2, and Q3 2016 under the heading "Quarterly Results". Please refer to "Restatement of Interim Results for 2015" below for further information.

Forward-Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These forward-looking statements can generally be identified as such because of the context of the statements, including such words as "believes", "anticipates", "expects", "plans", "may", "estimates", or words of a similar nature. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from anticipated future results and/or achievements expressed or implied by such forward-looking statements, which speak only as of the date the statements were made. Readers are therefore advised to consider the risks associated with any such forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth herein.

Overview

Golden Leaf was incorporated on April 12, 2011 as "Longacre Resources Inc." ("**Longacre**") under the *Business Corporations Act* (British Columbia). Golden Leaf Holdings Inc. ("**GLHI**") was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) ("**OBCA**") on April 8, 2014.

On October 6, 2015, Longacre completed a reverse takeover of GLHI (the "**RTO**"). Pursuant to the RTO, Longacre, 2470251 Ontario Inc. ("**Subco**"), a wholly-owned subsidiary of Longacre, and GLHI completed a three-cornered amalgamation. Upon completion of the RTO (the "**RTO Closing**") common shares of the Company (the "**Common Shares**") were issued to former shareholders of GHLI, on a one-for-one basis and the business and shareholders of GLHI became the business and shareholders of the Company. The Company filed Articles of Continuance in Ontario and continued as a corporation governed under the laws of the Province of Ontario under the name "Golden Leaf Holdings Ltd."

The registered and head office of the Company is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1 and its principal place of business is located at 24075 Klupenger Rd NE Aurora, Oregon, 97002.

Business of the Company

The Company is a cannabis oil and solution provider in North America. It is a leading cannabis products company in Oregon built around recognized brands providing medical and adult users with a superior value experience. Golden Leaf leverages a strong management team with cannabis and food industry experience and advanced research techniques including R&D to complement its expertise in extracting, refining and selling cannabis oil. The Company is focused on first mover advantage and developing the lowest cost production of highest quality oils through its competitive advantage rooted in economies of scale and intellectual property. Golden Leaf is dedicated to partnering with industries, communities and regulators.

Golden Leaf grows flower in limited quantities, extracts and refines oil from the flower, prepares and packages the oils into various products for medicinal use and sells these cannabis oil based products along with the cannabis flower that it cultivates or purchases through both a wholesale distribution network and its own state-licensed medical dispensary. The Company's main operating entity is Greenpoint Oregon, Inc. ("**GPO**"). GPO's products trade under the brand names Golden XTRX™, Golden™, and Proper™.

The Company's products are sold in over half of the dispensaries in Oregon which are licensed to sell a wide variety of medicinal cannabis products directly to patients. On October 1, 2015, these dispensaries were also allowed to sell cannabis flower to non-medical customers in the Early Start program, and commencing June 2, 2016, medical dispensaries that are already participating in the Early Start Program were also allowed to sell single serving low dose edibles, single receptacles of extract, and topicals to retail consumers. This change allowed GPO to sell extracts and edibles to adult users through the Oregon Medical Marijuana Dispensary Program (OMMDP). The Company has also entered into the Washington market, in the form of a strategic partnership with BMF (See Acquisitions of Certain Assets of BMF Washington, LLC).

Recent History

Golden Leaf Holdings Ltd.

On October 6, 2015, the Company completed the RTO and the business of GLHI became the business of the Company. For additional details regarding the RTO see "*The RTO*".

Also on October 6, 2015, the Company applied to have the Common Shares of the Company listed and quoted for trading on the CSE. The CSE provided the Company with final approval and trading of the Common Shares commenced on October 14, 2015 under the symbol "GLH".

On October 27, 2015, the Company entered into an investor relations consultancy agreement with Viridian Capital Advisors ("**Viridian**") pursuant to which Viridian serves as an advisor to the Company with respect to the Company's corporate communications and investor and public relations.

The Company entered into an exclusive licensing agreement with Dixie Brands Inc., on November 15, 2015 (the "**Licensing Agreement**"). Pursuant to the terms of the Licensing Agreement, the Company will manufacture and distribute Dixie Elixirs and Edibles products in the state of Oregon. Established in 2010, Dixie is a recognized brand name in the infused products market and is currently establishing a presence in markets around the country. As of September 30, 2016, the Company decided to terminate this agreement with Dixie due to poor sales performance of the products.

During Q1 2016, Golden Leaf's Board of Directors with recommendations from management agreed to wind down the Company's Israeli subsidiary Greenpoint Science (GPS) to refocus on US operations. Employees were notified in

February, including Dr. Moshe Bar President of GPS who was entitled to a 4-month severance to be earned while overseeing the wind-down of the enterprise.

The Company also completed six tranches of a convertible senior secured debt financing during March through August 2016. The offering allowed for up to CDN $10 million of debentures was placed, at 10% interest paid semi-annually with a term to October 2017 and a conversion provision to a common share at CDN $0.67 through a syndicate of agents led by MMCAP. Total gross proceeds of CDN $9.7M was raised through these six tranches. From these gross proceeds a total of CDN $1.5 million was held back for commissions, professional and legal fees related to these fundraising efforts.

The Company also completed three tranches of its convertible senior secured debt financing in late October and early November 2016. The offering allowed for up to CDN $12 million of debentures at 10% interest paid semi-annually with a term to April 2018 and a conversion provision to a common share at CDN $0.30 through a syndicate of agents led by MMCAP. Total gross proceeds of CDN $12M was raised through these three tranches. From these gross proceeds a total of CDN $1.5 million was held back for commissions, professional and legal fees related to these fundraising efforts.   This financing also resulted in all previous convertible debentures repriced to CDN $.30.

As of the balance sheet date, $1,920,000 of debentures had been converted to 6,399,997 common shares.

The Company's primary operating subsidiary, Greenpoint Oregon ("GPO") moved its head office to the Aurora Property during August 2016 including all processing and cultivation activities. However, the Aurora Property was subject to a county "opt-out" ordinance (which creates a moratorium on cannabis activities) that will preclude recreational or "Adult Use" cannabis related activities on the property as of approximately October 1, 2016 when the OLCC rules are adopted. This "opt-out" was subject to a county referendum in November 2016 and this referendum failed.

As of December 15, 2016 GPO received approval from the City of Portland and commenced operations at its Portland wholesale distribution location, selling bulk flower products sourced from Oregon growers and distillate oil products made specifically for the Company by its third party oil processing partner.

Subsequent to the balance sheet date and prior to issuance of this report the Company secured a sub-lease at a processing and wholesale location in Eugene, OR in order to further consolidate its operations and continue its mission to be a lowest cost manufacturer.

Acquisition of Certain Assets from BMF Washington, LLC

The Company completed an acquisition of certain assets from BMF Washington, LLC on January 20, 2016 for total consideration of $14,719,000, of which $3 million was to be paid in cash within 45 days and $11.7 million to be paid in the form of shares in Golden Leaf Holdings, plus the issuance of 300,000 warrants. This was amended on March 4, 2016, such that $1.5 million of cash would be in the form of a note payable at 10% interest to be paid in installments over the next 9 months, provided that the Company has sufficient cash flow, with a final maturity of January 14, 2017. As of the balance sheet date, no installment payments have been made. Subsequent to the balance sheet date, the Company made one installment payment of $500,000. Don Robinson, CEO and Board member, provided a personal guarantee for the note. The balance of cash, equity consideration and warrants was paid in March upon closing of the Company's previously announced convertible debenture financing (details below). BMF (specifically owner Peter Saladino) received 30,769,777 shares given the Company share price of CDN$0.54 USD/$0.39 at the date of issuance, and the 300,000 warrants at $0.39.

The assets acquired included fixed assets, the rights to intellectual property including BMF's brands, an option to purchase BMF if and when legislation allows in the state of Washington and a non-compete agreement for Peter Saladino. The Company accounted for this as an asset acquisition and performed a purchase price allocation resulting in a valuation attached to the brands of $9.35 million as an indefinite lived intangible asset which will be evaluated for impairment on a periodic basis. $5.2 million was allocated to the option to purchase the business if and when the law allows. This asset is held as an available for sale financial asset and will be marked to market each quarter through other comprehensive loss as its value changes with the underlying cash flows and the time to expiration. $169,000 was allocated to equipment which has been leased back to BMF.

BMF and GLH also entered into a strategic partnership, whereby BMF entered into both equipment leasing and royalty agreements with GLH in exchange for the provision of certain goods and services. The royalty agreement has a term of one year, automatically renewing for a fixed $80,000 per month commencing May 1, 2016. The equipment leasing agreement commences February 1, 2016 with a rate of $14,000 per month for 96 months. The equipment leasing is classified as a financing lease.

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 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.

Subsequent Events

On March 22, 2017, the Company announced it had 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 CDN $35 million (the "Offering") to fund acquisition strategy. The net proceeds from the Offering are to be used to fund the Company's announced acquisitions and for existing operations. The Subscription Receipts will be priced in the context of the market.

On March 14, 2017, the Company announced it had signed a binding Letter of Intent (LOI) to acquire (the "Transaction") Canadian based Medical Marihuana Group Corporation ("MMGC"). Pursuant to the Transaction, and subject to adjustment in certain circumstances, shareholders of MMGC will receive an aggregate of CDN$10 million of shares of GLH on the closing date of the Transaction and contingent consideration of CDN$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.

In connection with the Transaction, GLH will enter into a licensing agreement with MMGC in an effort to leverage MMGC's relationship in the Canadian medical cannabis market and expand GLH's branded products into Canada. The intention is to introduce the Golden brand to Canadian patients in Q2-Q3 2017. Pursuant to the Transaction, GLH has also agreed to fund the construction and build out of MMGC's cultivation facility, all of MMGC's marketing efforts of GLH's branded products in Canada and the working capital needs of MMGC pending closing of the Transaction.

On March 16, 2017, the Company announced it had signed a binding Letter of Intent (LOI) to acquire the assets and business of JuJu Joints (the "JuJu Transaction"). JuJu Joints is a leading disposable cannabis oil vape e-joint product that utilizes proprietary vape technology and has established strong brand equity and market penetration in Washington State, Oregon, Nevada, California and Canada. Pursuant to the JuJu Transaction, JJ 206, LLC ("JuJu Co") will receive cash consideration of CDN 3.0 (US$2.25) million and, subject to adjustment in certain circumstances, an aggregate of CDN $3.0 (US$2.25) million of common shares of GLH on the closing date of the Transaction.

On March 22, 2017, the Company announced it had signed a binding Letter of Agreement (LOA) to acquire Chalice LLC ("Chalice Farms"), a leading vertically integrated cannabis company in Oregon (the "Transaction"). Chalice Farms is a leading cannabis business in Oregon, involved with the cultivation, extraction, refinement, marketing and sales of cannabis flower, edibles and oils. Chalice Farms has developed a branded portfolio of cannabis products that have generated significant market penetration and brand equity within the Oregon market

On March 27, 2017, the Company announced it had signed a binding Letter of Agreement (LOA) to acquire a cultivation license and an extraction license in Nevada from NevWa, LLC ("NevWa") (doing business as Grassroots) (the "NevWa Transaction"). NevWa's cultivation and extraction license, based out of Sparks, Nevada, allows for the distribution and sale of products across the state of Nevada, including in Las Vegas and Reno.

Pursuant to the Transaction, NevWa will receive from GLH CDN $2.6 (US$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.

The Company put its Aurora property for sale in Q1 2017 and received and accepted an offer of $2.2M. An impairment of $1.6M has been recorded in the financial statements.

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 GPO. 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 38,605,679 shares.

Additional Company information

Production

Cultivation

Cultivation operations at the Aurora property have been scaled down to clone activity only as of January 1, 2017 due to the referendum failure in Marion County.

Production & Sales - Oil Extraction

Management is observing, and sales data in Washington, Colorado and recent data from Oregon supports, a growing preference amongst consumers for cannabis oil over cannabis flower. Cannabis oil can be vaporized and consumers can inhale the vapors. Alternatively, oil can be used in edibles that can then be ingested. In many instances this may provide a healthier and safer option to consumers over smoking cannabis flower.

Cannabis oil is generally extracted from dried cannabis plant material, which is mostly comprised of Trim.

The trimming process involves removing small leaves away from the flower or bud. The desirable cannabinoids that are found in marijuana plants are mostly concentrated in the mature cannabis flowers, but they are also found in the leaves and stems. Both the flowers and the trimmings are weighed and tracked in the GPO inventory tracking system. The Trim is then transferred to the GPO processing facility.

By using our proprietary extraction methods, GPO is able to produce cannabis oils, hash and edibles while controlling the flavors and potency of these products.

While GPO uses the cannabis material from its own cultivation operations for oil extraction, GPO will also purchase additional cannabis as part of its strategy to develop contract farming supply arrangements as well from other vendors for the majority of its needs.

GPO maintains a tightly managed quality and pricing policy for Trim acquisition. The price GPO pays for Trim varies based on quality (curing, cannabinoid content, age,) as well as seasonality. In order to address the variability in seasonal pricing, GPO is working with third party growers to enter into sourcing agreements with an agreed-to price.

Currently, GPO uses two separate extraction methods for extracting cannabis oil; carbon dioxide extraction and hydrocarbon extraction. As of the balance sheet date the Company's processing capacity was dormant while it carefully evaluates alternative locations to recommence its processing operations. As of the date of this report, the Company is in process of provisioning a new facility in Eugene, Oregon focused first on oil processing and refinement, and which will eventually act as a hub for sales and distribution in the southern portion of the state.

The Company's new 9,000 square ft. facility in Portland, Oregon will be used as a wholesale distribution facility for a majority of the Oregon market.

Carbon Dioxide Extraction:

Using CO_2 as an extraction solvent allows for GLH to focus the extraction process so that desirable cannabinoids can be targeted, leaving behind non-beneficial compounds such as chlorophyll, lipids, waxes and fats from the plant.

When high pressure is applied to CO_2, it becomes a liquid that is capable of working as a solvent, stripping away cannabinoids and essential oils from plant material.

CO_2 extraction involves warming carbon dioxide and then pumping it across plant material through the extractor at a precise pressure.

The carbon dioxide in this condition is condensed to a liquid which strips the cannabinoids and oils from the plant material.

With release of the pressure, the carbon dioxide escapes in its natural gaseous form, leaving the pure essential oil behind. The advantage of using CO_2 to extract the cannabis oil is that there are no solvent residues left behind, and the resulting product is pure.

Additional refinement techniques involve the use of alcohol. Depending upon the product, further processing via heat, agitation, or vacuum pressure will aid in removing any residual alcohol from the oil, which is essential for determining the finished form of the oil.

Currently, GPO is operating five 20 liter CO_2 extraction machines. A CO_2 extraction machine operated by GLH has capacity to process approximately 10 pounds of Trim per day for conversion into cannabis oil with a target yield of approximately 10% of the weight of the Trim that is input. Thus a CO_2 extraction machine has the capacity to produce approximately 450 grams of CO_2-based cannabis oil per day. With five machines in operation GPO's production output capacity is approximately 2,250 grams of cannabis oil per day.

Hydrocarbon Extraction:

Hydrocarbon or Hydro-carbon/Propane extraction uses non-polar hydrocarbon as a solvent. Hydro-carbon is especially well-suited for stripping dried cannabis material of its cannabinoids, terpenes, and other essential oils while leaving behind the majority of unwanted chlorophyll and plant waxes.

GPO operates two hydro-carbon extractors. Both machines utilize similar preparation and processing methodologies. During extraction, the solvent washes over the plant material and is then purged off from the resulting solution using a variety of techniques and variables such as heat, vacuum and agitation.

After obtaining hydro-carbon based oils through this extraction method, the oil will be vacuum purged in a vacuum chamber to separate the cannabis oil from any remaining hydro-carbon gas. The vacuum oven is heated to release the Hydro-carbon and Propane, leaving behind only the extract. This "purging" process, depending on duration of exposure to vacuum and heat, and will give the hydro-carbon characteristic textures, such as wax, crumble, shatter and butter.

These post-extraction processes also determine what the final texture of the product is, whether it be butter, shatter, or a more traditional sticky cannabis oil. Routinely testing at over 60% tetrahydrocannabinol ("THC"), Hydro-carbon is the most popular choice for "dabbing", when properly-made, hydro-carbon extracted cannabis oil offers a very potent, direct, and flavorful method of ingesting cannabis.

The Hydro-carbon process, unlike the CO_2 process generally requires higher quality cannabis material in order to have higher quality finished product. GPO operates one hydro-carbon extraction machine for the processing and production of hydro- carbon extracted cannabis oil. The input capacity of the machines is 60 pounds of Trim per day per machine which yields approximately 7 pounds or 3,200 grams of hydro-carbon extracted cannabis oil per day.

Products

The Company produces and distributes two main types of products; cannabis flower and cannabis oils. All of the Company's products are independently lab tested and certified before being packaged and labelled with detailed information about the levels of THC and CBD contained in each product.

THC is the main cannabinoid found in the cannabis plant and is responsible for the majority of the plant's psychoactive properties. Studies have shown that THC has many medical benefits, including analgesic properties and its tendency to increase appetite. CBD is gaining popularity as the primary therapeutic cannabinoid for a variety of diseases, such as autism, epilepsy and other nerve-related conditions. CBD is generally the second-most common cannabinoid found in cannabis, after THC and is becoming highly sought after for medical purposes, despite the cannabinoid being nearly bred out of modern cannabis in the hunt for the higher THC strains. Now that studies have demonstrated the medical importance of CBD in certain circumstances, many cannabis cultivators and strain breeders now pride themselves on their high CBD-to-THC ratios.

THCA (tetrahydrocannabinol acid) is the biosynthetic precursor of THC. THCA is found abundantly in growing and harvested cannabis whereas very little to none of the THC cannabinoid is found in growing or harvested plants. Research has shown that THCA has some neurone-protective and anti-inflammatory effects but it does not produce the psychoactive effect that makes you feel "high" like THC does. Accordingly, cannabis used in making medicinal cannabis oils and edibles requires decarboxylation which is the process through which THCA becomes THC.

Decarboxylation occurs when carboxylic acids lose a carbon atom from a carbon chain effectively releasing CO_2, thus converting THCA to THC. This happens naturally (but very, very slowly) during the drying process; it could take years to complete the conversion of THCA to THC this way. Fortunately, a heat source or flame causes the decarboxylation to happen rapidly, which explains why smoking it exposes the converted THC.

Nearly all modern cannabis strains are hybridized in some form or another; the energetic sativa and the relaxing, sedative indica sides of the cannabis spectrum or the in-between options. Most dispensaries will organize their shelf in terms of indica, hybrid, and sativa to help patients understand how a given variety will affect them.

The Company's CO_2 oil products are sold under the brand names and Golden™ and Private Stash™ through a number of delivery systems; e-pens, cartridges and dabs.

Rather than combusting the cannabis product (whether it be flowers, hash, or oil), a vaporizer heats it just enough so that the cannabinoids activate and vaporize and they can then be inhaled. This method is preferable for those with breathing conditions, or those who simply do not want to actually smoke anything but still require the direct and immediate relief that inhalation provides compared to edible consumption. A popular variation on the vaporizer that has taken the cannabis (and nicotine) market by storm is the pen vaporizer, also known as an "e-vape.

The vape-pen is a small, portable vaporizer that either uses pre-filled concentrate cartridges or has a chamber to load a patient's own concentrates or flower.

Dabbing refers to dropping concentrates onto a hot surface (nail, skillet, etc.) and inhaling the resulting vapour via a "rig," which is usually made of glass and sends the vapour through water.

The Company's hydrocarbon products are sold under the name Proper which are sold in one gram cartridges, or in 1 gram receptacles as crumble and shatter. Hydrocarbon is also sold in bulk in slab format.

Hydrocarbon products generally come in two forms, shatter and wax (or crumble). Shatter is a texture of hash oil and refers to the transparent, shelf-stable oil which breaks into pieces rather than bending. The most popular choices of hydrocarbon concentrates on the market are either shatter or wax, which are on opposite ends of the spectrum when it comes to texture. Shatter tends to have a consistency ranging from sticky sap to a very stable, hard resin at room temperature and can have an appearance anywhere from a dark brown to nearly translucent. Wax on the other hand, tends to be completely dry and crumbly and is sometimes referred to as "honeycomb" because of its resemblance.

Sales, Marketing and Distribution

Dispensary Sales

The Company owns a fully-licensed dispensary under Oregon law through its wholly-owned subsidiary Left Coast Connections ("LCC"). LCC is fully-licensed to sell a wide range of cannabis products. LCC sells the cannabis flower and cannabis oil produced by GPO along with third party cultivators and producers. LCC opened and became fully-operational on April 7, 2015. As of December 28, 2016 Left Coast connections received final approval by the City of Portland to sell under its recently received OLCC retail license. Sales through the new OLCC regulated channel began on January 3, 2017, allowing it to sell to anyone over the age of 21, as well as medical card holders who are exempt from the sales tax levied by local jurisdictions.

Wholesale Distribution

GPO employs nine sales representatives who sell GPO's cannabis products to third party dispensaries. They sell useable marijuana in the form of cannabis flower or oil products. As of the balance sheet date, GPO is in process of rolling out a new wholesale distribution model at its Portland location. The new model requires retail outlets to order product in advance, followed by pick and shipment in subsequent days by the wholesaler. The new model reduces the risk associated with distribution by minimizing the quantity of product on hand with sales staff and requires manifests be created in the state mandated compliance tracking system prior to shipment, allowing for better monitoring of product throughout the entire supply chain.

GPO sells its products almost exclusively for cash on delivery to 300 dispensaries in the state of Oregon. GPO has stringent policies and processes in place to ensure that all cash collected is monitored at all times.

The primary sales and marketing goals for the retail market in Oregon is to increase awareness of GPO's product line and product offering, turning initial trials of GPO's products into repeat purchases, introducing new products based on internal market research of consumer preferences, advertising and consumer promotions. Management's strategy to increase sales growth and market share gains in the Oregon medicinal and recreational markets include:

(a) achieving distribution and dominant merchandising of all product lines in every dispensary in the State of Oregon;

(b) new product development through R&D efforts and introduction of new products;

(c) advertising in print, radio, and social media;

(d) building business to business relationships to supply other manufacturers of other cannabis products with oils and concentrates produced by GPO, and

(e) leveraging LCC's retail-recreational sales directly to customers to understand emerging trends and consumer preferences.

Specialized Skill & Knowledge

From the time GPO became licensed to extract and refine cannabis oil, it, and now the Company, has developed certain proprietary intellectual property (IP) for operating *Carbon Dioxide (Co_2) Extraction* and the *Hydrocarbon Extraction* machinery, including best production practices, procedures, and methods, as outlined above. This requires specialized skills in cultivation, extraction and refining. The Company employs a Bio chemist and leverages employees with experience in breeding and growing.

At the corporate level the Company employs university graduates with degrees in marketing, economics, accounting and business finance. Staff have joined the Company from a variety of industries and corporations such as Mars, Walt Disney, Oracle, Cisco Systems, Organically Grown Produce, Mighty Leaf Tea.

Competitive Conditions

The market for flower and oil extraction products is fragmented. The Company is one of the largest operators in Oregon. Little business intelligence is available at this time, however, the majority of the Company's competitors focus primarily on using carbon dioxide extraction to extract oil for their products. GPO and other competitors like Select Strains have to rely upon sources of trim from farmers.

Components

Currently the Company sources raw materials from external parties. Using an internal production process, trim is generally the largest component of the cost of oil, however under its current third party processing model, nearly 50% of the cost of a gram of oil is paid to process the trim into oil, not including trim cost. As of the balance sheet date, the cost to produce 1 gram of oil is estimated at approximately $19, including the cost of trim. Trim cost per gram of oil is roughly $6 of this total. The remainder is labor related to packaging and filling cartridges, as well as the cost of packaging for each finished good.

The remainder is labor and ingredients such as CO2, utilities, testing and packaging. Despite the climate and quality issues experienced with the 2016 crop, the Company continues to pursue strategic growing contracts with vendors to provide consistent supply at established prices which would enable the Company to minimize its products costs and reduce dependency on outdoor seasonality and its impact on quality and price.

Premium oil extract products such as Golden, Golden Gold Label Reserve, Proper and Private Stash command a premium price. Flower is expected to commoditize over time, and at some point the Company may decide to use flower in the extraction process, which improves the conversion yield into oil extracts.

Intangible Properties

The Company has certain proprietary intellectual property ("**IP**"), including but not limited to brands, trademarks, tradenames, recipes and proprietary processes. The Company does have proprietary IP, but does not have registered patents or trade names. As described in the R&D section the Company has plans to create an IP portfolio around variety, trait (research) and crop modeling (Agronomy).

Economic Dependence

The Company is not substantially dependent on one single large contract. It serves a broad based platform of dispensaries in Oregon. Equally the Company is not dependent on any single contract for the purchase of raw materials that could affect the Company in operating its business.

Changes to Contracts

The Company has changed the business policy and no longer sells products to large customers on credit without executive management approval. There is a strong focus on cash collections and control of the number of days of sales outstanding.

The Company decided to terminate its licensing agreement with Dixie Brands as of September 30, 2016 due to poor sales performance of Dixie products.

The contract grow relationships GPO entered into for the fall 2016 harvest failed as none of the vendors were able to produce a volume of product which satisfied the obligations stipulated in the agreement, and thus no obligations were incurred and the contracts are deemed cancelled.

Employees and Management

The Company, inclusive of its subsidiaries, has a total of 60 employees. Don Robinson serves as the Company's Chief Executive Officer and Brian Gentry served as the Company's Chief Financial Officer during Q2 (resigning in August 2016) and continues to consult and aid in transition efforts throughout the remainder of 2016. Eugene Hill was appointed CFO in October 2016. Andy Hartogh is the President of the Company's main operation subsidiary, GPO, and Mr. Hartogh and Tim Fitzpatrick oversee GPO's current cultivation and oil production operations. Ryan Acheson oversees the Company's retail-recreational operations through its fully-licensed dispensary which is held through a wholly-owned subsidiary, LCC. Tim Fitzpatrick heads operations, Bliss Dake is in charge of marketing and Andreas Moppin heads up GPO's wholesale sales efforts.

Foreign Operations

To date all of the Company's operations are in the United States and, as such, all of the Company's business is dependent on operations outside of Canada.

Principal Market

Oregon

On November 4, 2014, Oregon voters passed "Measure 91", known as the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", requiring the Oregon state government to promulgate rules by July 1, 2015 for the legal recreational possession, use, and cultivation of marijuana by adults 21 and older. Under state laws allowing recreational use of cannabis, adults 21 years and older will be allowed to possess up to eight ounces of marijuana and grow up to four marijuana plants. Purchases from licensed dispensaries will be limited for recreational users to a quarter ounce per visit.

At the balance sheet date, 100 dispensaries were licensed OLCC retail dispensaries, while 250 remained as medical dispensaries, many still awaiting final approval from the OLCC, the City of Portland, or both. As of the date of this report, over 350 dispensaries operate as licensed OLCC retail licensees and more come online weekly.

Oregon State Regulation and the Evolution of Administrative Rules

On November 4, 2014, Oregon voters passed "Measure 91", known as the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", effectively ending the state's prohibition of recreational marijuana and taking recreational marijuana sales off the criminal market and legalizing the possession, use, and cultivation of marijuana within legal limits by adults 21 years and older. The Act did not amend or affect the Oregon Medical Marijuana Act and the OMMP. The Act empowered the Oregon Liquor Control Commission with regulating sales of recreational marijuana. However, during the 2015 Oregon legislative session and again in the 2016 session amendments were made to both the medical and recreational programs.

The regulatory and legislative environments have evolved since the time of the RTO. Although the Oregon legislative session ended in July, 2015, the administrative rules associated with those laws are still being deployed by both the medical regulator, the Oregon Health Authority ("OHA") and the Adult Use regulator. On October 22, 2015 the state regulatory body The Oregon Liquor Control Commission ("OLCC") published the temporary administrative rules associated with the deployment of the recreational or "Adult Use" program. Some of the provisions in the rules, if not addressed, posed a risk to the cannabis industry as a whole, and to the business strategy of GLHI. The issues included but were not limited to, a provision that required a majority of investors in a recreational business to be residents of the state of Oregon, a limit on the canopy size of a marijuana grow, a rule prohibiting collocation of medical and recreational cannabis licensed businesses. These and other issues had to be addressed in the interim period between when the rules were published and when they would take effect. Given that the cannabis industry is in its infancy, the legislative and regulatory rule making process is very dynamic. There is little precedence to refer to. As a result, rule making is iterative and requires educating the legislators and regulators on the impact and costs of regulation and how there may be unintended consequences of rules that need to be addressed either administratively or via the legislative process.

Effective July 1, 2015, possession and home cultivation by adults at least 21 years old is allowed within legal limits. The Act permits adults at least age 21 to possess up to eight ounces of marijuana in their homes and up to one ounce on their person, and to grow no more than four marijuana plants in their households. Those amounts are total limits for the household, regardless of the number of adults at least 21 who live there. Individuals at least 21 may also gift, but not sell, up to an ounce of dried marijuana, 16 ounces of marijuana products in solid form, or 72 ounces of marijuana products in liquid form to other adults.

The early start sales of recreational marijuana began October 1, 2015 under the regulatory oversight of the OHA. Adult users could purchase flower at medical marijuana dispensaries, however, extracts and edibles were exempted.

In February 2016, the Oregon legislature met in a short 45 day session. Many issues that impacted the Oregon cannabis industry either in the 2015 session or in the administrative rules process were raised to the legislators. The legislators introduced and passed several key cannabis bills (SB1511 (2016), HB4014 (2016), SB1598 (2016) and SB1601 (2016)). These bills addressed many of the key issues impacting the industry. The legislation removed residency restrictions and allowed for co-location of medical and adult use products in the same retail establishment. The legislation also allowed businesses that intend to opt-in to the adult use program from the medical program to continue to operate with higher plant counts until their license application is processed, even if the processing of the application is delayed due to a county, or city moratorium. Canopy limits were not addressed in the legislative session, but the canopy restrictions do not materially impact the GLHI business model.

In March 2016, the OHA published temporary administrative rules that effectively shut down the medical cannabis oil extraction industry for a period of 8 weeks. The Company partnered with other industry leaders to provide important input to the OHA that led to OHA policy changes and eventually the ability to sell extracts. Effective April 1, 2016, a producer of extracts could submit an application to become a registered medical processor. Upon submission of a completed application to the OHA, the extractor would be authorized by the OHA to produce and sell all extract related products under their administrative rules to medical marijuana dispensaries. Dispensaries could also receive and sell extracts and edibles under this new ruling.

Effective June 2, 2016, registered medical marijuana dispensaries that participated in early start retail sales could sell expanded limited marijuana retail products. The expansion of limited marijuana retail sales included sale of one low-dose unit of a cannabinoid edible to a retail customer per day. A “low dose cannabinoid edible” meant a cannabinoid edible that had no more than 15 mg of THC in a unit. A single low-dose unit of a cannabinoid edible could contain multiple edibles or a single edible so long as the total THC in the unit did not exceed 15 mg THC. In addition, they could sell one “prefilled receptacle of cannabinoid extract” to a retail customer per day that contains no more than 1,000 milligrams of THC. Medical dispensaries were not able to sell the limited retail marijuana products after December 31, 2016.

On October 1, 2016, the recreational market in Oregon officially launched through the Oregon Liquor Control Commisson (“OLCC”). As of that date recreational adult users could purchase products either through a medical marijuana dispensary or a new recreational dispensary licensed by the OLCC. The OHA continued to oversee the state's early adoption of the recreational marijuana sales, allowing medical dispensaries to conduct sales to recreational adult users through December 31 of 2016. Starting January 1, 2017, only medical marijuana card holders could buy product in medical dispensaries. New higher standards of pesticide testing, product packaging compliance and test lab certification were also launched on October 1, 2016.

The OLCC is responsible for the recreational market and licensing. In Q4 of 2016, dispensaries had the option to become recreational or medical which had to be declared by end of the year. If a facility became a recreational dispensary, it could sell products to both recreational consumers and medical marijuana patients (who have medical marijuana cards). In the same dispensary, an individual can buy different dosed amounts of products depending upon whether they are a recreational adult user or medical marijuana customer. Recreational dispensaries can only buy, source, and sell products from licensed recreational growers, processors, and wholesalers (managed by the OLCC). Medical dispensaries can only buy, source, and sell products from entities who are registered under the medical marijuana program (managed by the OHA).

The following licenses became available under the OLCC including: A producer license (to grow), a processor license (to extract and produce edibles), a wholesaler license (to distribute) and a retail license (to sell products to the public). The licenses for marijuana businesses are allowed and regulated by the Oregon Liquor Control Commission. “Marijuana producers” cultivate marijuana for wholesale. “Marijuana processors” produce marijuana extracts, concentrates, tinctures, edibles and other derivative based products. “Marijuana wholesalers” purchase marijuana and marijuana products to sell to marijuana retailers. Lastly, “marijuana retailers” are allowed to sell marijuana and related items to individuals 21 years and older.

In January 2017, the Company announced that it received its recreational wholesaler license approved by the OLCC and the City of Portland. The wholesaler license allowed GLH to start selling branded oil products into the recreational market. Also in January 2017, GLH announced that it had received approval for its recreational retailer license for the Left Coast Connection dispensary, which allows the dispensary to participate and sell in Oregon's recreational marketplace.

Trends, Commitments, Events or Uncertainties

The District of Columbia ("**D.C.**") and 28 U.S. states, including the state of Oregon, have legalized cannabis for medical use. Colorado, Washington, Alaska, Oregon, D.C. (as of September 30, 2016) and California, Nevada, Maine, and Massachusetts (as of November 8, 2016) have also legalized retail-recreational use of cannabis.

Currently the Company operates in the state of Oregon and has a strategic partnership agreement for operations in Washington. In Q1 and Q2 2017 the Company has been pursuing a strategy to become a leading consolidator of high-value cannabis brands. The Company has signed four binding Letters of Agreement to acquire the following cannabis businesses and expects to close on the acquisitions in May 2017.

- A cultivation license and an extraction license in Nevada from NevWa, LLC ("NevWa") (doing business as Grassroots)
- Chalice LLC ("Chalice Farms") (https://chalicefarms.com/), a leading vertically integrated cannabis company in Oregon
- The assets and business of JuJu Joints, an e-vape joint product and brand
- The Medical Marihuana Group that is a Canadian company that has received it's "license to build" approval and has filed an application for a cultivation license, which, subject to construction and build out of the cultivation facility, it anticipates receiving on or before Q1 2018.

The Company intends to expand into other states within the U.S. that have legalized either medicinal or recreational cannabis use. Cannabis and cannabis extracts remain illegal under U.S. federal law and cannabis is listed as a Schedule I substance under the U.S. Controlled Substances Act. However, in 2009 the U.S. federal government adopted guidelines no longer making it a priority to use federal resources to prosecute people with serious illnesses or their caregivers who are complying with state medical marijuana laws. Additionally, in 2014 the Deputy U.S. Attorney General, James Cole, publicly announced that the federal government would generally not pursue the prosecution of cannabis producers that are in compliance with state law. The "Cole memorandum" is the guiding principle that many cannabis businesses, regulators and legislators use to establish policies to operate in this space.

Passage of the federal spending bill on December 15, 2014 marked the first time in history that the United States Congress eased up on the potential federal prosecution of medicinal cannabis cultivators, sellers and patients. The bill includes an amendment that prohibits the Department of Justice, which includes the Drug Enforcement Administration, from using funds to interfere with state medical marijuana laws. The U.S. House of Representative finally approved the bill in May of 2014 as an amendment to the *Commerce, Justice, Science, and Related Agencies Appropriations Act*. This federal spending bill also prohibits the U.S. Justice Department from interfering with state-level cannabis laws. The bill works to protect the medical marijuana programs in the 23 states that have legalized marijuana for medical purposes, as well as 11 additional states that have legalized CBD oils, a non-psychoactive ingredient in cannabis which, among other things, has shown to be beneficial in some severe cases of epilepsy.

As marijuana remains a Schedule I substance under U.S. federal law, U.S. federal law also makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy, in appropriate circumstances. There has been no change in U.S. federal banking laws notwithstanding that 28 states and D.C. have legalized medical marijuana. Colorado, Alaska, Washington, Oregon and D.C. have legalized retail-recreational marijuana use.

Due to banks' fears of being implicated in, or prosecuted for, money-laundering, marijuana businesses are often forced into becoming "cash-only" businesses. As banks and other financial institutions in the United States are generally unwilling to risk a potential violation of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to marijuana businesses. The Treasury Department's *Financial Crimes Enforcement*

Network ("**FinCEN**") has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks that serve marijuana-related businesses, so long as that business is legal in the bank's respective state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The guidance also lays out a process for financial institutions to provide services to marijuana businesses, but makes it clear that they are doing so at their own risk. Despite the attempt by FinCEN to legitimize marijuana banking, in practice this guidance has generally not made banks more willing to provide services to marijuana businesses. This is because the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business it takes on as a client. Recently, some banks that have been servicing marijuana businesses have been closing accounts operated by marijuana businesses and are now refusing to open accounts for new marijuana businesses as they are unwilling to take on the associated risks or conduct the proper due diligence that would be required to ensure none of the federal priorities are being violated.

The few credit unions who have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the needs of their other customers.

A small number of credit unions in Washington have announced they will serve marijuana-related business but they are limiting their services to only those at the front end of the market; producers and processors whose sales are limited to licensed distributors and can easily be tracked by the state (relieving the banks of the burden to do so directly). However, these credit unions will not service dispensaries because the required due diligence is too cumbersome when marijuana is being sold by a licensed dispensary to the public.

To solve the current banking problem, a bill has been tabled in the U.S. Congress to create the *Marijuana Business Access to Banking Act*. If passed, this legislation would grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business is in compliance with state law. The legislation would also prohibit the Treasury Department from requiring banks to report a transaction as suspicious solely because it came from a marijuana-related business that operates in compliance with state law. Additionally, the bill would prohibit regulators from terminating a bank's depository insurance because it services marijuana businesses in compliance with state law. This bill has not been passed and there can be no assurance that it will be passed in its current form or at all.

Currently, Golden Leaf operates through a bank in Canada and two banks in the United States. The Company maintains close ties and strong relationships with its current bankers and continues to build relationships with other banks and credit unions servicing the marijuana industry.

GLHI takes regulatory compliance very seriously and has included the Cole Memorandum at the beginning of the employee handbook to ensure all employees understand and acknowledge these rules and understand their importance.

Although civil in nature, administrative rules in Washington and Oregon define the regulatory compliance guidelines, and if violated could potentially have a serious impact on the business. GLHI regularly reviews the rules and communicates changes to the employees as appropriate. Regular internal audits are conducted as well to monitor compliance related issues.

There are significant risks associated with Golden Leaf's business, as described above and under the headings "*Principal Market*" and "*Risk Factors*". Readers are strongly encouraged to carefully read all of the risk factors described herein.

Legal Proceedings

On November 2, 2016, a former GLHI employee filed a Demand for Arbitration and Complaint in Portland, Oregon. The Arbitration is presently scheduled for August 4, 2017. In his Complaint, the former employee makes various claims against GLHI, including breach of his employment agreement, whistleblowing, discrimination and violation of the Americans with Disabilities Act ("ADA"). The Company's position is that as a result of the former employee's failure to provide certain services and breach of his Employment Agreement, GLHI cancelled 3.9 million GLHI Shares and fully vested GLHI Warrants for 850,000 Shares of GLHI common stock previously issued to the former employee. If the former employee prevails on the employment-related claims, including whistleblowing, discrimination and/or violation of the ADA, the monetary damages could be material. Further, if the former employee were to prevail on the breach of Employment Agreement claim, the GLHI warrants may be required to be restored to the former employee, which would be material. The Company intends to vigorously defend the Arbitration proceeding brought by the former employee. The matter has been settled as of the date of this report for a settlement of $175,000.

Interest Of Management And Others In Material Transactions

On September 15, 2015, GLHI entered into a subscription agreement with Rick Miller, the former Chairman and a director of the Company, (the "**Miller Subscription Agreement**") pursuant to which Mr. Miller may acquire one million GLHI Shares and three million special warrants (the "**Special Warrants**"). Each Special Warrant is exercisable for one unit at a price of $1.00 per unit until September 30, 2018 (the "**Units**"). Each Unit is comprised of one GLHI Share and one half of one GLHI Warrant (each whole GLHI Warrant referred to herein as the "**Underlying Warrant**"). Each Underlying Warrant is exercisable into one additional GLHI Share at an exercise price of $0.50 for a period of three years from the issuance of the Underlying Warrant. In connection with the RTO and in accordance with their respective terms Mr. Miller will receive Common Shares in lieu of GLHI Shares upon exercise of the Special Warrants and the Underlying Warrants.

On September 30, 2015, Mr. Miller acquired 1,000,000 GLHI Shares for an aggregate purchase price of $1,000,000. Mr. Miller also participated in the convertible debenture offering referenced in "Significant Acquisitions and Dispositions and developments since RTO", purchasing CDN$664,000 of debentures in the 1st tranche.

On September 28, 2015, Sam Pillersdorf, a director of GLH, represents La Prima Investments Limited which purchased a convertible debenture in the principal amount of $1,000,000 and received 59,171 of the 100,000 GLHI Bonus Warrants that were issued to holders of the GLHI Convertible Debentures. In connection with the RTO, the GLH Bonus Warrants are exercisable into Common Shares at a price of $1.00 per Common Share for a period of three years from issuance. The proceeds of the GLHI Convertible Debentures were used to finance the purchase of the Aurora Property. Mr. Pillersdorf also provided a short-term loan of $90,000 to the Company in February, 2016 which was repaid in March 2016 shortly after completion of the 1st tranche of convertible debt financing, for consideration of 20,000 warrants with an exercise price of $.42 (pending issuance). Mr. Pillersdorf participated in the 4th tranche of the convertible debenture offering referenced in "Subsequent Events", purchasing CDN$100,000 in June 2016.

Don Robinson, CEO of GLH participated in the convertible debenture offering referenced in "Subsequent Events", purchasing CDN$1,000,000 of debentures in the 1st tranche and CDN$500,000 in the 5th tranche in July 2016. Pursuant to the BMF asset acquisition referenced in the same section, Mr. Robinson also provided a personal guarantee of the $1.5 million promissory note between GLH and BMF/Peter Saladino.

Michael Cohl, a director of GLH, participated in the convertible debenture offering referenced in "Subsequent Events", purchasing CDN$500,000 of debentures in the 2nd tranche and CDN$319,000 in the 4th tranche in June 2016.

Peter Saladino, a director of GLH, participated in the convertible debenture offering referenced in "Subsequent Events", purchasing CDN$318,000 of debentures in the 3rd tranche in June 2016 and CDN$129,000 in the 6th tranche in August 2016.

In late September, 2016, Peter Saladino and Michael Cohl, Directors, each provided short term loans of $100,000 to the Company which were repaid prior to the balance sheet date.

In conjunction with the debentures placed in late October and early November 2016, the conversion options on the aforementioned debentures held by related parties were repriced to CDN$.30.

Selected Financial Information (US$)

	For the financial period:	
	Year ended December 31, 2016	Year ended December 31 2015
Total revenues	7,661,488	9,925,137
Gross profit	65,883	2,035,646
Total expenses	11,546,835	14,062,212
Net Loss	(21,329,817)	(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
	as of period ended	
	December 31, 2016	December 31, 2015
Total Assets	24,841,792	9,178,241
Long-Term Financial Liabilities	12,241,905	8,135,162

Overall Performance

The Company generated revenues of $7,661,488 for the year ended December 31, 2016 compared to $9,925,137 for the year ended December 31, 2015. The Company reported a net loss of $21,329,817 for the year ended December 31, 2016 compared to a net loss of $17,455,695 for the year ended December 31, 2015.

Gross profits decreased to $65,883 for the year ended December 31, 2016, down from $2,035,646 for the year ended December 31, 2015. The Company spent $892,436 on marketing and sales (2015: $1,407,121), $7,009,610 on general & administration (2015: $7,941,644), $668,615 (2015: $2,831,995) on professional fees related to equity instruments.

The Company's total assets were $24,841,792 on December 31, 2016 (December 31, 2015: $9,178,241). The Company's total liabilities were $27,777,689 on December 31, 2016 (December 31, 2015: $10,883,726). Shareholders' equity after the deficit was ($2,935,897) on December 31, 2016 (December 31, 2015: deficiency of $1,705,485).

Commentary

The Company experienced significant turbulence from a regulatory, supply chain and cash flow standpoint during 2016. During March 2016 the cannabis oil industry in Oregon was effectively shut down for 8 weeks due to regulatory issues. This period significantly affected the Company's ability to make and sell its oil products and slowed its momentum coming out of a fundraising period when it had planned for expansion.

In October 2016, the standards for pesticide testing and a shake-up in the laboratory infrastructure and licensing in the state resulted in both a shortage of testing throughput and a shortage of clean cannabis trim to be used as extraction material. Further, many grow operations experienced large scale failures due to pesticides, mold and damage due to storms. The Company's own grow at its Aurora location experienced unexpected pesticide testing issues and mold, resulting in a poor yield, less than 25% of what was initially expected for flower, and no useable trim due to the new testing standards. The Company's primary contract grow operation was also rendered entirely unusable due to storm damage and testing issues. These issues led to an effective shut down of production operations during the fourth quarter as the Company could not find clean trim to extract and process into oil products.

The Company's regulatory and supply chain environment have stabilized in the months since the balance sheet date as reliable new sources of raw materials have opened up in the new recreational market. Testing infrastructure has also risen to the new demand in accordance with new compliance rules.

The Company's total revenue decreased to $7.7 million from $9.9 million in the prior year, a decrease of 22%. The Company's wholesale and retail product sales for the year ended December 31, 2016 were $7.2 million, a decrease of

$2.7 million or 25% compared to the prior year. Additionally the Company recorded $420,000 of royalty income derived from the licensing of brands.

The Company's product sales for the three months ended December 31, 2016 were $434,968, a decrease of over the comparable period in 2015 of 85% due to primarily to the aforementioned supply constraints.

GLH gross margin was effectively zero for the year ended December 31, 2016. This was primarily driven by a large impairment of oil inventory of $1.1 million recorded during the fourth quarter as a result of new, stricter testing standards which rendered a large amount of WIP inventory unsaleable.

The Company's operating expenses for the year totalled $11.5 million, a decrease of $2.5 million compared to prior year operating expenses of $14.0 million. This is driven primarily by non-recurring non-cash charges related to financing activities occurring during the year totalling $4 million and impairment of assets totalling $1.6 million. See adjusted EBITDA section for figures and commentary as adjusted for non-cash charges.

The Company's current assets increased to $8,720,279 at December 31, 2016 compared to $2,852,698 at December 31, 2015 largely as a result of an influx of cash from the fundraising during the fourth quarter and the reclassification of the Aurora property to assets held for sale.

The Company's current financial liabilities increased to $15,535,784 at December 31, 2016 compared to $2,748,564 at December 31, 2015 due to the movement of debt instruments from long-term to current.

The Company's long-term financial liabilities increased to $12,241,905 at December 31, 2016 compared to $8,135,162 at December 31, 2015 due to the additional debenture financing during the fourth quarter.

Quarterly Results ($)

Profit and Loss	For the three months ended:							
	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	June 2016	Sep 2016	Dec 2016
					restated	**restated**	**restated**	
Product sales	1,319,201	2,957,670	2,771,193	2,877,074	2,316,688	2,298,303	2,191,596	434,968
Royalties	-	-	-	-	-	160,000	240,000	19,934
Total Revenue	1,319,201	2,957,670	2,771,193	2,877,074	2,316,688	2,458,303	2,431,596	454,902
(Gain)/Loss on changes in fair value of biological assets	-	-	(770,778)	(61,715)	(28,208)	(246,012)	-	(1,915)
Inventory expensed to cost of sales	960,311	2,411,331	2,227,558	2,218,287	1,550,810	2,247,494	1,722,668	1,441,359
Productions costs	-	-	591,237	313,260	291,634	239,521	192,255	185,999
Cost of sales expense	960,311	2,411,330	2,048,016	2,469,833	1,814,236	2,241,003	1,914,923	1,625,444
Gross profit	358,890	546,339	723,176	407,242	502,452	217,300	516,673	(1,170,541)
Expenses:								
General and administration	824,307	2,042,055	2,487,861	2,906,512	2,050,930	2,065,193	1,861,038	2,058,955
Professional fees paid with equity instruments	322,347	1,416,453	1,093,195	-	528,801	70,315	69,499	-
Listing Expense	-	-	-	830,179	-	-	-	-
Sales and marketing	236,278	333,810	460,465	376,568	144,408	307,535	266,217	174,277
Research and development	75,787	112,869	178,319	91,606	124,492	18,764	21,372	20,508
Depreciation and amortization	12,642	35,158	75,776	150,024	19,952	72,661	62,584	53,724
Impairment of assets	-	-	-	-	-	-	-	1,555,612
Total expenses	1,471,362	3,940,346	4,295,616	4,354,889	2,868,582	2,534,469	2,280,711	3,863,076
Loss before undernoted items	(1,112,472)	(3,394,006)	(3,572,440)	(3,947,647)	(2,366,130)	(2,317,169)	(1,764,039)	(5,033,617)
Interest expense	7,509	20,840	29,454	73,562	129,525	424,185	307,179	355,697
Transaction costs	-	-	-	-	580,449	173,023	-	2,714,284
Loss on extinguishment	-	-	-	-	-	-	-	11,394,158
Accretion interest	-	-	-	-	20,733	273,925	295,109	76,004
Impairment of financing lease receivable								243,181
Other loss (income)	4,426	(26,905)	219,334	(33,883)	10,724	3,187	113,591	128,701
Gain on changes in fair value of warrant liabilities	8,837,465	(178,129)	149,500	(4,474,737)	(2,737,958)	(1,608,647)	(414,615)	609,143
Gain on changes in fair value of liabilities	-	-	-	-	-	-	-	(3,168,577)
Loss before income taxes	(9,961,873)	(3,209,813)	(3,970,727)	487,411	(369,603)	(1,582,841)	(2,065,304)	(17,386,207)
Incomes tax expense (benefit)	137,455	209,248	296,936	157,055				74,136
Net income / (loss)	(10,099,327)	(3,419,061)	(4,267,663)	330,356	(369,603)	(1,582,841)	(2,065,304)	(17,312,071)
Other Comprehensive (Income)/Loss	-	-	-	-	-	-	-	530,000
Comprehensive Income/(Loss)	(10,099,327)	(3,419,061)	(4,267,663)	330,356	(369,603)	(1,582,841)	(2,065,304)	(17,842,071)
Basic and diluted earnings / (loss) per share	(0.19)	(0.06)	(0.07)	0.01	(0.01)	(0.02)	(0.02)	(0.19)
Weighted average number of common shares outstanding	52,489,288	52,881,276	57,810,620	61,532,660	68,976,253	95,248,704	95,965,147	91,207,720

The Company's sales grew quickly through the quarter ended September 30, 2015 as it garnered significant market share in the medicinal cannabis oils market, then stabilized as market share was maintained and the market remained relatively flat. The recreational oil market was legal in Oregon as of June 2, 2016 which helped to drive some revenue growth, however the turbulence in the regulatory environment and supply chain during 2016 severely inhibited the Company's ability to grow as it spent significant time and resources responding to on the ground changes in the Oregon market.

Restatement of Interim Results for 2016

During the course of preparing the financial statements for the December 31, 2016 audit, technical issues were identified which resulted in corrections to prior period balances. The following is a brief explanation of the issues identified and the impact they had on the financial data presented above.

- Due to a combination of billing errors and collectability concerns. Royalty and equipment leasing income was reduced throughout the years and reclassified for the periods presented to be shown separately from other revenue lines. The impact of the errors was as follows: Q1 2016 revenue decreased by $160,000; Q2 revenue decreased by $150,000; and Q3 revenue decreased by $44,400.
- Due to various corrections resulting from a series of complex transactions relating to the convertible debentures placed in March 2016, total operating expenses was reduced. The impact of the errors was as follows: Q1 2016 expenses decreased by $275,000; Q2 2016 expenses decreased by $44,000; and Q3 2016 expenses decreased by $30,000.

Adjusted EBITDA

		For the three month period ended December 31		For the twelve month period ended December 31	
		2016	2015	2016	2015
Revenue	$	434,967	$ 2,877,073	$ 7,661,488	$ 9,925,137
Cost of sales expense	$	1,625,443	$ 2,469,832	$ 7,595,605	$ 7,889,491
Less Inventory impairment	$	(1,091,000)		$ (1,091,000)	
Adjusted cost of sales expense	$	534,443	$ 2,469,832	$ 6,504,605	$ 7,889,491
Gross profit	$	(99,476)	$ 407,241	$ 1,156,883	$ 2,035,646
Total operational expenses	$	3,513,649	$ 4,354,890	$ 11,546,835	$ 14,062,212
Less one time listing expense	$	-	$ (830,179)	$ -	$ (830,179)
Less one time impairment of assets	$	(1,555,612)	$ -	$ (1,555,612)	$ -
Less Non-cash expenses of dep and amort	$	17,053	$ (150,024)	$ (208,922)	$ (273,600)
Adjusted total operational expenses	$	1,975,090	$ 3,374,687	$ 9,782,301	$ 12,958,433
Adjusted EBITDA operational Loss	$	(2,074,566)	$(2,967,446)	$ (8,625,418)	$(10,922,787)

** Adjusted EBITDA is a non-GAAP financial measures and does not have any standardized meaning prescribed by the Company's GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-GAAP Disclosures" below for additional information.*

For the year ended December 31, 2016, the Adjusted EBITDA loss decreased to $8.6 million as compared an Adjusted EBITDA loss of $10.9 million during the same period in 2015. For the Q4 2016, the Adjusted EBITDA loss decreased to $2.1 million as compared to an Adjusted EBITDA loss of $3.0 million in the fourth quarter of 2015.

Non-GAAP Disclosure

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, less all non-cash equity compensation expenses, including impairments, one-time transaction fees and all other non-cash items. Adjusted EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by the Company's GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. The

Company considers this adjusted EBITDA an important figure to show the true day to day operational picture of the business. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with the Company's GAAP. Please refer to the Company's management's discussion and analysis for the year ended December 31, 2016 for further information on the Company's use of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net earnings.

Current assets have generally risen as the Company has invested in working capital related to growth, peaking at December 31, 2016 due to the cash generated by the debentures placed in that quarter and the movement of the Aurora property to assets held for sale. Intangible assets increased significantly with the purchase of assets from BMF Washington. Current liabilities have increased in concert with the Company's general growth in revenues and expenses. Long-term financial liabilities increased due to the debt financing of the Aurora Property purchase and the more recent rounds of convertible debt financing. Share capital has increased as a result of the Company's fund raising activities and stock portion of the BMF acquisition as well as warrant exercises and convertible debenture conversions.

Summary of G&A detail

General & Administrative Expense Summary	2016	2015
Wages and Benefits *	2,943,573	2,049,094
Consulting	328,713	881,669
Legal	953,322	975,573
Bad Debt	373,494	381,635
Security	254,672	576,534
Travel & Entertainment	235,240	396,696
Audit	234,164	459,068
Investor Relations	249,027	209,435
All Other	1,437,405	2,011,940
G&A	7,009,610	7,941,644
Professional fees paid with equity instruments	668,615	2,831,995
Non-cash Listing Fees	-	830,179
G&A Including Professional Fees paid with equity instruments and Listing Fees	7,678,225	11,603,818

* Includes non-legal employee consultants in wages

The Company incurred significant costs in the second half of 2015 for various professional services as the Company began to invest in infrastructure and ultimately the RTO and public listing, including consulting, legal, and audit, in addition to various services paid for in equity instruments cited in the financial statements and the predominantly share-based costs within the listing expenses. G&A in general has been decreasing as the Company is further removed from the RTO and fundraising efforts and has tightened expenses.

Liquidity and Capital Resources

The Company has financed its operations to date through the issuance of common shares and debt.

		December 31, 2016		December 31, 2015
Current Assets	$	8,720,279	$	2,852,698
Current Liabilities		15,535,784		2,748,564
Working capital (deficit)		(6,815,505)		104,134
Long-term Debt and Notes Payable		12,241,905		8,135,162
Share Capital		34,282,314		15,481,051
Deficit	$	(41,510,472)	$	(20,657,748)

The Company has funded its deficit primarily through the issuance of share capital and convertible debt, and in addition financed the purchase of the Aurora Property through the issuance of long-term debt and convertible notes. A portion of the deficit relates to both warrant reserves ($3.5 million) and warrant liabilities ($.4 million).

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.

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 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 CDN$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.

Liquidity, Financing and Capital Resources

Cash used in operations was $9,092,891 during the year ended December 31, 2016 compared to $7,447,200 during the year ended December 31, 2015. The Company raised $14,763,867 through financing activities during the year ended December 31, 2016 compared to $9,794,676 during the year ended December 31, 2015. Asset purchases totalled $494,208 during the year ended December 31, 2016 compared to $2,310,489 during the year ended December 31, 2016. This difference is driven primarily by the heavy investment made in production equipment during 2015.

As of December 31, 2016, the Company had $3,940,463 of cash in hand. The Company's authorized share capital is an unlimited number of which 109,348,836 were issued and outstanding at December 31, 2016.

As previously mentioned, the Company has primarily used share capital and debt to fund operating activities including capital expenditures. The Company funded the purchase of the Aurora Property almost entirely with debt financing. The Company initiated convertible debt financing in Q1 2016, Q2 2016, Q3 2016 and Q4 2016 *(see "Subsequent Events")* used to replenish cash and fund operational needs.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

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, 2016 and 2015 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

In September 2015, Sam Pillersdorf, Board Member, purchased $1,000,000 of secured convertible debentures as part of the financing of the Aurora property acquisition.

In the first tranche of the convertible debt offering , Don Robinson, CEO, purchased CDN $1,000,000 of debentures and Rick Miller, former Board Chairman purchased CDN$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. Subsequent to the balance sheet date the Company paid an instalment of $500,000 on this note.

In February 2016, Sam Pillersdorf, Director, 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. Prior to the asset acquisition, BMF was not a related party.

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

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

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

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

In the sixth tranche of convertible debentures completed in August 2016, Peter Saladino purchased CDN$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 (subsequent to the asset acquisition) 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.

Proposed Transactions

The Company has proposed transactions as disclosed in Subsequent Events, which have been approved by the Board of Directors. All other transactions are fully disclosed in the audited financial statements for the twelve months ended December 31, 2016.

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 JuJu 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 NevWa 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.

New accounting standards and interpretations not yet adopted

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

IFRS 9 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.

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

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.

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.

Financial Instruments

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

(a) Fair value

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 carrying value of long-term debt approximates fair value upon initial recognition. At September 30, 2016, its carrying value approximates fair value based on current market rates for similar instruments.

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

Level 1 – Quotes prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 – Inputs for the asset or liability that are not based on observable market data

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 Company recognizes the warrants associated with the initial private placements during the year as financial liabilities designated as FVTPL where changes to fair value based on changes to the inputs are recognized in profit or loss. The estimated fair value of the warrants is categorized within Level 2 of the fair value hierarchy. Refer to note 13 and 14 for information regarding the valuation technique and inputs used to determine fair value.

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

(b) Credit risk

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk.

The 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 are carried at a fixed interest rate throughout their term.

(d) Liquidity risk

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

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

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2016						
Trade and other payables	1,639,643	1,639,643	1,639,643	-	-	-
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	27,186,275	27,186,275	14,944,370	12,246,677	19,874	-

Risks Related to the Company's Business

The following are certain risk factors relating to the business carried on by the Company. The Company will continue to face a number of challenges in the development of its business. Due to the nature of and present stage of the Company's business, the Company may be subject to significant risks. The following is a summary of the principal risk factors affecting the Company.

Operational Risks

The Company will be affected by a number of operational risks and the Company may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's properties, grow facilities and extraction facilities, personal injury or death, environmental damage, adverse impacts on the Company's operation, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition. Also, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which the Company cannot insure or which the Company may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

U.S. Federal Regulation

Currently, there are 28 states of the United States plus the District of Columbia that have laws and/or regulations that recognize, in one form or another, legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. Many other states are considering similar legislation. Conversely, under the U.S. Controlled Substance Act (the "**CSA**"), the policies and regulations of the Federal government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. Unless and until Congress amends the CSA with respect to medical marijuana, as to the timing or scope of any such potential amendments there can be no assurance, there is a risk that federal authorities may enforce current federal law, and we may be deemed to be producing, cultivating or dispensing marijuana in violation of federal law or we may be deemed to be facilitating the selling or distribution of drug paraphernalia in violation of federal law with respect to our current or proposed business operations. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect the Company's future cash flows, earnings, results of operations and financial condition. The risk of strict enforcement of the CSA in light of Congressional activity, judicial holdings and stated federal policy remains uncertain.

Variation in State Regulations

Individual state laws do not always conform to the federal standard or to other states' laws. A number of states have decriminalized marijuana to varying degrees, other states have created exemptions specifically for medical cannabis, and several have both decriminalization and medical laws. Six states, Colorado, Washington, Oregon, California, Nevada, Massachusetts, and the District of Columbia, have legalized the recreational use of cannabis. Variations exist among states that have legalized, decriminalized or created medical marijuana exemptions. For example, Alaska and Colorado have limits on the number of marijuana plants that can be home grown. In most states, the cultivation of marijuana for personal use continues to be prohibited except for those states that allow small-scale cultivation by the individual in possession of medical marijuana needing care or that person's caregiver. Active enforcement of state laws that prohibit personal cultivation of marijuana may indirectly and adversely affect the Company's future cash flows, earnings, results of operations and financial condition.

Marijuana remains illegal under US Federal law

Marijuana is a schedule-I controlled substance under the CSA and is illegal under U.S. federal law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of U.S. federal law. Since U.S. federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in our inability to proceed with our business plan.

Change of Cannabis laws

Local, state and U.S. federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require the Company to incur substantial costs associated with compliance or alter certain aspects of its business plan. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to certain aspects of the Company's businesses. The Company cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the Company's business. The legislative and regulatory environment in the state of Oregon, is dynamic and reflects the uncertainty and search for novel solutions in the highly-regulated cannabis industry. Recently, both the Oregon Liquor Control Commission (OLCC), which is responsible for adopting rules to regulate Oregon's recreational marijuana program, and the Oregon Health Authority (OHA) which regulates the medical marijuana program, released proposed rules. Certain provisions in the proposed rules could be problematic for the Company if adopted in their present form, including but not limited to those relating to the size of growing operations. If these proposed rules are adopted in their present form, they could have a negative impact on the Company's financial performance and business operations. The status of these proposed rules are uncertain as there are possibilities for further revision before becoming final and effective. There can also be no assurance that local governments, such as counties within Oregon, could take regulatory action which may negatively affect the Company's cannabis business. Management expects that the legislative and regulatory environment in the cannabis industry will continue to be dynamic and will require innovative solutions to try to comply with this changing legal landscape in this nascent industry, for the foreseeable future.

Supply of Trim

The Company does not cultivate sufficient cannabis to supply itself with enough cannabis leaves and small flowers ("**Trim**") to operate its oil extraction business. Currently, the Company acquires Trim from third parties in amounts sufficient to operate its oil extraction business. However, there can be no assurance that there will continue to be a supply of Trim available for the Company to purchase in order to operate its oil extraction business. Additionally, the price of Trim may rise which would increase the Company's cost of goods. If the Company were unable to acquire the Trim required to operate its oil extraction business or if the price of Trim increased it could have a material adverse impact on the business of the Company, its financial condition and results from operations.

Security Risks

The business premises of the Company is a target for theft. While the Company has implemented security measures and continues to monitor and improve its security measures, its cultivation, processing and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and the Company fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of the Company.

As the Company's business involves the movement and transfer of cash which is collected from dispensaries and used to purchase Trim or deposited into its bank, there is a risk of theft or robbery during the transport of cash. The Company has engaged a security firm to provide armed guards and security in the transport and movement of large amounts of cash. Sales representatives sometimes transport cash and/or products and each sales representative has a panic button in their vehicle and, if requested, may be escorted by armed guards. While the Company has taken robust steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Risks Associated with New Cultivation Facility.

As noted previously, the referendum on both medical and recreational cannabis use in unincorporated Marion County failed, and therefore the Company will be considering contingency plans for cultivation and other operational uses around the Portland area.

Operation Permits and Authorizations.

Although the Company has applied for various recreational marijuana licenses, it may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its medical marijuana and recreational business. In addition, it may not be able to comply fully with the wide variety of laws and regulations applicable to the medical and recreational marijuana industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on the Company's ability to operate the medical and recreational marijuana business, which could have a material adverse effect on the Company's business.

Liability, Enforcement Complaints etc.

The Company's participation in the medical and recreational marijuana industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against these subsidiaries. Litigation, complaints, and enforcement actions involving these subsidiaries could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Banking

Since the use of marijuana is illegal under U.S. federal law, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. The inability to open bank accounts may make it difficult to operate the Company's medical and recreational marijuana business.

Resale of Shares

There can be no assurance that the publicly-traded stock price of the Company will be high enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company's shares would be diminished.

As well, the continued operation of the Company will be dependent upon its ability to procure additional financing in the short term and to generate operating revenues in the longer term. There can be no assurance that any such financing can be obtained or that revenues can be generated. If the Company is unable to obtain such additional financing or generate such revenues, investors may be unable to sell their shares in the Company and any investment in the Company may be lost.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility.

Undertaking With the Ontario Securities Commission

The Company is a party to an undertaking with the Ontario Securities Commission under which the Company agreed to notify the Ontario Securities Commission at least 60 days prior to conducting material operations in recreational marijuana and the Company also agreed to deliver an opinion with respect to the legality of recreational marijuana operations in connection with this notification. If the Company is unable to obtain a satisfactory legal opinion as to the legality of recreational marijuana operations, the Ontario Securities Commission could take administrative action or impose restrictions on the Company's operations which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

The Company's Limited Operating History Makes Evaluating Its Business and Prospects Difficult

The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development. As the Company is in an early stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. The Company has had limited experience in addressing the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving industries such as the medical and recreational marijuana industries. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Need for Funds

In the short term, the continued operation of the Company may be dependent upon its ability to procure additional financing. The Company must obtain such financing through a combination of equity and debt financing and there can be no assurance that the Company can raise the required capital it needs to build and expand its current grow and extraction facilities, nor that the capital markets will fund the business of the Company. Without this additional financing, the Company may be unable to achieve positive cash flow and earnings as quickly as anticipated or to meet its obligations as they become due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost. The raising of equity funding could also result in dilution of the equity of the Company's shareholders.

Dividends

The Company has not paid dividends to shareholders in the past and does not anticipate paying dividends in the foreseeable future. The Company expects to retain its earnings to finance growth, and where appropriate, to pay down debt.

The Company Has a History of Net Losses, Which Might Occur Again in the Future with No Assurance of Profitability

The Company incurred a net loss for the period from incorporation on April 8, 2014 to December 31, 2016 of US$(38,943,205). The Company cannot assure that it can achieve profitability or avoid net losses in the future or that there will not be any earnings or revenue declines for any future quarterly or other periods. The limited operating history makes it difficult to predict future operating results. The Company expects that its operating expenses will increase as it grows its business, including expending substantial resources for content and product development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses. In addition, the Company is subject to the risks inherent in the operation of a new business enterprise in an emerging and uncertain business sector, and there can be no assurance that the Company will be able to successfully address these risks

The Company May be Exposed to Infringement or Misappropriation Claims by Third Parties, Which, if Determined Adversely to the Company, Could Subject the Company to Significant Liabilities and Other Costs

The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of marijuana without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

The Company May Need to Incur Significant Expenses to Enforce its Proprietary Rights, and if the Company is Unable to Protect Such Rights, its Competitive Position Could be Harmed

The Company regards proprietary methods and processes, domain names, trade names, trade secrets, recipes and other intellectual property as critical to its success. The Company's ability to protect its proprietary rights is critical for the success of its business and its overall financial performance. The Company has taken certain measures to protect its intellectual property rights. However, the Company cannot assure that such measures will be sufficient to protect its proprietary information and intellectual property. Policing unauthorized use of proprietary information and intellectual property is difficult and expensive. Any steps the Company has taken to prevent the misappropriation of its proprietary technology may be inadequate. The validity, enforceability and scope of protection of intellectual property in the medical marijuana industry is uncertain and still evolving. In particular, the laws and enforcement procedures in some developing countries are uncertain and may not protect intellectual property rights in this area to the same extent as do the laws and enforcement procedures in Canada, the United States and other developed countries.

The Company is Dependent Upon its Existing Management, and its Growing and Extraction personnel, and its Business May be Severely Disrupted if it Loses Their Services.

The Company's future success depends substantially on the continued services of its executive officers and its key grow and extraction personnel. If one or more of its executive officers or key personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose know-how, key professionals and staff members. These executive officers and key employees could compete with and take customers away from the Company.

Available Talent Pool

As the Company grows, it will need to hire additional human resources to continue to develop the business. However, experienced talent in the areas of medical and recreational marijuana research and development, growing marijuana and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.

Unforeseen Competition

Although the Company has been and is currently a leader in the medical marijuana and extraction industry in the state of Oregon, there can be no assurance that the Company will continue to remain an industry leader. There can be no assurance that significant competition will not enter the marketplace and offer some number of similar products and services or take a similar approach. Such competition could have a significant adverse effect on the growth potential of the Company's business by effectively dividing the existing market for its products.

Potential Future Acquisitions and/or Strategic Alliances May Have an Adverse Effect on the Company's Ability to Manage its Business

As part of the Company's overall business strategy, the Company may pursue select strategic acquisitions to acquire technologies, businesses or assets that are complementary to its business and/or enter into strategic alliances in order to leverage its position in the medical and recreational marijuana and extraction markets. These would include but not be limited to acquisitions to provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on the Company's ability to manage its business. In addition, any proposed acquisitions may be subject to regulatory approval.

Management of Growth

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

General Economic Trends

The worldwide economic slowdown and tightening of credit in the financial markets may impact the business of the Company's customers, which could have an adverse effect on the Company's business, financial condition, or results of operations. Adverse changes in general economic or political conditions in the United States or any of the states within the United States and especially the State of Oregon could adversely affect the Company's business, financial condition, or results of operations.

Asset Location and Legal Proceedings

Substantially all of the Company's assets are located outside of Canada and many of its officers and directors are resident outside of Canada and their assets are outside of Canada. Serving process on the directors and officers may prove to be difficult or excessively time consuming. Additionally, it may be difficult to enforce a judgment obtained in Canada against the Company, its subsidiaries and any directors and officers residing outside of Canada.

Market Acceptance

The Company's ability to gain and increase market acceptance of its medical marijuana products depends upon its ability to educate the public, physicians and other healthcare professionals on the benefits of medical marijuana products. Similarly, the Company's ability to gain and increase market acceptance of its recreational marijuana products depends upon its ability to educate the public, promote its products and compare them to other available alternatives. It also requires the Company establish and maintain its brand name and reputation. In order to do so, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful and their failure may have an adverse effect on the Company.

Electronic Communication Security Risks

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Insurance Coverage

The Company will require insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage. Although the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

Tax Risk

The provisions of Internal Revenue Code section 280E are being applied by the Internal Revenue Service ("**IRS**") to businesses operating in the medical and recreational marijuana industry. Section 280E provides:

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.

Even though several states have medical and recreational marijuana laws, the IRS is applying section 280E to deny business deductions to businesses involved with medical and recreational marijuana. Businesses operating legally under state law argue that section 280E should not be applied because Congress did not intend the law to apply to businesses that are legal under state law. The IRS asserts that it was the intent of Congress to apply the provision to anyone "trafficking" in a controlled substance, as defined under federal law (as stated in the text of the statute). Thus, section 280E is at the center of the conflict between federal and state laws with respect to medical marijuana which applies to the business conducted by the Company.

Currency Fluctuations

Due to the Company's present operations in the United States, and its intention to continue future operations outside Canada, the Company is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All or substantially all of the Company's revenue will be earned in US dollars, but a portion of its operating expenses are incurred in Canadian dollars. The Company does not have currency hedging arrangements in place and there is no expectation that the Company will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the US dollar and the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Other MD&A Disclosure Requirements

Information available on SEDAR
As specified by National Instrument 51-102, the Company advises readers of this MD&A that important additional information about the Company is available on the SEDAR website – www.sedar.com.

Disclosure by venture issuer
An analysis of the material components of the Company's general and administrative expenses is disclosed in the financial statements to which this MD&A relates.

Outstanding share data
Common shares issued and outstanding as at December 31, 2016 are described in detail in Note 16 to the Audited consolidated financial statements for the twelve months ended December 31, 2016. Shares outstanding as of April 29, 2017 are 127,515,284.