Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the years ended December 31, 2019 and 2018

GOLDEN LEAF HOLDINGS LTD.

Consolidated Financial Statements
(Expressed in U.S. Dollars)
For the years ended December 31, 2019 and 2018

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Golden Leaf Holdings Ltd.

Opinion

We have audited the consolidated financial statements of Golden Leaf Holdings Ltd. (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements")

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which indicates that the Company has an accumulated deficit as at December 31, 2019 of $143,383,806 and has not generated revenue in excess of expenses. As stated in Note 2, these events or conditions, along with other matters set forth in Note 2, indicate that the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative Information

We draw attention to Note 5 in the financial statements which describes that the Company adopted IFRS 16 *Leases* with a transition date of January 1, 2019. This standard was applied by management using the modified retrospective approach. Accordingly, the comparative figures for the year ended December 31, 2018 have not been restated and continue to be reported under IAS 17 *Leases*. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information may comprise the Management's Discussion and Analysis, and other similar documents.

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Otto Ehinger.

DMCL.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC
May 5, 2020

MOORE

An independent firm associated with Moore Global Network Limited

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in U.S. dollars)

		2019	2018
ASSETS			
CURRENT			
Cash		$ 3,531,202	$ 12,275,372
Accounts receivable, net	Note 8	167,178	624,453
Other receivables	Note 8	447,901	297,737
Income tax recoverable	Note 26	-	686,600
Sales tax recoverable		271,866	661,319
Biological assets	Note 9	88,078	74,148
Inventory	Note 9	2,965,304	3,416,906
Prepaid expenses and deposits		325,329	1,962,033
Assets held for sale	Note 10	-	35,274
Total current assets		7,796,858	20,033,842
Property, plant and equipment, net	Note 10	3,723,489	6,188,835
Notes receivable	Note 7	919,488	-
Right-of-use assets, net	Notes 5 and 19	4,333,064	-
Intangible assets, net	Note 11	10,737,423	21,782,949
Goodwill	Note 11	4,056,172	25,471,399
Total assets		$ 31,566,494	$ 73,477,025
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		$ 1,564,982	$ 2,624,967
Interest payable		125,900	92,554
Income taxes payable	Note 26	(74,034)	106,808
Deferred income tax payable	Note 26	248,852	-
Sales tax payable		187,520	231,675
Current portion of long-term debt	Note 13	82,404	25,492
Lease liability	Notes 5, 13 and 19	843,238	-
Current portion of convertible debentures carried at fair value	Note 12	-	8,888,946
Warrant liability	Note 14	-	369,343
Total current liabilities		2,978,862	12,339,785
Long term debt	Note 13	29,952	46,229
Note payable	Note 12	-	312,118
Long term lease liability	Notes 5, 13 and 19	4,090,806	-
Convertible debentures carried at fair value	Note 12	4,706,141	4,996,811
Consideration payable - cash portion	Note 13 and 21	4,218,866	4,502,013
Consideration payable - equity portion	Note 13 and 21	4,940,667	4,454,796
Warrant liability	Note 14	-	236,138
Total liabilities		20,965,294	26,887,890
SHAREHOLDERS' EQUITY			
Share capital	Note 15	147,763,499	138,511,038
Warrant reserve	Note 16	1,980,217	4,052,164
Share option reserve	Note 17	4,181,350	4,777,929
Contributed surplus		59,940	59,940
Accumulated other comprehensive loss		-	(125,930)
Deficit		(143,383,806)	(100,686,006)
Total shareholders' equity		10,601,200	46,589,135
Total liabilities and shareholders' equity		$ 31,566,494	$ 73,477,025

Going concern (Note 2)
See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:
(Signed) "Alex Winch", Director
(Signed) "Karl R. Miller, Jr.", Director

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2019 and 2018
(Expressed in U.S. dollars)

		2019	2018
Revenues			
Product sales	Note 25	$ 15,649,539	$ 14,634,969
Consulting revenue	Note 25	105,068	62,817
Total Revenue		15,754,607	14,697,786
Inventory expensed to cost of sales	Notes 9, 25	10,996,815	13,286,359
Production costs	Note 25	461,039	502,540
Gross margin, excluding fair value items		4,296,753	908,887
Fair value changes in biological assets included in inventory sold	Notes 9, 25	-	37,976
(Gain) Loss on changes in fair value of biological assets	Notes 9, 25	(20,715)	(67,173)
Gross profit		4,317,468	938,084
Expenses			
General and administration		11,019,327	13,194,231
Share based compensation	Note 17	1,014,915	4,616,448
Sales and marketing		2,039,744	2,137,459
Depreciation and amortization	Note 5, 10	2,502,844	1,613,510
Total expenses		16,576,830	21,561,649
Loss before items noted below		(12,259,362)	(20,623,565)
Interest expense	Notes 5, 12, 13	2,712,092	2,182,985
Transaction costs	Note 20	279,402	1,686,425
Loss on disposal of assets	Note 10	73,218	5,000
Other (income) loss		74,246	(2,598,631)
Impairment loss	Note 11	18,735,818	9,930,589
Gain on change in fair value of warrant liabilities	Note 14	(605,481)	(14,993,991)
Gain on debt modification or extinguishment	Notes 12, 13	(2,290,163)	-
Gain on change in fair value of derivative liabilities		-	(61,044)
Loss (gain) on change in fair value of convertible debentures	Note 12	565,580	(12,582,178)
Loss before income taxes		(31,804,074)	(4,192,720)
Current income tax expense	Note 26	812,461	82,811
Net loss from continuing operations		$ (32,616,535)	$ (4,275,531)
Loss from discontinued operations	Note 7	(13,764,706)	(294,811)
Net loss		$ (46,381,241)	$ (4,570,342)
Other comprehensive loss			
Items that will be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		125,930	(135,758)
Comprehensive loss		$ (46,255,311)	$ (4,706,100)
Basic and diluted loss per share from continuing operations	Note 18	$ (0.05)	$ (0.01)
Basic and diluted loss per share from discontinued operations	Note 18	$ (0.02)	$ (0.00)
Weighted average number of common shares outstanding	Note 18	671,893,137	568,877,327

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2019 and 2018
(Expressed in U.S. dollars)

		Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2018		$ 108,552,681	$ 5,083,561	$ 1,087,640	$ 59,940	$ 9,828	$ (97,457,855)	$ 17,335,795
Issuance of common shares	Note 15	9,163,461	-	-	-	-	-	9,163,461
Issuance of warrants and broker units	Note 16	-	849,209	-	-		-	849,209
Exercise of warrants and options for common shares	Note 15	11,862,877	(1,432,100)	(32,474)	-	-	-	10,398,303
Share-based compensation	Note 17	-	-	4,616,448	-	-	-	4,616,448
Conversion of debentures for common shares	Note 15	8,932,019	-	-	-	-	-	8,932,019
Expiry of warrants and stock options		-	(448,506)	(893,685)	-	-	1,342,191	-
Net loss and comprehensive loss for the year		-	-	-	-	(135,758)	(4,570,342)	(4,706,100)
Balance at December 31, 2018		$ 138,511,038	$ 4,052,164	$ 4,777,929	$ 59,940	$ (125,930)	$ (100,686,006)	$ 46,589,135

		Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2019		$ 138,511,038	4,052,164	$ 4,777,929	$ 59,940	$ (125,930)	$ (100,686,006)	$ 46,589,135
Issuance of common shares	Note 12, 15	996,362	-	-	-	-	-	996,362
Share-based compensation	Note 17	-	-	1,014,915	-	-	-	1,014,915
Conversion of debentures for common shares	Note 12, 15	8,256,098	-	-	-	-	-	8,256,098
Expiry of warrants and stock options		-	(2,071,947)	(1,611,494)	-	-	3,683,441	-
Net loss and comprehensive loss for the year		-	-	-	-	125,930	(46,381,241)	(46,255,311)
Balance at December 31, 2019		$ 147,763,499	$ 1,980,217	$ 4,181,350	$ 59,940	$ -	$ (143,383,806)	$ 10,601,200

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in U.S. dollars)

		2019	2018
Cash (used in) provided by:			
Operating activities:			
Net loss		$ (46,381,241)	$ (4,570,342)
Depreciation of property, plant and equipment	Note 10	2,502,844	1,578,210
Loss from discontinued operations		13,764,706	-
Loss on disposal of assets	Note 10	73,217	5,000
Gain on debt modification or extinguishment	Note 12 and 13	(2,290,163)	(999,153)
Interest expense		2,702,963	1,776,446
Income tax expense		-	82,811
Bad debt expense	Note 7	183,879	235,665
Share based compensation	Note 17	1,014,915	4,616,448
Gain on fair value adjustment to w arrants liability	Note 14	(605,481)	(14,993,991)
Gain on change in fair value of derivative liabilities		-	(61,044)
Loss (gain) on fair value adjustment to debt		565,580	(12,582,178)
Transaction costs	Note 20	-	849,209
Gain on fair value of biological assets	Note 9	(20,715)	67,173
Reserve for obsolete inventory	Note 9	276,504	150,586
Impairment of intangible assets and goodw ill	Note 11	18,735,818	9,930,589
Other non-cash transactions		257,853	(522,229)
Changes in working capital items			
Accounts receivable	Note 8	134,439	(482,371)
Other receivables		(150,164)	(297,737)
Sales tax recoverable		389,453	(473,087)
Income taxes payable	Note 26	754,610	-
Accounts payable and accrued liabilities		(901,660)	(242,768)
Sales tax payable		(44,155)	255,672
Biological assets	Note 9	6,785	317,814
Inventory	Note 9	(296,774)	55,763
Prepaid expenses and deposits		1,245,615	(1,606,037)
Cash used in operating activities		(8,081,172)	(16,909,551)
INVESTING ACTITIVES			
Purchase of property, plant and equipment	Note 10	(1,044,484)	(1,815,135)
Proceeds from disposal of subsidiary		1,398,299	-
Payment of deposits and retainers		-	(7,820)
Cash provided (used) in investing activities		353,815	(1,822,955)
FINANCING ACTIVITIES			
Issuance of common shares	Note 15	-	21,692,686
Payment of share issuance costs		-	(985,787)
Issuance of convertible notes payable		-	5,488,771
Repayment of long-term debt		-	(218,068)
Payment of lease liabilities		(936,813)	-
Interest paid		(80,000)	(979,171)
Cash (used) provided by financing activities		(1,016,813)	24,998,431
(Decrease) increase in cash during the year		(8,744,170)	6,265,925
Cash, beginning of period		12,275,372	6,009,447
Cash, end of period		$ 3,531,202	$ 12,275,372

See accompanying notes to these consolidated financial statements

1. Incorporation and operations

Golden Leaf Holdings Ltd. ("Golden Leaf" or the "Company") is a publicly traded corporation, incorporated in Canada, operating primarily in the Oregon, Nevada, and California markets. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "GLH" as well as the OTCQB under the trading symbol "GLDFF".

The Company is in the business of producing and distributing cannabis oil and flower products within Oregon, Nevada and California adult-use regulated markets, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC. Effective December 31, 2019, the Company sold its two Canadian subsidiaries, Medical Marihuana Group Corporation ("MMG") and Medical Marijuana Group Consulting Ltd. ("MMC," and together with MMG, the "Canadian Operations").

2. Going concern

Golden Leaf has been incurring operating losses and cash flow deficits since its inception, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the gradual relaxing of prohibitions on the cannabis industry in the United States and the legalization of cannabis in Canada. As at December 31, 2019, the Company had an accumulated deficit of $143,383,806 (2018 - $100,686,006). The Company's revenues have not yet risen 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 capital as it simultaneously navigates regulatory evolution and uncertainty, awaits the imminent changes in other United States jurisdictions that will fuel market expansion, and continues to make necessary investments.

As of December 31, 2019, the Company's cash balances were $3,531,202. 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 acceptable terms. As well, there can be no assurance that the Company will be able to generate sufficient cash flows from operations.

These circumstances indicate the existence of material uncertainty that casts substantial doubt as to the Company's ability to meet its business plans and its obligations as they become 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 the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future and does not reflect the adjustments to assets and liabilities that would be necessary if it were unable to obtain adequate financing. Such adjustments could be material. If the Company is unable to raise funds and execute its business plans, it may not be able to continue as a going concern.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. As at the financial statement approval date, the outbreak and the related mitigation measures have had the following impacts on the Company's operations, among others: Required compliance with enhanced federal employee benefits regulations, intermittent supply chain disruptions and cash management challenges. The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the U.S. and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time.

3. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements have been approved by the Company's Board of Directors on May 5, 2020.

4. Basis of presentation

Except where specified, the consolidated financial statements have been prepared in U.S. dollars, which is the Company's presentation and functional currency, on a historical cost basis except for certain financial assets and financial liabilities measured at fair value. The accounting policies set out below have been applied consistently to all periods presented except for the adoption of IFRS 16 - Leases. Certain prior period amounts have been reclassified to be consistent with current period presentation (Note 7).

5. Significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee
- is exposed or has right to variable returns from its involvements with the investee; and
- has the ability to use its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to the three elements of control listed above.

The Company consolidates the financial statements of the following entities:

5. Significant accounting policies (continued)

Subsidiary	Place of incorporation	Functional currency	Effective ownership	Principal activity
Greenpoint Oregon, Inc.	Oregon	USD	100%	Cannabis production, distribution, and sales
CFA Retail, LLC	Oregon	USD	100%	Retail Cannabis sales
Greenpoint CBD, LLC	Nevada	USD	100%	Industrial hemp processing
Greenpoint Real Estate, LLC	Oregon	USD	100%	Ownership, administration, and leasing of real estate
GL Management, Inc.	Nevada	USD	100%	Ownership and administration of intellectual property
Greenpoint Equipment Leasing, LLC	Oregon	USD	100%	Ownership and leasing of capital equipment
Greenpoint Nevada, Inc.	Nevada	USD	100%	Cannabis production, distribution, and sales
Greenpoint Workforce, Inc.	Oregon	USD	100%	Employee leasing to operating subsidiaries in the U.S.
CF Greenpoint CA, Inc.	California	USD	100%	Management of non-retail operations in California
CF US Franchising, Inc.	Oregon	USD	100%	Management of franchising activities in the U.S.

The following subsidiaries were disposed of on December 31, 2019 and accordingly have not been consolidated as at December 31, 2019. The operating results of these subsidiaries are included in discontinued operations in the Consolidated Statement of Operations up until the date of disposal.

Subsidiary	Place of incorporation	Functional currency	Effective ownership	Principal activity
Medical Marihuana Group Corporation	Ontario	CAD	100%	Cannabis production and distribution
Medical Marijuana Group Consulting, Ltd.	Ontario	CAD	100%	Medical marijuana patient consulting

All intercompany transactions and balances with subsidiaries have been eliminated upon consolidation. All entities in the group have the same reporting period.

5. Significant accounting policies (continued)

Discontinued Operations

Effective December 31, 2019, the Company sold its two subsidiaries in Canada, MMG and MMC. The MMG and MMC segments meet the criteria of a discontinued operation under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.* These operating segments were not previously classified as held-for-sale or as discontinued operations. The comparative Consolidated Statements of Operations and Comprehensive Loss has been restated to show the discontinued operations separately from continuing operations (Note 7).

Foreign currency

Functional currency is the currency of the primary economic environment in which the reporting entity operates and is normally the currency in which the entity substantially generates and expends cash. Each entity in the group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The Company has determined that the functional currency of the consolidated group is U.S. dollars, with the exception of MMG and MMC. The functional currency of these entities is the Canadian dollar. These two entities were sold on December 31, 2019 and are presented under Discontinued Operations. Prior to sale, the Company translated the financial statement accounts using the methodology noted below.

Transactions

Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All differences are recorded in the consolidated statements of income (loss) and comprehensive income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Translation

Assets and liabilities of foreign operations are translated into U.S. dollars at year-end exchange rates and their revenue and expenses are translated at the average exchange rate for the year. The resulting exchange differences are recognized in other comprehensive income (loss).

Changes in Accounting Policies - Leases

The Company adopted IFRS 16 *Leases* as of January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Company did not act as a lessor for the year ended December 31, 2019.

The Company has applied IFRS 16 using the cumulative catch-up method, under which the cumulative effect of the initial application, if any, is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and it is presented, as previously reported, under International Accounting Standard (“IAS”) 17 and related interpretations. The details of the changes in accounting policies are described below.

5. Significant accounting policies (continued)

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. On adoption, it applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts that existed or were entered into or changed on or after January 1, 2019. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone basis. The Company excluded common area maintenance (CAM) and sales-based rent from the lease components as these are considered variable costs under IFRS 16, and accordingly, are expensed as incurred.

Recognition

The Company leases several assets, including properties and vehicles. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases. Therefore, these leases are recorded on the balance sheet.

However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value (e.g. IT equipment) and leases where the period is less than 12 months. The Company recognises the lease payments associated with these leases as an expense over the lease term.

Accounting policies

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The right-of-use asset is subsequently measured at this cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

5. Significant accounting policies (continued)

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Transition

Previously, the Company classified property leases as operating leases under IAS 17. These include retail store space, production facilities, warehouses, cannabis grows, and offices. The leases typically run for a period of 3 to 10 years. Some leases include an option to renew the lease for an additional term of 3 to 10 years after the end of a non-cancelable period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments and discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at amounts equal to the respective lease liabilities, adjusted by the amounts of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact of transition

On transition to IFRS 16, the Company recognized additional right-of-use assets equal to additional lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Statement of Financial Position immediately before the date of initial application. The impact on transition is summarized below.

		January 1, 2019
Right-of-use assets - properties	$	4,211,902
Right-of-use assets - vehicles		67,002
Total right-of-use assets (Note 19)	$	4,278,904
Lease liabilities (Note 19)	$	4,451,665

The opening balance of the right-of-use asset at January 1, 2019 includes a reversal of the previous year accrual for rent in the amount of $172,761.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 12.57% for leases with a remaining term of 5years or more and 11.68% for leases with a remaining term of 1-5 years.

5. Significant accounting policies (continued)

Impacts for the period

In relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Company recognized $684,129 of depreciation charges and $559,376 of interest expense from these leases, respectively.

Property, plant and equipment

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

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

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

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

Production equipment	5 - 7 years
Furniture and fixtures	4 - 10 years
Vehicles	5 years
Computer equipment	3 - 7 years
Computer software	3 years
Leasehold improvements	3 - 20 years

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

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. For indefinite life intangible assets, impairment testing is required to be performed at least annually or more frequently when there are indicators of impairment. The recoverable amount is the greater of value-in-use and fair value less costs of disposal. Determining the value-in-use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). For the years ending December 31, 2019 and 2018, the Company recorded impairment of goodwill and intangibles of $18,735,818 and $9,930,589, respectively. Refer to Note 11.

5. Significant accounting policies (continued)

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are reflected in the consolidated statements of income (loss) and comprehensive income (loss) in the period which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income (loss) and comprehensive income (loss) in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

The Company's intangible assets consist of brands, cannabis licenses and customer relationships. The useful life of the brands and cannabis licenses is indefinite, and customer relationships are amortized on straight line basis over 5 years. Refer to Note 11.

Inventories

Inventories for resale and supplies and consumables are measured at the lower of cost and net realizable value with cost determined on an average basis. Net realizable value is the estimated selling price in the normal course of business, less any costs to complete and sell the goods. The cost of inventory includes expenditures incurred in acquiring raw materials, production and conversion costs, depreciation and other costs incurred in bringing them to their existing location and condition. Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Biological assets

The Company's biological assets consist of cannabis plants. Biological assets are valued in accordance with IAS 41 Agriculture and are presented at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Since actively traded commodity market prices are not available for cannabis plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable

5. Significant accounting policies (continued)

market data (Level 3). Unrealized fair value changes on growth of biological assets are recorded in a separate line on the face of the statement of operations.

On January 1, 2018, the Company adopted a production costs capitalization policy using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories*. A portion of production costs related to the transformation of biological assets from the point of recognition to the point of harvest are capitalized and included in the fair value measurement of biological assets. Previously, production costs were expensed as incurred. The adoption of this policy does not represent a change in an accounting policy under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, as production costs related to cannabis cultivation and grow activities were previously immaterial to the Company's financial results.

Revenue recognition

The Company adopted all requirements of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The IFRS 15 model contains the following five-step contract-based analysis of transactions guiding revenue recognition:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

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

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

For product sales of cannabis and cannabis derivative products, the Company transfers control and satisfies its performance obligation when collection has taken place, compliant documentation has been signed and the product was accepted by the buyer.

5. Significant accounting policies (continued)

The Company provides revenue data by its operating and geographical segments: Oregon, Nevada wholesale, and Other, which includes Corporate and certain agreements. Refer to Note 25 for segment information disclosures.

Income taxes

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

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

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

Accounts receivable

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

Financial instruments

The following is the Company's accounting policy for financial instruments under IFRS 9 is as follows:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The

5. Significant accounting policies (continued)

classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. Other equity instruments are classified on the day of acquisition; the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost. Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. Amortized cost is determined using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating interest expense over the relevant period. The Company's accounts receivable, notes receivable, accounts payable and accrued liabilities, long-term debt, and notes payable are classified as liabilities at amortized cost. Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets and liabilities at FVTPL. Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of operations. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of operations in the period in which they arise. The Company's convertible debentures, derivative liabilities, and warrants not classified as equity are classified as financial liabilities at FVTPL.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial

5. Significant accounting policies (continued)

asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of operations, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets. The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of operations.

Convertible debentures

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

Basic and diluted loss per common share

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

Warrants

Warrants issued that fall within the scope of IFRS 9 are equity only to the extent they meet the fixed for fixed criteria which requires the exercise price be denominated in the same functional currency as that of the issuing entity. If warrants are issued in a currency other than the entity’s functional currency, they are classified as a financial liability and must be measured at FVTPL.

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

Share-based payments

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company’s estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the

5. Significant accounting policies (continued)

fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. Consideration paid by employees or nonemployees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustment against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant policy. Changes in the fair value of contingent consideration classified as equity are not recognized.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. For the purposes of impairment testing, goodwill is allocated to each of the Company’s Cash-Generating Units ("CGUs") (or groups of CGUs) that are expected to benefit from the combination.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Deferred tax

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that does not affect either taxable income or net income before taxes. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

5. Significant accounting policies (continued)

Current and deferred tax for the period

Current and deferred tax are recognized in the statement of operations, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their initial cost).

Subsequent to initial recognition, intangible assets acquired in business combinations are reported at cost less accumulated amortization if applicable and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment testing – goodwill and indefinite-lived intangible assets

The Company performs annual impairment tests for impairment of goodwill and intangible assets with indefinite lives in the third quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, indicate an impairment loss is present. Key assumptions in the impairment assessment include underlying recoverable amounts of respective CGUs, the discount rates applied, future growth rates and forecast cash flows. Refer to Note 11.

6. Critical judgments and key sources of estimation uncertainty

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

Key Sources of Estimation Uncertainty

Allowance for doubtful accounts

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

Useful lives of equipment

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

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

lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets. In addition, the assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Share-based payment transactions and warrants

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

Fair value of financial instruments

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

Fair value of intangible assets

Determining the fair value of intangible assets acquired in business combinations and asset purchases requires management to make assumptions and estimates about future events, future cash flows, underlying recoverable value of equity, weighted average cost of capital and other inputs. Refer to Note 11.

Impairment of non-financial assets

Non-financial assets include property, plant, equipment, and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate. Refer to Note 11.

Biological assets

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value. Refer to Note 9.

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

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. The factors considered by management are disclosed in Note 2.

Useful lives of intangibles

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

Taxes

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

7. Discontinued operations

In the fourth quarter of 2019, management entered into an agreement to sell its two Canadian subsidiaries, MMG and MMC. The sale was completed on December 31, 2019.

The Canadian Operations were sold for aggregate consideration of C$3,000,000. The consideration is composed of C$1,800,000 in cash, C$200,000 in an unsecured loan, and C$1,000,000 in a secured vendor take-back loan.

The unsecured loan is interest free for 24 months following the close. The payment schedule is at the discretion of the purchaser with a maturity date of December 2021.

The C$1M vendor take back loan is secured by the MMG property and bears interest at a rate of 5% per annum, repayable as to interest only, monthly over 24 months. The principal amount of the secured loan shall be paid by the end of the loan term, which is December 2021.

The MMG and MMC segments meet the criteria of a discontinued operation under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.* These operating segments were not previously classified as held-for-sale or as a discontinued operation. The comparative Consolidated Statements of Operations and Comprehensive Loss has been restated to show the discontinued operation separately from continuing operations.

7. Discontinued operations (continued)

Results of discontinued operations:

	2019	2018
Net sales	$ 964,898	$ 1,754,541
Cost of goods sold	223,880	501,359
Selling and administrative expenses	778,999	1,304,689
Depreciation and amortization	279,139	243,304
Other expense	147,783	-
Net loss from discontinued operations	$ (464,903)	$ (294,811)
Loss on sale and deconsolidation of discontinued operations	(13,299,803)	-
Total loss from discontinued operations	$ (13,764,706)	$ (294,811)

Cash provided by (used in) discontinued operations:

	2019	2018
Net cash (used) provided by operating activities	$ (335,374)	$ 685,373
Net cash used in investing activities	(14,958)	(247,895)
Net cash flows for the year	$ (350,332)	$ 437,477

MMG and MMC were deconsolidated as at December 31, 2019, as the sale was finalized prior to the 2019 fiscal year-end. Included in the Consolidated Balance Sheet as at December 31, 2018 are the following major classes of assets and liabilities associated with the discontinued operations.

	2019	2018
Assets of discontinued operations:		
Current assets	$ 942,944	$ 1,177,090
Net property, plant and equipment	1,458,922	1,514,722
Goodwill and intangibles	13,496,836	13,787,921
	$ 15,898,702	$ 16,479,733
Liabilities of discontinued operations:		
Current liabilities	$ 217,598	$ 320,043
Long-term liabilities	306,120	312,118
	$ 523,718	$ 632,161

8. Accounts receivable and other receivables

		2019		2018
Accounts Receivable	$	545,272	$	718,668
Allowance for doubtful accounts		(378,094)		(94,215)
	$	167,178	$	624,453

Continuity of allowance for doubtful accounts

		2019		2018
Beginning balance	$	94,215	$	-
Increase in provision for doubtful accounts		367,044		94,215
Provision used for write-off of receivables		(83,165)		-
	$	378,094	$	94,215

Included in the balance of accounts receivable at December 31, 2018 was $412,407 from discontinued operations. All of the Company's accounts receivable have been reviewed for indicators of impairment. Accounts receivable more than 90 days past due totaled $378,094 and $94,215 (including $23,373 from discontinued operations) at December 31, 2019 and 2018, respectively, and have been provided for in the allowance for doubtful accounts.

Other receivables of $447,901 represent funds advanced via short-term secured promissory notes to TozMoz, LLC ("TozMoz"), which the Company is in the final stages of acquiring. These notes are secured primarily by the production equipment owned by TozMoz and will offset the cash component of consideration payable upon the close of the transaction.

9. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on the selling price less any costs to sell up to the point of harvest.

For biological assets that are still growing, the fair value ascribed to them is a percentage of the fair value at point of harvest, based on where the plants are in their grow cycle. As at December 31, 2019, on average, the biological assets were approximately 53% complete relative to the next expected harvest date.

In determining the fair value of biological assets, management is required to make several estimates with respect to significant unobservable inputs, including the expected yields for the cannabis plants, listed selling price of dry cannabis, the stage of plant growth at which point of harvest is determined, wastage and costs to sell. Estimated yield per plant varies by strain and is obtained through historical growing results or grower estimate if historical results are not available. The Company used 54.48 grams (2018 – 58.37 grams) per plant in the valuation of biological assets at December 31, 2019. The listed selling price of dry cannabis varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available. The Company used a price of $1.46 per gram (2018 – 3.50 per gram) in valuation of biological assets at December 31, 2019. Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest. For the year ended December 31, 2019 and 2018, costs to sell were $nil (2018 - $37,976) as the biological assets were not sold to wholesale customers.

9. Biological assets and inventory (continued)

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were key inputs used by management in determining the fair value of biological assets:

- Selling price per gram – calculated as the weighted average selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices. As at December 31, 2019, these prices represented the ultimate selling prices to wholesale buyers.
- Stage of growth – represents the weighted average number of weeks out of the 16-week growing cycle that biological assets have reached as of the measurement date.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Wastage – represents the weighted average percentage of biological assets which are expected to be destroyed due to failure to mature into cannabis plants that can be harvested.

The following table quantifies averages for each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets:

	December 31, 2018	10% change as at December 31, 2018
Selling price per gram	$3.50	$ 9,955
Stage of growth	11 weeks	$ -
Yield by plant	58.37 grams	$ 9,955
Wastage	5%	$ -
	December 31, 2019	**10% change as at December 31, 2019**
Selling price per gram	$1.46	$ 8,808
Stage of growth	7 weeks	$ -
Yield by plant	54.48 grams	$ 8,808
Wastage	2%	$ -

9. Biological assets and inventory (continued)

The Company capitalizes its periodic cost related to growing its biological assets and accretes fair value using percentage of completion based on weeks of growth in the vegetative and flower cycles.

During the years ended December 31, 2019 and 2018 the Company recognized $20,715 and $67,173, respectively, of gain on the change in fair market value of biological assets reflecting the increased value relating to the growth and harvest of the flower from cannabis plants.

This gain was calculated using a periodic change in value based on plant count and estimated value of the various products from the plants.

Inventory consists of cannabis flower, concentrated products such as oils and edibles, packaging, trim, and paraphernalia. Inventory costs are costs incurred to bring inventory to the condition and location of sale and include labor, packaging, transportation, depreciation of equipment, and other related costs.

During the years ended December 31, 2019 and 2018, $215,821 and $360,688, respectively, of depreciation was allocated to inventory and expensed as cost of sales. Any costs incurred to bring inventory to the condition and location of sale are included in cost. Inventory expensed to cost of sales for the years ended December 31, 2019 and 2018 was $10,996,815 and $13,286,359, respectively.

The Company's inventory at December 31, 2019 and 2018 consists of:

	Biological assets	Inventory
Raw materials	$ -	$ 875,108
Work-in-process	74,148	1,099,840
Finished goods	-	1,441,958
Balance, December 31, 2018	$ 74,148	$ 3,416,906
Raw materials	-	251,393
Work-in-process	88,078	961,408
Finished goods	-	1,752,503
Balance, December 31, 2019	$ 88,078	$ 2,965,304

At December 31, 2019 and 2018, the Company also recorded a general reserve for excess and obsolete inventory in the amount of $276,504 and $150,586, respectively.

The Company's biological assets at December 31, 2019 and 2018 are comprised of:

Balance, January 1, 2018	$ 90,627
Gain on fair value of biological assets	67,173
Gain on fair value of biological assets - discontinued operations	234,162
Increase in biological assets due to capitalized costs	59,373
Transfer to finished goods	(377,187)
Balance, December 31, 2018	$ 74,148
Balance, January 1, 2019	$ 74,148
Gain on fair value of biological assets	20,715
Increase in biological assets due to capitalized costs	67,363
Transfer to finished goods	(74,148)
Balance, December 31, 2019	$ 88,078

10. Property, plant and equipment

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment and Software	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, January 1, 2018	$ 867,351	$ 290,404	$ 1,835,863	$ 3,736,610	$ 235,778	$ 938,496	$ 222,112	$ 8,126,614
Additions	176,495	(16,962)	420,418	916,416	170,214	112,554	36,000	1,815,135
Dispositions	-	-	-	-	-	(53,103)	-	(53,103)
Balance, December 31, 2018	$ 1,043,846	$ 273,442	$ 2,256,281	$ 4,653,026	$ 405,992	$ 997,947	$ 258,112	$ 9,888,646
Accumulated Amortization								
Balance, January 1, 2018	$ -	$ -	$ (609,494)	$ (920,057)	$ (109,279)	$ (423,093)	$ (107,781)	$ (2,169,704)
Expense	(194,353)	-	(426,921)	(640,628)	(59,834)	(206,746)	(49,728)	(1,578,210)
Dispositions	-	-	-	-	-	48,103	-	48,103
Balance, December 31, 2018	$ (194,353)	$ -	$ (1,036,415)	$ (1,560,685)	$ (169,113)	$ (581,736)	$ (157,509)	$ (3,699,811)
Carrying amount								
At December 31, 2018	$ 849,493	$ 273,442	$ 1,219,866	$ 3,092,341	$ 236,879	$ 416,211	$ 100,603	$ 6,188,835

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment and Software	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, January 1, 2019	$ 1,043,846	$ 273,442	$ 2,256,281	$ 4,653,026	$ 405,992	$ 997,947	$ 258,112	$ 9,888,646
Additions	356,944	-	561,636	73,853	35,309	16,741	-	1,044,484
Dispositions	(1,400,790)	(273,442)	(223,156)	(164,064)	(129,722)	(23,253)	(116,250)	(2,330,678)
Balance, December 31, 2019	$ -	$ -	$ 2,594,761	$ 4,562,815	$ 311,579	$ 991,435	$ 141,862	$ 8,602,452
Accumulated Amortization								
Balance, January 1, 2019	$ (194,353)	$ -	$ (1,036,415)	$ (1,560,685)	$ (169,113)	$ (581,736)	$ (157,509)	$ (3,699,811)
Expense	(213,857)	-	(542,871)	(779,648)	(78,739)	(194,456)	(9,144)	(1,818,715)
Dispositions	408,210	-	75,979	76,683	35,671	5,446	37,573	639,563
Balance, December 31, 2019	$ -	$ -	$ (1,503,306)	$ (2,263,650)	$ (212,181)	$ (770,746)	$ (129,080)	$ (4,878,963)
Carrying amount	.							
At December 31, 2019	$ -	$ -	$ 1,091,455	$ 2,299,165	$ 99,398	$ 220,689	$ 12,782	$ 3,723,489

Assets identified as being available for sale are removed from the Company's property, plant and equipment schedules, measured at fair value, and shown as a single line item on the face of the consolidated statement of financial position. Assets held for sale ("AHFS") were at $nil and $35,274 at December 31, 2019 and 2018, respectively.

Net property, plant and equipment related to the sale of MMG and MMC totaled $1,514,722 at December 31, 2018 and are included above as dispositions. Refer to Note 7 – Discontinued Operations.

Total depreciation expense for the years ending December 31, 2019 and 2018 was $2,502,844 and $1,578,210, respectively. For the year ended December 31, 2019, this included $684,129 of depreciation expense related to right-of-use assets. Of the total expense, $215,821 and $360,688 was allocated to inventory during the years ending December 31, 2019 and 2018, respectively.

11. Intangible assets and goodwill

At December 31, 2019 and 2018, intangible assets consisted of licenses, brands and customer relationships acquired through business combinations in 2017 and through a brand purchase in 2019.

During 2018 and 2019, the Company tested each group of the Company's Cash-Generating Units ("CGUs") for impairment, and estimated the recoverable amount of the Oregon Retail, Oregon Wholesale and Nevada Wholesale CGUs. If the recoverable amount was deemed to be lower than the segment's carrying value, an impairment was required. The recoverable amount was estimated based on its value in use, which was determined using a pre-tax discount rate of 14% (2018: 13%) and a terminal value growth rate of 3% from 2025 (2018: 2% from 2027).

For the year ended December 31, 2018 the Company recognized impairment losses in the Oregon Retail segment of $3,718,254 and $447,309, with respect to brands and license, respectively. Additionally, the Company recognized goodwill impairment loss in the Oregon Retail segment of $5,765,026.

For the year ended December 31, 2019 the Company recognized goodwill impairment losses of $10,800,000 for the Oregon Retail segment related to the Chalice Farms acquisition, $5,541,547 of goodwill and $860,000 of intangibles for the Oregon Wholesale segment related to the Chalice Farms acquisition, and $1,323,900 and $210,371 of goodwill and intangibles respectively for the Nevada Wholesale segment.

Intangible assets and goodwill of discontinued operations totaled $8,924,612 and $4,863,309, respectively at December 31, 2018. As shown below, intangible assets of $8,636,513 (including current year amortization of $288,099) and goodwill of $4,863,309 were written off and included in the loss on discontinued operations for the year ended December 31, 2019.

	License	Customer relationships	Brands	Total
Cost				
Balance, January 1, 2018	$ 11,414,220	$ 1,512,896	$ 13,300,000	$ 26,227,116
Impairments	(447,309)	-	(3,718,254)	(4,165,563)
Balance, December 31, 2018	$ 10,966,911	$ 1,512,896	$ 9,581,746	$ 22,061,553
Accumulated Amortization				
Balance, January 1, 2018	$ -	$ -	$ -	$ -
Additions	-	(278,604)	-	(278,604)
Balance, December 31, 2018	$ -	$ (278,604)	$ -	$ (278,604)
Carrying amount				
At December 31, 2018	$ 10,966,911	$ 1,234,292	$ 9,581,746	$ 21,782,949

11. Intangible assets and goodwill (continued)

	License	Customer relationships	Brands	Total
Cost				
Balance, January 1, 2019	$ 10,966,911	$ 1,512,896	$ 9,581,746	$ 22,061,553
Additions	-	-	60,000	60,000
Disposal of subsidiary (Note 7)	(7,687,334)	(1,512,896)	-	(9,200,230)
Impairments	(1,323,900)	-	(860,000)	(2,183,900)
Balance, December 31, 2019	$ 1,955,677	$ -	$ 8,781,746	$ 10,737,423
Accumulated Amortization				
Balance, January 1, 2019	$ -	$ (278,604)	$ -	$ (278,604)
Additions	-	(288,099)	-	(288,099)
Disposal of subsidiary (Note 7)		566,703	-	566,703
Balance, December 31, 2019	$ -	$ -	$ -	$ -
Carrying amount				
At December 31, 2019	$ 1,955,677	$ -	$ 8,781,746	$ 10,737,423

A continuity of the goodwill for the years ended December 31, 2019 and 2018 is as follows:

	Chalice Farms	NevWa, LLC	MMGC	MMCC	Total
Cost					
Balance, January 1, 2018	$ 26,162,745	$ 210,371	$ 1,790,186	$ 3,073,123	$ 31,236,425
Impairments	(5,765,026)	-	-	-	(5,765,026)
Balance, December 31, 2018	$ 20,397,719	$ 210,371	$ 1,790,186	$ 3,073,123	$ 25,471,399
Carrying amount					
At December 31, 2018	$ 20,397,719	$ 210,371	$ 1,790,186	$ 3,073,123	$ 25,471,399

	Chalice Farms	NevWa, LLC	MMGC	MMCC	Total
Cost					
Balance, January 1, 2019	$ 20,397,719	$ 210,371	$ 1,790,186	$ 3,073,123	$ 25,471,399
Disposal of subsidiary (Note 7)	$ -	$ -	$ (1,790,186)	$ (3,073,123)	$ (4,863,309)
Impairments	(16,341,547)	(210,371)	-	-	(16,551,918)
Balance, December 31, 2019	$ 4,056,172	$ -	$ -	$ -	$ 4,056,172
Carrying amount					
At December 31, 2019	$ 4,056,172	$ -	$ -	$ -	$ 4,056,172

12. Convertible debt and notes payable

	2019	2018
Current portion of convertible debentures carried at fair value	$ -	$ 8,888,946
Mortgage note payable	-	312,118
Convertible debentures carried at fair value	4,706,141	4,996,811
Carrying amount of convertible notes at December 31	$ 4,706,141	$ 14,197,875

The Company has elected to account for the convertible debentures at fair value through profit and loss on initial recognition and as of the date of extinguishment. A loss of $565,580 and a gain of $12,582,178 was recorded through change in fair value of convertible debentures on the statement of operations for the year ended December 31, 2019 and 2018, respectively.

In August 2019, debenture holders approved the repayment of the principal amount of the third tranche of convertible debentures of C$12,961,000 and accrued interest of C$190,815, via an early conversion on August 23, 2019 at C$0.06 per share. The Company issued 216,016,664 common shares to repay

12. Convertible debt and notes payable (continued)

the convertible debt principal and 3,052,892 common shares to pay the accrued interest. The original maturity date of these debentures was November 2, 2019. As of the effective date of the conversion, the Company derecognized the convertible debt liability at its carrying value, recorded share capital issued of $8,256,098, and recorded a gain of $1,978,080.

Mortgage note payable in the amount of $312,118 at December 31, 2018 was assumed by buyer in the sale of the discontinued operations and accordingly was deconsolidated as at December 31, 2019 (Note 7).

On November 16, 2018, the Company closed the offering of debenture units on a private placement basis of 7,948 units at a price of C$1,000, for gross proceeds of C$7.9M. Each unit consists of one unsecured subordinated debenture and 1,665 common share purchase warrants of the Company. Each debenture accrues interest at a rate of 12.0% per annum until December 31, 2019, after which such interest rate will decrease to 10.0% per annum and be payable semi-annually until maturity. Each debenture is convertible into common shares of the Company at a price of C$0.30 per common share, subject to adjustment in certain events. The debentures mature on November 16, 2021. Each warrant entitles the holder thereof to acquire one common share at a price of C$0.40 per common share until November 16, 2020, subject to adjustment in certain events.

Beginning on the date that is four months and one day following closing of the offering, the Company may force conversion of the then outstanding principal amount of the debentures at the conversion price (plus the payment of accrued and unpaid interest thereon in cash) on not less than 30 days' notice should the daily volume weighted average trading price of the common shares exceed C$0.45 for any 10 consecutive trading days.

The debentures rank *pari passu* in right of payment of principal and interest with other debentures issued under the offering and shall be subordinated to all existing secured indebtedness of the Company, including the issued and outstanding senior secured convertible debentures of the Company.

13. Long-term debt and consideration payable

	2019	2018
Long term debt	$ 112,356	$ 71,721
Consideration payable	9,159,533	8,956,809
Lease liability	4,934,044	-
Less: current portion	(925,642)	(25,492)
Carrying amount of long-term debt at December 31	$ 13,280,291	$ 9,003,038

Long term debt consists of consideration payable, leases and vehicle loans.

Consideration payable was $9,159,533 and $8,956,809 as at December 31, 2019 and December 31, 2018, respectively. The Company recognized $514,807 and $520,043 in accretion expense for the years ended December 31, 2019 and 2018, respectively.

Consideration payable represents earn-out payments to three former owners of Chalice Farms, as part of the consideration in the July 2017 acquisition. In August 2019, the Company reached an agreement to extend the due date for the $9,527,350, principal amount, consideration payable due to former Chalice Farms owners. This agreement was conditional on early settlement of the convertible debentures (Note 12).

13. Long-term debt and consideration payable (continued)

This modified the term of earn-out payments to be paid in full on May 2, 2022 and changed the annual interest rate from 0% to 6%. The agreement calls for monthly cash interest payments of $20,000 which are first credited toward accrued interest, then Minimum Cash Payment, then to the Stock Earn-out Payment, until paid in full. An additional payment of accrued interest will be made in Golden Leaf stock on December 31 of each calendar year in the amount of any unpaid accrued interest on the outstanding balance of the earn-out payments. The number of shares issued will be calculated based on the 30-day volume weighted average price ending on December 31 of each year for which a stock payment of accrued interest is payable. The effect of this modification at restructuring date was less than 10% of the carrying value of the debt prior to the modification. Due to this fact, the Company accounted for the restructuring of debt as a debt modification in accordance with IFRS 9 *Financial Instruments* and recognized a gain on debt modification of $312,083 for the year ended December 31, 2019.

Lease liabilities were $4,934,044 as of December 31, 2019 due to the adoption of IFRS 16 – *Leases.* This includes $843,238 of short-term lease liabilities (Note 5 and 19).

Other long-term liabilities include vehicle loans of $112,356 and $71,721 as at December 31, 2019 and 2018, respectively. Included in these balances were short-term liabilities of $82,404 and $25,492 as at December 31, 2019 and 2018, respectively.

14. Warrant liability

	Units		Amount
Balance, January 1, 2018	117,765,944	$	14,300,616
Warrants issued	52,531,435		5,420,513
Warrants exercised	(18,461,616)		(4,121,657)
Change in fair market value	-		(14,993,991)
Balance, December 31, 2018	151,835,763	$	605,481
Balance, January 1, 2019	151,835,763	$	605,481
Warrants expired	(99,304,328)		-
Change in fair market value	-		(605,481)
Balance, December 31, 2019	52,531,435	$	-

Per IAS 9, the warrants are measured at fair value at each reporting date. Due to significant changes in the Company's common share price, a gain of $605,481 and $14,993,991 was recorded in the statement of operations for the years ended December 31, 2019 and 2018, respectively.

14. Warrant liability (continued)

The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	2019	2018
Expected life	0.1 - 0.9 years	0.5 - 1.9 years
Risk-free interest rate	1.69%	1.90%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7692	0.7337
Expected volatility	68% - 73%	68% - 83%

Volatility was calculated by using the Company's historical volatility. The expected life in years represents the period of time that the warrants granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the warrants.

15. Share capital

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

The following table reflects the continuity of share capital from January 1, 2018 to December 31, 2019:

	Shares	Amount
Balance, January 1, 2018	477,000,336	$ 108,552,681
Shares issued - conversion of debentures	36,124,048	8,475,599
Shares issued - debenture interest	4,815,008	456,420
Shares issued - compensation option exercises	500,000	109,928
Shares issued - warrant exercises	30,898,819	11,752,949
Shares issued - payment of accrued commissions and transaction costs	822,692	135,369
Shares issued - private placement financing	38,980,000	9,028,092
Balance, December 31, 2018	589,140,903	$ 138,511,038
Balance, January 1, 2019	589,140,903	$ 138,511,038
Shares issued - debenture conversion	219,069,556	8,256,098
Shares issued - interest paid-in-kind	46,174,179	996,362
Balance, December 31, 2019	854,384,638	$ 147,763,499

(i) During 2018, 36,124,048 shares were issued in respect of conversion of convertible debentures. (Note 12)

(ii) During 2018, 38,980,000 shares were issued in conjunction with the bought deal private placement unit offering resulting in gross proceeds of C$17,541,000; C$4,702,743 of these proceeds were allocated to warrant liabilities (Note 14). The Company paid share issuance costs of C$1,263,779 for this transaction.

(iii) In August 2019, the Company issued 219,069,556 common shares to repay the convertible debt principal (216,016,664 shares) and accrued interest (3,052,892 shares). (Note 12)

(iv) As of December 31, 2019, there were 25,025,608 common shares held in escrow.

16. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, January 1, 2018	29,274,531		$ 5,083,561
Warrants issued (i)	2,338,800	USD $0.45	426,367
Warrants issued (ii)	5,425,995	CDN $0.37	-
Warrants issued (iii)	1,272,867	CDN $0.30	422,842
Warrants exercised (iv)	(11,648,157)		(1,432,100)
Warrants expired (v)	(5,739,120)		(448,506)
Balance, December 31, 2018	20,924,916		$ 4,052,164
Balance, January 1, 2019	20,924,916		$ 4,052,164
Warrants expired (vi)	(16,313,249)		(2,071,947)
Balance, December 31, 2019	4,611,667		$ 1,980,217

(i) In January 2018, the Company issued 2,338,800 warrants as compensation options at $0.45 as part of the bought deal private placement offering.
(ii) The Company issued 5,425,995 warrants at C$0.37 upon exercise of compensation options. The value of these warrants has been previously recorded upon initial recognition of compensation options.
(iii) The Company issued 1,272,867 warrants as compensation options at C$0.30 as part of the debenture units offering in November 2018.
(iv) During 2018, 11,648,157 warrants were exercised.
(v) During 2018, 5,739,120 warrants were expired.
(vi) During 2019, 16,313,249 warrants were expired.

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

	2018
Expected life	.3 - 1.9 years
Risk-free interest rate	0.57% - 1.79%
Dividend yield	0.00%
Foreign exchange rate	0.7701 - 0.8134
Expected volatility	70.0% - 88.4%

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

17. Stock option plan

On January 1, 2015, the Company's Board of Directors approved a Directors, Management, Employees and Consultants Stock Option Plan, to provide an incentive to its directors, executives, employees, and consultants.

In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the Ordinary Shares. The maximum aggregate number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares at the time of the grant. Most options vest evenly over 3 years with a 1-year cliff vesting and have an expiry period of no more than 10 years from the grant date.

Total number of options at January 1, 2018		22,057,223
Options granted at $0.39 Canadian dollars		24,850,000
Options granted at $0.22 Canadian dollars		13,750,000
Options granted at $0.26 Canadian dollars		4,250,000
Options granted at $0.29 Canadian dollars		1,900,000
Options granted at $0.46 Canadian dollars		2,000,000
Options granted at $0.12 Canadian dollars		4,000,000
Options granted at $0.30 Canadian dollars		200,000
Options exercised		(500,000)
Options expired		(22,979,157)
Total number of options at December 31, 2018		49,528,066
Total number of options at January 1, 2019		49,528,066
Options granted at $0.06 Canadian dollars		33,190,000
Options granted at $0.075 Canadian dollars		1,700,000
Options granted at $0.115 Canadian dollars		3,500,000
Options granted at $0.14 Canadian dollars		6,800,000
Options expired		(28,491,653)
Total number of options at December 31, 2019		66,226,413
Number of exercisable options issued in Canadian dollars		30,712,005
Number of exercisable options issued in U.S. dollars		110,000
Number of exercisable options		30,822,005
Weighted average exercise price of options at December 31, 2019 in U.S. dollars	$	0.14

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

	2019	2018
Expected life	3 - 5 years	3 years
Risk-free interest rate	1.39% - 1.78%	0.57% - 2.11%
Dividend yield	0.00%	0.00%
Expected volatility	82% - 89%	70% - 89%
Expected forfeiture rate	0.00%	0.00%

17. Stock option plan (continued)

	Options outstanding				Options exercisable		
Exercise price	Number outstanding at December 31, 2019	Weighted average remaining contractual life (years)	Weighted average fair value per share	Weighted average exercise price	Number exercisable at December 31, 2019	Weight average fair value per share	Weighted average exercise price
USD $	#		$	$	#	$	$
1.00	100,000	5.26	0.46	1.00	100,000	0.46	1.00
0.27	10,000	6.67	0.13	0.27	10,000	0.13	0.27
CDN $	#		$	$	#	$	$
0.06	33,190,000	9.67	0.02	0.06	8,596,276	0.02	0.06
0.075	1,700,000	9.47	0.04	0.075	802,777	0.04	0.075
0.115	3,500,000	4.36	0.06	0.115	1,000,000	0.06	0.115
0.14	2,758,346	9.09	0.08	0.14	1,633,388	0.08	0.14
0.21	6,500,000	2.87	0.10	0.21	6,500,000	0.10	0.21
0.22	7,250,000	3.50	0.12	0.22	4,250,000	0.12	0.22
0.26	2,250,000	3.32	0.14	0.26	1,250,000	0.14	0.26
0.29	1,900,000	9.66	0.15	0.29	35,054	0.15	0.29
0.30	200,000	6.98	0.17	0.30	200,000	0.17	0.30
0.39	6,868,067	8.07	0.22	0.39	6,444,510	0.22	0.39

During the year ended December 31, 2019 and 2018, $1,014,915 and $4,616,448, respectively, was included in share-based compensation expense in the consolidated statement of operations.

In January 2019, the Company issued 6,800,000 stock options to employees with an exercise price of C$0.14 per share. In May 2019, the Company issued 3,500,000 stock options to directors with an exercise price of C$0.115 per share. In June 2019 the Company issued 1,700,000 stock options to an officer with an exercise price of C$0.075. In August 2019, the Company issued 33,190,000 options to employees and directors with an exercise price of C$0.06 per share.

In September 2019, as part of their new roles, two executives each subscribed to 26,861,622 restricted common shares at C$0.06 per share, on a non-brokered basis, for a total of 53,723,244 common shares. The issuance of these shares will be assisted through an interest-bearing, five-year loan to the executives, which includes a limited recourse pledge of such shares to secure the loans. Of the total shares, half were immediately vested and the other half vest based on meeting certain Company performance targets. As of December 31, 2019, these shares have not been issued. These shares may be issued in the future upon receipt of the loan payments. The arrangement will be accounted for as stock-based compensation in accordance with IFRS 2 - *Share-based Payments*, but are not included as stock options issued and outstanding in the tables above, nor have the shares been issued from treasury.

18. Loss per share

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

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

18. Loss per share (continued)

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

	2019	2018
Warrants	57,143,102	172,789,880
Stock options	30,822,005	25,396,240
Restricted common shares	53,723,244	-
Convertible debt	27,129,767	88,848,816
Total	168,818,118	287,034,936

19. Leases

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, grow facilities, and vehicles.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized $4,278,904 of right-of-use assets and $4,451,665 of lease liabilities as at January 1, 2019. The measurement of lease liabilities is as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	$ 5,369,073
Discounted using the incremental borrowing rate at January 1, 2019	(2,171,660)
Finance lease liabilities recognized as at December 31, 2018	183,275
Recognition exemption for leases with less than 12 months of lease term at transition	(85,418)
Extension options reasonably certain to be exercised	1,156,395
Lease liabilities recognized at January 1, 2019 (Note 5)	$ 4,451,665

A continuity of the right-of-use asset for the year ended December 31, 2019 is as follows:

	For the year ended December 31, 2019
Right-of-use asset, beginning balance (Note 5)	$ 4,278,904
Additions	738,289
Amortization	(684,129)
Right-of-use asset, ending balance	$ 4,333,064

19. Leases (continued)

The following is a schedule of future minimum lease payments over the lives of the right-of-use leases as at December 31, 2019:

2020	$	1,097,859
2021		1,105,379
2022		1,094,118
2023		1,079,601
2024		1,012,537
Thereafter		2,062,877
Total undiscounted lease obligations	$	7,452,371
Impact of discounting		(2,518,327)
Total lease obligations	$	4,934,044
Less: current portion of long-term leases		843,238
	$	4,090,806

These future payments were included in the right-of-use asset and lease liability recognized in the consolidated financial statements in accordance with IFRS 16 (Note 5).

20. Transaction costs

Transaction costs totaled $279,402 and $1,686,425 for the years ending December 31, 2019 and 2018, respectively. These costs are comprised as follows:

		2019		2018
Issuance of convertible debentures	$	-	$	640,798
Conversion of debentures		125,000		-
Financing commissions		-		426,434
Sale of subsidiaries		154,402		-
Other		-		619,193
Total	$	279,402	$	1,686,425

21. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the years ended December 31, 2019 and 2018 includes the following expenses:

		2019		2018
Salaries, commissions, bonuses and benefits	$	1,816,284	$	1,243,458
Consulting fees		1,167,157		93,000
Termination benefits		144,814		-
Stock compensation, including warrants and shares		1,642,357		1,232,553
	$	4,770,612	$	2,569,011

In addition, the Company issued the following stock options to executive management and directors:

Date	Title	Shares	Exercise Price ($C)	
May 2019	Director	3,500,000	$	0.115
June 2019	CEO	1,700,000	$	0.075
August 2019	Executive Chairman	3,000,000	$	0.06
August 2019	CEO	3,000,000	$	0.06
August 2019	Other key employees	9,500,000	$	0.06
August 2019	Various Directors	6,690,000	$	0.06

21. Related party transactions (continued)

The Company also granted 19,000,000 stock options to now former officers and directors of the Company. Of these grants, 10,716,663 stock options were vested and expired unexercised and 8,283,337 were forfeited during the year ended December 31, 2019.

Consideration payable with face value of $9,527,350, related to the Chalice Farms acquisition, is owed to the former CEO, former COO, and former Director (Note 13). The Company leases both its corporate headquarters in Portland, Oregon and its grow facility outside of Portland from CPPOR LLC ("CPP"), of which a former Director is the sole member. During the year ended December 31, 2019 and 2018, the Company paid total rents of $263,470 and $nil, respectively, for these properties. In 2018, in an effort to support the Company, CPP entered into a rent abatement agreement with the Company for the grow facility under construction for the entire 2018 year. Rent payments for the grow facility resumed upon completion of construction in January 2019. Beginning in April 2019 CPP entered into a rent abatement agreement for twelve months for additional rent on the Company's corporate headquarters and warehouse facilities in Portland.

In September 2019, as part of their new roles, two executives each subscribed to 26,861,622 restricted common shares at C$0.06 per share, on a non-brokered basis, for a total of 53,723,244 common shares. The issuance of these shares will be assisted through an interest-bearing, five-year loan to the executives, which includes a limited recourse pledge of such shares to secure the loans. Of the total shares, half were immediately vested and the other half vest based on meeting certain Company performance targets. As of December 31, 2019, these shares have not been issued. These shares may be issued in the future upon receipt of the loan payments. The arrangement was accounted for as stock-based compensation in accordance with IFRS 2 Share-based Payments (Note 17).

22. Capital management

The Company defines capital that it manages as its shareholders' equity, long-term debt and warrant liability. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

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

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

23. Legal matters

Internal Revenue Service

The Internal Revenue Service ("IRS") audited the 2016 and 2017 federal income tax returns of the Company's wholly-owned subsidiary, Greenpoint Holdings Delaware, Inc. ("GPHD"). The IRS focused on two issues that needed to be resolved:

1) The first issue involved the reporting of royalty income on the Company's Canadian tax return instead of on the U.S. federal return of GPHD, which files a consolidated return for the Company's U.S. operations. The assets which were the subject of the royalty payments were owned by a U.S. subsidiary of the Company (GL Management, Inc., a Nevada corporation) and the entity using those assets and paying the royalty fees was also a U.S. entity (BMF Washington, LLC, an unrelated entity). The Company is in the process of filing amended returns in Canada and the U.S. to correct the mistake.
2) The second issue related to an IRS Form 8594 filing with respect to a series of 2017 business transactions. The Form 8594 listed the incorrect EIN of one of the parties to the transaction. Because a similar error had occurred with respect to a Form 8594 filed in a prior year, the IRS is proposing to assess a penalty under Internal Revenue Code Section 6271(e) for "intentional disregard" of an information reporting requirement. This penalty is the greater of $500 or 10% of the aggregate amount of items required to be reported correctly, which amounts to a proposed penalty in excess of $4.6 million. The Company maintains that the error was inadvertent and resulted from confusion among multiple business entities having similar names. The Company sent a response letter to the IRS in January 2020. The Company's position is that the facts and circumstances of the law: (1) did not support assessment of the intentional disregard penalty under Code Section 6721(e); and (2) supported application of the reasonable cause exception under Code Section 6724(a), such that no Code Section 6721 penalties should be assessed. This matter has not yet been resolved and the Company has not received any communication from the IRS since sending the response letter. The Company continues to vigorously contest the IRS's proposed penalty assessment.

BMF Washington, LLC and Peter Saladino

The Company filed a lawsuit against BMF Washington LLC ("BMF") and Peter Saladino ("Saladino") on January 21, 2020, in Multnomah County (Oregon) Circuit Court, Case No. 20CV03528, seeking to recover $6,916,580 in damages. The Company asserted two claims for breach of contract, arising out of the parties' equipment leasing and intellectual property licensing agreements, seeking damages of $676,580 and $2,080,000, respectively, with alternative claims against both BMF and Saladino (collectively, the "Defendants") for unjust enrichment related to their improper use of the Company's equipment and intellectual property. The Company is also asserting claims against the Defendants for misappropriation of trade secrets under Oregon and Washington law, seeking additional damages of $4,160,000.

24. Financial instruments and risk management

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

(a) Fair value

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

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

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

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

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

December 31, 2018	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Liabilities					
Warrant liability	FVTPL	-	-	605,481	605,481
Convertible debentures	FVTPL	-	-	13,885,757	13,885,757

December 31, 2019	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Liabilities					
Warrant liability	FVTPL	-	-	-	-
Convertible debentures	FVTPL	-	-	4,706,141	4,706,141

24. Financial instruments and risk management (continued)

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

The convertible debentures were valued using a binominal option pricing model to estimate the value of the combined convertible instrument. The most significant assumption used in this valuation was the expected volatility of the Company's shares which was estimated at 75% and 85% at December 31, 2019 and 2018, respectively.

Refer to Note 14 for further information on valuation of warrant liability.

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

(b) Credit risk

The carrying amounts of cash and accounts receivable on the consolidated statement of financial position represent the Company's maximum credit exposure at December 31, 2019 and 2018.

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 receivable. 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 $378,094 and $94,215 (including $29,707 of estimated bad debts in 2018 related to discontinued operations) at December 31, 2019 and 2018, respectively (Note 8).

(c) Interest rate risk

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

(d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue common shares and debt in the future. The following table summarizes the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2019						
Trade and other payables	$ 1,690,882	$ 1,690,882	$ 1,690,882	$ -	$ -	$ -
Lease liabilities	4,934,044	7,452,371	1,097,859	2,199,497	2,092,138	2,062,877
Other loans and borrowings	112,356	112,356	82,404	29,952	-	-
Convertible debt	4,706,141	7,677,750	-	7,677,750	-	-
Consideration payable	9,159,533	10,982,166	-	10,982,166	-	-
Total	$ 20,602,956	$ 27,915,525	$ 2,871,145	$ 20,889,365	$ 2,092,138	$2,062,877

24. Financial instruments and risk management (continued)

(e) Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currencies. The Company has financial assets and liabilities denominated in Canadian dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The following is an analysis of U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at December 31, 2019:

Financial Assets		
Cash	$	2,193,975
Note receivable		919,488
	$	3,113,463
Financial Liabilities		
Trade and other payables	$	219,224
Convertible debt		4,706,141
	$	4,925,365

25. Segment Information

The Company defines its major operating segments as Oregon, Nevada wholesale, and Other operations, which includes California and Corporate. Due to the jurisdictional cannabis compliance issues ever-present in the industry, each operation is by nature an operational segment. The Oregon segment is comprised of wholesale and retail operations which share supply chain components and cannot be discretely separated. The Nevada wholesale operations are geographically and jurisdictionally distinct and are reviewed based on gross margin performance.

25. Segment Information (continued)

2019	Oregon	Nevada Wholesale	Other	Consolidated
Product sales	$ 14,249,408	$ 1,205,943	$ 194,188	$ 15,649,539
Consulting revenue	105,068	-	-	105,068
Total Revenue	$ 14,354,476	$ 1,205,943	$ 194,188	$ 15,754,607
Inventory expensed to cost of sales	9,192,598	1,804,217	-	10,996,815
Production costs	461,039	-	-	461,039
Gross margin, excluding fair value items	$ 4,700,839	$ (598,274)	$ 194,188	$ 4,296,753
(Gain) Loss on changes in fair value of biological assets	(20,715)	-	-	(20,715)
Gross profit (loss)	$ 4,721,554	$ (598,274)	$ 194,188	$ 4,317,468
Assets	$ 10,076,418	$ 1,387,665	$ 20,102,411	31,566,494
Liabilities	$ 4,668,464	$ 197,057	$ 16,099,774	20,965,294

2018	Oregon	Nevada Wholesale	Other	Consolidated
Product sales	$ 12,966,384	$ 1,668,585	$ -	$ 14,634,969
Consulting revenue	-	-	62,817	62,817
Total Revenue	$ 12,966,384	$ 1,668,585	$ 62,817	$ 14,697,786
Inventory expensed to cost of sales	11,624,327	1,662,032	-	13,286,359
Production costs	478,198	24,342	-	502,540
Gross margin, excluding fair value items	$ 863,859	$ (17,789)	$ 62,817	$ 908,887
Fair value changes in biological assets included in inventory sold	-	37,976	-	37,976
Loss (gain) on changes in fair value of biological assets	6,793	(73,966)	-	(67,173)
Gross profit	$ 857,066	$ 18,201	$ 62,817	$ 938,084
Assets	$ 15,940,785	$ 7,998,464	$ 49,537,776	$ 73,477,025
Liabilities	$ 1,057,380	$ 4,838	$ 25,825,672	$ 26,887,890

26. Taxation

The Company's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to income (loss) before income taxes as a result of the following:

	December 31, 2019		December 31, 2018
Loss before income taxes	$	(31,804,074)	$	(4,192,720)
Statutory tax rates		26.50%		26.50%
Estimated income taxes (recovery) computed at the statutory rates		(8,428,080)		(1,111,071)
Expenses not deductible in U.S.		5,171,086		(235)
Expenses not deductible in Canada		112,445		(2,693,897)
Change in benefit of future tax assets not recognized in Canada		739,503		(2,253,856)
Change in benefit of future tax assets not recognized in US		(137,685)		257,331
Losses not deductible under IRC S 280E in the U.S.		3,790,713		5,702,717
Effect of foreign tax rates		(314,378)		(21,632)
Adjustments for prior years		(102,274)		-
Other		(18,869)		203,454
Income tax expense (recovery)	$	812,461	$	82,811

The enacted tax rate in Canada of 26.5% (2018 - 26.5%) and in the United States 26.3% (2018 - 27.6%) where the Company operates is applied in the tax provision calculation.

Provision for income taxes consists of the following:

		December 31, 2019		December 31, 2018
Current income tax (recovery)	$	678,953	$	82,811
Deferred income tax (recovery)		133,508		-
Net tax provision expense (benefit)	$	812,461	$	82,811

The following tax assets (liabilities) arising from temporary differences and non-capital losses have not been recognized in the consolidated financial statements:

		December 31, 2019		December 31, 2018
Non-capital losses carried forward	$	10,699,239	$	6,451,043
Capital losses carried forward		1,497,616		-
Convertible debentures		(413,495)		(494,283)
Financing fees		1,314,937		2,335,225
Intangible assets		-		3,072,621
Property, plant and equipment		(174,149)		537,708
Unrealized FMV gain on biological assets		(19,512)		(15,795)
Valuation allowance		(13,153,488)		(11,886,519)
Net deferred tax (liability) asset:	$	(248,852)	$	-

The combined tax rate in the State of Oregon, its municipal governing bodies, and California is 6.6%. In aggregate, the estimated total U.S. federal, state, and local tax rate is approximately 26.3%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its U.S. tax on the basis of gross receipts less cost of goods sold.

27. Taxation (continued)

Although other expenses have been incurred to generate the sales revenue, Code Section 280E denies deductions and credits attributable to a trade or business of trafficking in controlled substances.

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

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

Although the production and sale of marijuana and related products for medical purposes is legal in the State of Oregon and California, it is still considered to be illegal from the perspective of Federal law. ORS 317.763 allows Oregon taxpayers filing a corporate excise or income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by ORS 475B.010 to 475B.395. California R&T Code §17209 allows for California taxpayers filing a corporate income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by California B&P Code Division 10, commencing with tax years beginning January 1, 2020.

As of December 31, 2019, the Company has estimated Canadian non-capital losses of $26,516,045. These non-capital losses are available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expire between 2034 and 2039. The deferred tax benefit of these tax losses has not been set up as an asset. The Company has estimated U.S. state and local net operating losses of $60,624,279. These non-capital losses are available to be carried forward, to be applied against taxable jurisdiction in the U.S. over the next 15 years and expire between 2032 and 2035. The deferred tax benefit of these tax losses has not been set up as an asset.

27. Subsequent events

On January 28, 2020 the Company issued 7,157,052 Common Shares related to the payment of interest on consideration payable.

On February 3, 2020 the Company announced its pending acquisition of the assets of Tozmoz, LLC. Pursuant to the terms of the Asset Purchase Agreement, Golden Leaf purchased substantially all of the assets of Tozmoz, including the facility located in Clackamas, which serves as the headquarters for multiple extraction options as stated above, for consideration of US$2.8 million consisting of cash and advances totaling US$675,000, an earnout of up to US$400,000 and GLH stock (29,166,667 shares at US$.06 per share). GLH has previously made certain payments to Tozmoz so that only approximately US$227,000 of cash will be due at closing. The earnout of US$400,000 may be paid to Tozmoz quarterly beginning in July 2020, based upon 30% of up to US$1.2 million of third-party revenue generated from the assets acquired by GLH.