

Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the years ended December 31, 2018 and 2017

GOLDEN LEAF HOLDINGS LTD.

Consolidated Financial Statements
(Expressed in U.S. Dollars)
For the years ended December 31, 2018 and 2017

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Golden Leaf Holdings Inc.,

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year 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 consolidated financial statements, which indicates that the Company has an accumulated deficit as at December 31, 2018 of \$100,686,006 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.

Other Matter

The Consolidated financial statements of Golden leaf Holdings Inc. for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 30, 2018.

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 consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.



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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.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC
April 30, 2019

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(Expressed in U.S. dollars)

		2018	2017 (Restated, Note 31)
ASSETS			
CURRENT			
Cash		\$ 12,275,372	\$ 6,009,447
Accounts receivable	Note 7	624,453	377,746
Other receivables		297,737	-
Income tax recoverable	Note 30	686,600	432,000
Sales tax recoverable		661,319	442,832
Biological assets	Note 9	74,148	90,627
Inventory	Note 9	3,416,906	3,623,255
Prepaid expenses and deposits		1,962,033	348,176
Assets held for sale	Note 10	35,274	305,274
Total current assets		\$ 20,033,842	\$ 11,629,357
Property, plant and equipment	Note 10	6,188,835	5,956,910
Intangible assets	Note 11	21,782,949	26,227,116
Goodwill	Note 11	25,471,399	31,236,425
Total assets		\$ 73,477,025	\$ 75,049,808
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 2,624,967	\$ 2,867,735
Interest payable		92,554	48,524
Income taxes payable	Note 30	106,808	-
Sales tax payable		231,675	-
Current portion of long-term debt	Note 13	25,492	131,610
Current portion of convertible debentures carried at fair value	Note 12	8,888,946	271,245
Warrant liability	Note 14	369,343	-
Derivative liability	Note 12	-	61,044
Total current liabilities		\$ 12,339,785	\$ 3,380,158
Long term debt	Note 13	46,229	80,381
Note payable	Note 13	312,118	389,916
Convertible debentures carried at fair value	Note 12	4,996,811	30,360,225
Consideration payable	Note 21	8,956,809	9,202,717
Warrant liability	Note 14	236,138	14,300,616
Total liabilities		\$ 26,887,890	\$ 57,714,013
SHAREHOLDERS' EQUITY			
Share capital	Note 15	\$ 138,511,038	\$ 108,552,681
Warrant reserve	Note 16	4,052,164	5,083,561
Share option reserve	Note 17	4,777,929	1,087,640
Contributed surplus		59,940	59,940
Accumulated other comprehensive loss		(125,930)	9,828
Deficit		(100,686,006)	(97,457,855)
Total shareholders' equity		46,589,135	17,335,795
Total liabilities and shareholders' equity		\$ 73,477,025	\$ 75,049,808

Going concern (Note 2)

Commitments (Note 19)

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, 2018 and 2017

(Expressed in U.S. dollars)

		2018	2017
			(Restated, Note 31)
Revenues			
Product sales	Note 29	\$ 16,347,558	\$ 10,411,232
Royalties	Note 29	-	1,100,066
Consulting revenue	Note 29	104,769	-
Total Revenue		\$ 16,452,327	\$ 11,511,298
Expenses			
Inventory expensed to cost of sales	Note 9, 29	13,326,640	9,535,602
Production costs	Note 29	1,008,025	465,658
Gross margin, excluding fair value items		2,117,662	1,510,038
Fair value changes in biological assets included in inventory sold	Note 9, 29	227,731	-
(Gain) Loss on changes in fair value of biological assets	Note 9, 29	(301,335)	(198,000)
Gross profit		\$ 2,191,266	\$ 1,708,038
Expenses			
General and administration		14,430,986	8,610,318
Share based compensation	Note 17	4,616,448	1,239,670
Professional fees paid with equity instruments		-	80,436
Sales and marketing		2,166,200	1,114,628
Depreciation and amortization	Note 10	1,856,814	572,695
Impairment of long-lived assets	Note 10	-	50,254
Total expenses		\$ 23,070,448	\$ 11,668,001
Loss before items noted below		\$ (20,879,182)	\$ (9,959,963)
Interest expense		2,221,914	1,960,120
Transaction costs	Note 22	1,686,425	8,518,490
Loss on disposal of assets	Note 10	5,000	470,071
Impairment of financing lease receivable	Note 8	-	432,557
Impairment of purchase option		-	5,200,000
Other (income) loss	Note 23	7,332,223	9,787,413
(Gain) Loss on change in fair value of warrant liabilities	Note 14	(14,993,991)	7,714,578
(Gain) Loss on change in fair value of derivative liabilities	Note 12	(61,044)	(334,834)
(Gain) Loss on change in fair value of convertible debentures	Note 12	(12,582,178)	12,631,094
Loss before income taxes		(4,487,531)	(56,339,452)
Current income tax expense	Note 30	82,811	143,230
Net loss		\$ (4,570,342)	\$ (56,482,682)
Other comprehensive loss			
Reversal of unrealized loss on available for sale purchase option, net of tax for impairment		\$ -	\$ 530,000
Items that will be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		135,759	9,828
Comprehensive loss		\$ (4,434,583)	\$ (55,942,854)
Basic and diluted loss per share		\$ (0.01)	\$ (0.21)
Weighted average number of common shares outstanding		568,877,327	262,011,877

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, 2018 and 2017
(Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2017	\$ 34,282,314	\$ 3,501,409	\$ 993,211	\$ 267,701	\$ 59,940	\$ (530,000)	\$ (41,510,472)	\$ (2,935,897)
Issuance of common shares (Note 15)	72,901,778	-	-	(267,701)	-	-	-	72,634,077
Issuance of warrants and broker units (Note 16)	-	2,109,487	-	-	-	-	-	2,109,487
Exercise of warrants and options for common shares (Note 15)	798,781	(302,539)	(264,930)	-	-	-	-	231,312
Share-based compensation (Note 17)	569,808	-	669,862	-	-	-	-	1,239,670
Expiry of warrants and stock options	-	(224,796)	(310,503)	-	-	-	535,299	-
Net loss and comprehensive loss for the year (Restated, Note 31)	-	-	-	-	-	539,828	(56,482,682)	(55,942,854)
Balance at December 31, 2017 (Restated, Note 31)	\$ 108,552,681	\$ 5,083,561	\$ 1,087,640	\$ -	\$ 59,940	\$ 9,828	\$ (97,457,855)	\$ 17,335,795
	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	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	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

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in U.S. dollars)

	2018	2017 (Restated, Note 31)
Cash provide by (used in):		
Operating activities:		
Net loss	\$ (4,570,342)	\$ (56,482,682)
Depreciation of property, plant and equipment	Note 10 1,578,210	572,695
Amortization of intangible assets	278,604	-
Loss on disposal of assets	Note 10 5,000	470,071
Gain on debt extinguishment	Note 21 (999,153)	-
Interest expense	1,776,446	1,262,767
Income taxes paid	-	-
Income tax expense	82,811	143,230
Bad debt expense	Note 7 235,665	-
Share based compensation	Note 17 4,616,448	1,239,670
Professional fees paid with equity instruments	-	377,528
(Gain)/loss on fair value adjustment to warrants liability	Note 14 (14,993,991)	7,714,578
(Gain)/loss on change in fair value of derivative liabilities	(61,044)	-
(Gain)/loss on fair value adjustment to debt	(12,582,178)	12,296,260
Transaction cost	Note 22 849,209	3,554,305
Gain on fair value of biological assets	Note 9 (301,335)	(198,000)
Reserve for obsolete inventory	Note 9 150,586	-
Impairment of finance lease receivable	Note 8 -	432,556
Impairment of intangible assets and goodwill	Note 11 9,930,589	14,550,000
Other non-cash transactions	(432,325)	1,041,230
Changes in working capital items		
Accounts receivable	Note 7 (482,371)	(127,240)
Other receivables	(297,737)	691,725
Sales tax recoverable	(473,087)	(198,945)
Accounts payable and accrued liabilities	(242,768)	(2,030,245)
Sales tax payable	255,672	-
Biological assets	Note 9 317,814	107,373
Inventory	Note 9 55,763	(1,024,665)
Prepaid expenses and deposits	(1,606,037)	54,275
Cash used in operating activities	\$ (16,909,551)	\$ (15,553,514)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	Note 10 (1,815,135)	(1,791,466)
Proceeds from disposal of property plant and equipment	Note 10 -	2,304,182
Payment of deposits and retainers	(7,820)	-
Net cash outflow on acquisition of subsidiaries	-	(21,487,027)
Cash used in investment activities	\$ (1,822,955)	\$ (20,974,311)
FINANCING ACTIVITIES		
Issuance of common shares	Note 15 21,692,686	27,935,000
Payment of share issuance costs	(985,787)	(1,326,209)
Issuance of convertible notes payable	5,488,771	14,313,056
Repayment of convertible notes	Note 12 -	(621,776)
Repayment of long-term debt	(218,068)	(1,787,086)
Interest paid during the year	(979,171)	354,953
Repayment of related party loan	-	(271,129)
Cash provided by financing activities	\$ 24,998,431	\$ 38,596,809
Increase in cash during the year	\$ 6,265,925	\$ 2,068,984
Cash, beginning of period	6,009,447	3,940,463
Cash, end of period	\$ 12,275,372	\$ 6,009,447

See accompanying notes to these consolidated financial statements

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2018 and 2017

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 Canadian markets. The Company's shares are listed on the 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 Canada adult-use regulated markets as well as the Canadian medical market, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC, Medical Marijuana Group Corporation and Medical Marijuana Group Consulting Ltd.

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, 2018, the Company had an accumulated deficit of \$100,686,006 (2017 - \$97,457,855). 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, 2018, the Company's cash balances were \$12,275,372, which includes the net proceeds on January 31, 2018 of \$9,028,092 (Note 15) from a bought deal private placement transaction and net offering proceeds of \$5,783,867 (Note 12) from a private placement of debenture units on November 16, 2018.

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.

3. Statement of compliance

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

These consolidated financial statements have been approved by the Company's Board of Directors on April 30, 2019.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2018 and 2017

4. Basis of presentation

Except where specified, the consolidated financial statements have been prepared in U.S. dollars, which is the Company's presentation 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 to all periods presented. Certain prior period amounts have been reclassified for consistency with current period presentation.

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:

Subsidiary	Place of incorporation	Functional currency	Effective ownership	Principal activity
Greenpoint Holdings Delaware Inc.	Delaware	USD	100%	Holding company
Greenpoint Oregon Inc.	Oregon	USD	100%	Cannabis production, 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 Science Ltd. (inactive)	Israel	USD	100%	Research and development
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.
Medical Marijuana Group Corporation	Ontario	CAD	100%	Cannabis production and distribution
Medical Marijuana Group Consulting, Ltd.	Ontario	CAD	100%	Medical marijuana patient consulting

All inter-company transactions and balances with subsidiaries have been eliminated on consolidation. All entities in the group have the same reporting period.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2018 and 2017

5. Significant accounting policies (continued)

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 Medical Marijuana Group Corporation (“MMGC”) and Medical Marijuana Group Consulting, Ltd (“MMCC”). The functional currency of these entities is the Canadian dollar. The Company translates 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).

Equipment leases

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

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

Property, plant and equipment

Property, plant and equipment are 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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
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For the years ended December 31, 2018 and 2017

5. Significant accounting policies (continued)

other expenditures, including repair and maintenance, are recognized in the statement of income (loss) as incurred.

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

Production equipment	5 - 7 years
Furniture and fixtures	5 years
Vehicles	5 years
Computer equipment	3 years
Leasehold improvements	3 - 5 years
Building improvements	5 years
Buildings	30 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"). As at December 31, 2018 and 2017, the Company recorded impairment of non-financial assets of \$9.9M and \$14.6M, respectively. Refer to Notes 8, 10 and 11.

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2018 and 2017

5. Significant accounting policies (continued)

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 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 April 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.

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5. Significant accounting policies (continued)

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).

The Company assessed the impact of IFRS 15 on its financial statements. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date, and the adoption of this new standard does not have a material impact on the Company's consolidated financial statements.

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, which is consistent with the Company's previous revenue recognition policy under IAS 18.

Medical consulting revenue is recognized as the service is delivered, to the extent that collection is reasonably assured.

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

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

The Company provides revenue data by its operating and geographical segments: Oregon wholesale, Oregon retail, Nevada wholesale, Canada cultivation and Canada consulting. Refer to Note 29 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

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5. Significant accounting policies (continued)

schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to Section 280E.

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

Accounts receivable

Accounts receivable are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its allowance based on 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 Company adopted all of the requirements of IFRS 9 *Financial Instruments* ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

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

(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 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. For other equity instruments, 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.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

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5. Significant accounting policies (continued)

Financial asset / liabilities	Original classification IAS 39	New classification IFRS 9
Cash	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Interest payable	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Convertible debentures	FVTPL	FVTPL
Related party notes payable	Amortized cost	Amortized cost
Consideration payable	Amortized cost	Amortized cost
Warrants liability	FVTPL	FVTPL
Derivative liability	FVTPL	FVTPL

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.

(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 payable and accrued liabilities, long-term debt, and related party note 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.

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 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.

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5. Significant accounting policies (continued)

(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 earnings per share ("EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury method of calculating the weighted average number of common shares outstanding, except 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 has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the fair value of the 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.

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5. Significant accounting policies (continued)

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.

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.

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5. Significant accounting policies (continued)

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.

Future accounting pronouncements

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

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard (IAS 17 Leases) and requires the recognition of most leases as finance leases for lessees by removing the classification of leases as either finance or operating leases. Finance lease exemptions exist for short-term leases where the term is twelve months or less and for leases of low value items.

The accounting treatment for lessors remains the same, which provides the choice of classifying a lease as either a finance or operating lease. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, “Uncertainty over Income Tax Treatments” (“IFRIC 23”), to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019. The Company is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

6. Critical judgments and key sources of estimation uncertainty

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

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

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 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 28 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.

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

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 and royalty 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.

Critical Judgment in Applying Accounting Policies

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 final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

7. Accounts receivable

	2018	2017
Accounts Receivable	\$ 718,668	\$ 377,746
Allowance for doubtful accounts	(94,215)	-
	\$ 624,453	\$ 377,746
Continuity of allowance for doubtful accounts		
	2018	2017
Beginning balance	\$ -	\$ 371,025
Increase in provision for doubtful accounts	94,215	-
Provision used for write-off of receivables	-	(371,025)
	\$ 94,215	\$ -

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7. Accounts receivable (continued)

All of the Company's accounts receivable have been reviewed for indicators of impairment. Accounts receivable more than 90 days past due totaled \$70,842 and \$109,411 at December 31, 2018 and 2017, respectively.

8. Financing leases receivable

For 2017, the Company recognized an impairment loss of \$432,557 related to a financing lease arrangement with BMF Washington, LLC ("BMF") as reported on the consolidated statement of operations and comprehensive loss. The carrying value of the respective financing lease receivable was zero at December 31, 2018 and 2017, respectively.

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, 2018, on average, the biological assets were approximately 74% complete relative to the next expected harvest date.

Production costs are marijuana cultivation costs including post-harvest costs and consist of labor, electricity, water, propane, testing fees, supplies, tools and materials, and depreciation of equipment and leasehold improvements and other related costs.

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 58.37 grams per plant in the valuation of biological assets at December 31, 2018. 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 \$3.50 per gram in valuation of biological assets at December 31, 2018. 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, 2018, costs to sell were nil as the biological assets were not sold to retail customers.

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, 2018, 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.

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9. Biological assets and inventory (continued)

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%	\$ -

The Company accretes fair value according to stage of growth. The plants in flowering cycle are ascribed higher value than plants in propagation and vegetative stages of growth as follows:

Plant stage	Value ascribed	Stage of growth
Propagation	Nominal	2 - 4 weeks
Vegetative	25%	3 - 8 weeks
Flowering <50%	50%	8 - 12 weeks
Flowering >50%	100%	11 - ≥ 16 weeks

During the years ended December 31, 2018 and 2017 the Company recognized \$301,335 and \$198,000, 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, 2018 and 2017, \$360,688 and \$443,763, 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, 2018 and 2017 was \$13,326,640 and \$9,535,602, respectively.

The Company's inventory at December 31, 2018 and 2017 consists of:

	Biological assets	Inventory
Raw materials	\$ -	\$ 451,767
Work-in-process	90,627	1,274,542
Finished goods	-	1,896,946
Balance, December 31, 2017	\$ 90,627	\$ 3,623,255
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

At December 31, 2018 and 2017, the Company also recorded a general reserve for excess and obsolete inventory in the amount of \$150,586 and \$nil, respectively.

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9. Biological assets and inventory (continued)

The Company's biological assets at December 31, 2018 and 2017 are comprised of:

Balance, January 1, 2017	\$	-
Acquisition of biological assets		77,667
Gain on fair value of biological assets		198,000
Increase in biological assets due to capitalized costs		-
Transfer to finished goods		(185,040)
Balance, December 31, 2017	\$	90,627
Balance, January 1, 2018	\$	90,627
Gain on fair value of biological assets		301,335
Increase in biological assets due to capitalized costs		59,373
Transfer to finished goods		(377,187)
Balance, December 31, 2018	\$	74,148

10. Property, plant and equipment

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, January 1, 2017	\$ -	\$ -	\$ 1,698,854	\$ 454,900	\$ 140,352	\$ 140,389	\$ 188,546	\$ 2,623,041
Additions	191,547	-	605,014	929,477	51,503	13,925	-	1,791,466
Dispositions	-	-	(675,569)	(294,200)	(43,954)	(34,543)	-	(1,048,266)
Assets from acquisition	675,804	290,404	893,997	2,646,433	87,877	818,725	33,566	5,446,806
Transfer to assets held for sale	-	-	(686,433)	-	-	-	-	(686,433)
Balance, December 31, 2017	\$ 867,351	\$ 290,404	\$ 1,835,863	\$ 3,736,610	\$ 235,778	\$ 938,496	\$ 222,112	\$ 8,126,614
Accumulated Amortization								
Balance, January 1, 2017	\$ -	\$ -	\$ (631,466)	\$ (104,493)	\$ (76,528)	\$ (39,032)	\$ (58,237)	\$ (909,756)
Expense	-	-	(476,362)	(379,791)	(55,000)	(65,917)	(39,388)	(1,016,458)
Dispositions	-	-	375,536	12,535	40,470	1,472	-	430,013
Assets from acquisition	-	-	(157,853)	(448,308)	(18,221)	(319,616)	(10,156)	(954,154)
Impairment	-	-	(50,254)	-	-	-	-	(50,254)
Transfer to assets held for sale	-	-	330,905	-	-	-	-	330,905
Balance, December 31, 2017	\$ -	\$ -	\$ (609,494)	\$ (920,057)	\$ (109,279)	\$ (423,093)	\$ (107,781)	\$ (2,169,704)
Carrying amount								
At December 31, 2017	\$ 867,351	\$ 290,404	\$ 1,226,369	\$ 2,816,553	\$ 126,499	\$ 515,403	\$ 114,331	\$ 5,956,910
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

Certain production assets no longer in use and identified as being available for sale were classified as held for sale, and have been removed from the Company's property, plant, and equipment schedules and are shown as a single line item on the face of the consolidated statement of financial position.

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10. Property, plant and equipment (continued)

As a result of this classification, the carrying value of the equipment held for sale was required to be stated at fair market value. Assets held for sale ("AHFS") were at \$35,274 and \$305,274 at December 31, 2018 and 2017, respectively. AHFS with a carrying value of \$270,000 were sold and disposed of during 2018 for the net proceeds or settlement of \$270,000. No profit or loss was recognized as a result of this disposal. In 2017, the Company recognized an impairment loss of \$50,254 on the transfer of production equipment to AHFS.

Other assets no longer in use by the Company with a net book value of \$5,000 (2017 - \$618,253) were sold and disposed of during 2018 for proceeds of \$nil (2017 - \$148,182) resulting in a loss on disposal of \$5,000 (2017 - \$470,071) recorded in the consolidated statement of operations and comprehensive loss.

Total depreciation expense for the years ending December 31, 2018 and 2017 was \$1,578,210 and \$1,016,458, respectively. Of the total expense, \$360,688 and \$443,763 was allocated to inventory during the years ending December 31, 2018 and 2017, respectively.

11. Intangible assets and goodwill

At December 31, 2018 and 2017, intangible assets consisted of license, customer relationships and brands acquired through business combinations in 2017.

During 2018, the Company tested each group of the Company's Cash-Generating Units ("CGUs") for impairment, and estimated the recoverable amount of the Oregon Retail group of CGUs to be lower than the segment's carrying value. The recoverable amount was estimated based on its value in use, which was determined using a pre-tax discount rate of 13% (2017: 15%) and a terminal value growth rate of 2% from 2023 (2017: 3% from 2027). 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. No impairment of goodwill was assessed as of December 31, 2017.

During 2017, the Company recognized impairment of the brands purchased from BMF Washington, LLC and determined that the carrying value was not recoverable, based primarily on the continued credit issues of the royalty arrangement underlying the value of the brands, the cash flows of the BMF operations, as well as the deemed termination of the royalty arrangement subsequent to the balance sheet date.

	License	Customer relationships	Brands	Total
Cost				
Balance, January 1, 2017	\$ -	\$ -	\$ 9,350,000	\$ 9,350,000
Additions from acquisitions	11,414,220	1,512,896	13,300,000	26,227,116
Impairments	-	-	(9,350,000)	(9,350,000)
Balance, December 31, 2017	\$ 11,414,220	\$ 1,512,896	\$ 13,300,000	\$ 26,227,116
Accumulated Amortization				
Balance, January 1, 2017	\$ -	\$ -	\$ -	\$ -
Additions	-	-	-	-
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -
Carrying amount				
At December 31, 2017	\$ 11,414,220	\$ 1,512,896	\$ 13,300,000	\$ 26,227,116

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11. Intangible assets and goodwill (continued)

	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

A continuity of the goodwill for the years ended December 31, 2018 and 2017 is as follows:

	Chalice Farms	NevWa, LLC	MMGC	MMCC	Total
Cost					
Balance, January 1, 2017	\$ -	\$ -	\$ -	\$ -	\$ -
Additions from acquisitions (Restated, Note 31)	26,162,745	210,371	1,790,186	3,073,123	31,236,425
Balance, December 31, 2017 (Restated, Note 31)	\$ 26,162,745	\$ 210,371	\$ 1,790,186	\$ 3,073,123	\$ 31,236,425
Carrying amount					
At December 31, 2017	\$ 26,162,745	\$ 210,371	\$ 1,790,186	\$ 3,073,123	\$ 31,236,425
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

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12. Convertible debt and notes payable

Debt continuity schedule

	Income statement		
	Derivative liability	Debentures carried at FVTPL	Change in FV of debt
Balance, January 1, 2017	\$ -	\$ 22,447,555	\$ -
Issuance of 3rd tranche of debentures (i)	-	14,313,056	-
Repayment (ii)	-	(621,776)	-
Conversion to common shares (iii)	-	(18,138,464)	-
Initial recognition of the derivative	395,883	-	-
Change in FV of Derivative liability	(334,839)	-	(334,839)
Change in FV of Debt	-	12,631,099	12,631,099
Balance, December 31, 2017	\$ 61,044	\$ 30,631,470	\$ 12,296,260
Balance, January 1, 2018	\$ 61,044	\$ 30,631,470	\$ -
Issuance of 4th tranche of debentures (iv)	-	5,783,867	-
Conversion to common shares (i)	-	(9,947,402)	-
Change in FV of derivative liability	(61,044)	-	(61,044)
Change in FV of debt	-	(12,582,178)	(12,582,178)
Balance, December 31, 2018	\$ -	\$ 13,885,757	\$ (12,643,222)
Current portion	\$ -	\$ 8,888,946	
Long-term portion	\$ -	\$ 4,996,811	

- (i) On November 2, 2017, the Company completed the placement of its third tranche of convertible debentures, in the form of units. The Company issued units totaling C\$20.4M in exchange for C\$15.0M gross cash proceeds, C\$3.8M extension of existing debentures from the 2nd tranche and the Bridge Loan, and C\$1.6M as payment of outstanding commissions related to the Company's acquisition activity during the year. The units consist of one senior secured convertible debenture and one half common share purchase warrant, calculated as converted shares, exercisable for 24 months from the date of issuance at an exercise price of C\$0.28 resulting in total warrants of 48,524,780 being issued (Note 14).

The debentures mature 24 months from issuance and carry an interest rate of 10% payable semi-annually. The debentures carry a conversion option, in whole or in part, at C\$0.21 per share.

In connection with the units, the Company issued 2,857,143 broker units, exercisable at C\$0.28 per share for a period of two years following the closing of the offering, and paid \$C600,000 of commissions consisting of cash of C\$240,000 and units of \$360,000.

During 2018, 7,418 debenture units from the third tranche were converted. At December 31, 2018, the principal amount of outstanding debentures in the third tranche was at C\$13.0M.

- (ii) During the spring and summer of 2016, the Company completed a private placement of senior unsecured convertible debentures of C\$9.7 million in a series of settlements. The initial tranche of these debentures was completed in connection with the acquisition of certain assets of BMF. These debentures were fully converted and repaid in early September 2017 prior to the closure the Company's bridge loan financing by payment of cash of C\$356,000 and issuance of 21,468,131 common shares at a price of C\$0.21.

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12. Convertible debt and notes payable (continued)

(iii) In connection with the property acquisition discussed in Note 24, the Company issued \$1.7 million of convertible debentures to a syndicate of investors for the purposes of financing the acquisition. All notes within the syndicate carried annual interest rates of 12% for a term of 24 months with all outstanding principal and interest due on September 17, 2017. Prepayment of all or any portion is allowed without penalty at the option of the issuer with 30 days' notice to the holder. The convertible notes also provide for a conversion option, in whole or in part, within the loan term at \$1 per share and a mandatory conversion feature at C\$2.75 and include 100,000 warrants which are allocated amongst the individual note holders.

Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

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

In conjunction with the sale of the Aurora property, the total outstanding principal and interest remaining for these debentures was settled in late September 2017 by payment of \$403,962 cash and issuance of 9,250,054 common shares at a price of C\$0.18 per share.

(iv) 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 all 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. As of December 31, 2018, no fourth tranche debentures were converted.

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13. Long-term debt and note payable

	2018	2017
Long term debt	\$ 71,721	\$ 211,991
Less: current portion	(25,492)	(131,610)
Carrying amount of long-term debt at December 31	\$ 46,229	\$ 80,381

Long term debt consists of vehicle loans and a packaging machine. Vehicle loans of \$71,721 and \$193,884 at December 31, 2018 and 2017, respectively, are secured by the Company's vehicles, due in June 2021 and repayable in monthly installments. The packaging machine loan of \$18,107 was secured by the machine and paid off in June of 2018.

Note payable was at \$312,118 and \$389,916 at December 31, 2018 and 2017, respectively, and carries an annual interest rate of 10%.

14. Warrant liability

	Units	Amount
Balance, January 1, 2017	12,177,250	\$ 416,414
Warrants issued	117,819,494	6,216,998
Warrants exercised	(53,550)	(5,530)
Warrants expired recorded as gain on fair market value of warrant liabilities	(12,177,250)	(41,844)
Change in fair market value	-	7,714,578
Balance, December 31, 2017	117,765,944	\$ 14,300,616
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

During 2014, the Company issued 13,722,250 warrants in conjunction with various private placements. The warrants have an expiry period of 3 years from date of issuance and an exercise price of C\$0.50 per common share. During the year ended December 31, 2017, none of these warrants were exercised. At December 31, 2017, all of these warrants were expired.

In conjunction with the Company's private placement unit financing which closed in June and July 2017, the Company issued 67,390,714 warrants exercisable for 24 months from the date of closing at a price of C\$0.37.

In conjunction with the Company's bridge notes placed in September, the Company issued 1,904,000 warrants exercisable for 24 months from the date of issuance at an exercise price of \$C0.21.

In conjunction with the Company's third tranche of convertible debentures in November 2017, the Company issued 48,524,780 warrants exercisable for 24 months from the date of issuance at an exercise price of C\$0.28.

In conjunction with the Company's bought deal unit financing which closed in January 2018, the Company issued 38,980,000 warrants exercisable for 24 months from the date of closing at a price of C\$0.55.

In conjunction with the Company's fourth tranche of convertible debentures closed in November 2018, the Company issued 13,551,435 warrants exercisable for 24 months from the date of closing at a price of C\$0.40.

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14. Warrant liability (continued)

Per IAS 9, the warrants issued under these placements meet the definition of a derivative and must be measured at fair value at each reporting date. At December 31, 2018, a gain of \$14,993,991 (2017 – loss \$7,714,578) was recorded in the statement of operations due to significant changes in the Company's share price. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	2018	2017
Expected life	0.5 - 1.9 years	1.7 - 1.9 years
Risk-free interest rate	1.90%	0.84%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7337	0.7701
Expected volatility	68% - 83%	70.00%

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, 2017 to December 31, 2018:

	Number of Shares	Amount
Balance, January 1, 2017	109,349,415	\$ 34,282,314
Shares issued - conversion of debentures	83,481,860	17,894,047
Shares issued - debenture interest	3,632,073	852,427
Shares issued - option exercises	275,555	63,169
Shares issued - warrant exercises	4,920,880	735,612
Shares issued - private placement financing (i)	134,821,428	22,947,895
Shares issued - purchase of Chalice Farms	83,418,687	17,284,352
Shares issued - payment of commissions (ii)	408,637	79,011
Shares issued - legal settlement	745,104	164,600
Shares issued - severance (iii)	2,000,000	569,808
Shares issued - to settle aged payables	375,269	133,917
Shares issued - Acquisition of Medical Marijuana Group Corporation	35,714,285	8,952,369
Shares issued - Acquisition of Medical Marijuana Group Consulting	17,857,143	4,593,160
Balance, December 31, 2017	477,000,336	\$ 108,552,681
Balance, January 1, 2018	477,000,336	\$ 108,552,681
Shares issued - conversion of debentures (iv)	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 (v)	38,980,000	9,028,092
Balance, December 31, 2018	589,140,903	\$ 138,511,038

- (i) In June and July 2017, 134,821,428 shares were issued in conjunction with the private placement unit offering resulting in gross proceeds of C\$37,750,000.
- (ii) In July 2017, 408,637 units were issued to settle commissions owed to an advisor.
- (iii) In August, 2017, 2,000,000 shares were issued to pay severance for a former executive.

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15. Share capital (continued)

- (iv) During 2018, 36,124,048 shares were issued in respect of conversion of convertible debentures.
- (v) 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.

As at December 31, 2018, there were 50,051,214 common shares held in escrow pursuant to the terms of the Chalice Farms Asset Purchase Agreement (Note 21).

16. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, January 1, 2017	17,341,904		\$ 3,501,409
Warrants issued (i)	504,318	USD \$0.30	80,435
Warrants issued (ii)	2,812,500	CDN \$0.21	252,756
Warrants issued (iii)	937,500	CDN \$0.21	59,012
Warrants issued (iv)	2,857,143	CDN \$0.37	468,019
Warrants issued (v)	9,437,500	CDN \$0.28	1,233,021
Warrants issued (vi)	200,000	CDN \$0.20	10,439
Warrants issued (vii)	100,000	CDN \$0.28	3,751
Warrants issued - interest	20,000		2,054
Warrants exercised (viii)	(4,278,000)		(302,539)
Warrants expired (ix)	(658,334)		(224,796)
Balance, December 31, 2017	29,274,531		\$ 5,083,561
Balance, January 1, 2018	29,274,531		\$ 5,083,561
Warrants issued (x)	2,338,800	USD \$0.45	426,367
Warrants issued (xi)	5,425,995	CDN \$0.37	-
Warrants issued (xii)	1,272,867	CDN \$0.30	422,842
Warrants exercised (xiii)	(11,648,157)		(1,432,100)
Warrants expired (xiv)	(5,739,120)		(448,506)
Balance, December 31, 2018	20,924,916		\$ 4,052,164

- (i) During the first quarter of 2017, 504,318 warrants were issued as payment for commissions and consulting costs.
- (ii) In November 2017, 2,812,500 warrants were issued as compensation to a related party as compensation for pledging shares to facilitate a financing transaction.
- (iii) In November 2017, 937,500 warrants were issued as compensation to a related party as compensation for pledging shares to facilitate a financing transaction.
- (iv) In November 2017, 2,857,143 broker warrants were issued as commissions for financing efforts.
- (v) In June and July 2017, 9,437,500 broker warrants were issued as commissions for financing efforts.
- (vi) In September 2017, 200,000 warrants were issued as an incentive to convert debentures.
- (vii) In September 2017, 100,000 warrants were issued for a debenture holder as an incentive to convert debentures.
- (viii) Through December 31, 2017 4,278,000 warrants were exercised.
- (ix) Through December 31, 2017 658,334 warrants expired.
- (x) In January 2018, the Company issued 2,338,800 warrants as compensation options at C\$0.45 as part of the bought deal private placement offering.

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16. Warrant reserve (continued)

- (xi) 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.
- (xii) The Company issued 1,272,867 warrants as compensation options at C\$0.30 as part of the debenture units offering in November 2018.
- (xiii) During 2018, 11,648,157 warrants were exercised.
- (xiv) During 2018, 5,739,120 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	2017
Expected life	.3 - 1.9 years	3 - 5 years
Risk-free interest rate	0.57% - 1.79%	0.57% - 1.44%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7701 - 0.8134	0.7701
Expected volatility	70.0% - 88.4%	70.0%

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, and employees.

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

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17. Stock option plan (continued)

Total number of options at January 1, 2017	7,432,778
Options granted at \$0.21 Canadian dollars	18,250,000
Options exercised	(275,555)
Options expired	(3,350,000)
Total number of options at December 31, 2017	22,057,223
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
Number of exercisable options issued in Canadian dollars	24,997,350
Number of exercisable options issued in U.S. dollars	398,890
Weighted average exercise price of options at December 31, 2018 in U.S. dollars	\$ 0.22

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

	2018	2017
Expected life	3 years	3 years
Risk-free interest rate	0.57% - 2.11%	0.00% - 1.59%
Dividend yield	0.00%	0.00%
Expected volatility	70% - 89%	70.00%
Expected forfeiture rate	0.00%	0.00%

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17. Stock option plan (continued)

Exercise price	Options outstanding				Options exercisable		
	Number outstanding at December 31, 2018	Weighted average remaining contractual life (years)	Weighted average fair value per share	Weighted average exercise price	Number exercisable at December 31, 2018	Weight average fair value per share	Weighted average exercise price
USD \$	#		\$	\$	#	\$	\$
1.00	100,000	6.29	0.46	1.00	100,000	0.46	1.00
0.27	310,000	7.67	0.13	0.27	298,890	0.13	0.27
CDN \$	#		\$	\$	#	\$	\$
0.12	4,000,000	10.00	0.06	0.12	1,000,000	0.06	0.12
0.20	75,000	6.01	0.08	0.20	75,000	0.08	0.20
0.21	10,500,000	4.80	0.10	0.21	6,500,000	0.10	0.21
0.22	11,250,000	4.50	0.12	0.22	4,750,000	0.12	0.22
0.26	2,250,000	4.32	0.14	0.26	500,000	0.14	0.26
0.29	1,900,000	9.58	0.15	0.29	500,000	0.15	0.29
0.30	400,000	8.56	0.17	0.30	200,000	0.17	0.30
0.39	16,743,066	9.07	0.22	0.39	11,472,350	0.22	0.39
0.46	2,000,000	9.04	0.26	0.46	-	0.26	0.46

During the year ended December 31, 2018, \$4,616,448 (2017 - \$1,239,670), including \$nil (2017 - \$569,808) in severance costs paid in common shares, was included in stock compensation expense in the consolidated statement of operations.

On November 3, 2017, upon approval by the Company's board of directors, the Company canceled 500,000 options issued on June 1, 2015 at \$1.00 and issued 1,000,000 new options at C\$0.21. The change in fair value attributable to the options cancellation and subsequent new issuance of \$39,748 was estimated using the Black-Scholes option-pricing model assuming an expected life of 3 years, a risk-free interest rate of 1.59% and an expected volatility of 70%.

On November 3, 2017, upon approval by the Company's board of directors, the Company canceled 1,000,000 options issued to the Company's legal counsel on November 4, 2016 at C\$0.51 and subsequently issued 1,000,000 new options at C\$0.21. The change in fair value attributable to the options cancellation and subsequent new issuance of \$24,800 was estimated using the Black-Scholes option-pricing model assuming an expected life of 3 years, a risk-free interest rate of 1.590% and an expected volatility of 70%.

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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.

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:

	2018	2017
Warrants	172,789,880	147,040,475
Stock options	25,396,240	7,656,735
Convertible debt	88,848,816	98,285,714
Total	287,034,936	252,982,924

19. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, and grow facilities. Future lease payments amount to \$5,369,073:

2019	\$	1,649,216
2020		1,300,462
2021		962,256
2022		386,108
2023		278,433
Thereafter		792,598
	\$	5,369,073

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20. Acquisition of NevWa, LLC, Medical Marihuana Group Corporation ('MMGC'), and Medical Marijuana Group Consulting Ltd. ('MMCC')

On June 7, 2017, the Company acquired the operations of NevWa, LLC ("NevWa") through the acquisition of certain operating assets and liabilities, pursuant to an asset purchase agreement, for cash consideration of \$2,237,027. NevWa operated a small-scale medical marijuana operation located in Sparks, Nevada.

On October 31, 2017 the Company acquired the operations of Medical Marihuana Group Corporation ('MMGC'), by purchasing 100% of the outstanding equity interests in the Corporation for total consideration of \$8,952,369 in stock of the Company.

On December 29, 2017 the Company acquired the operations of Medical Marijuana Group Consulting Ltd ('MMCC'), by purchasing 100% of the outstanding equity interests in the Corporation for total consideration of \$4,593,160 in stock of the Company.

The acquisitions of NevWa, LLC, Medical Marihuana Group Corporation ('MMGC'), and Medical Marijuana Group Consulting Ltd. ('MMCC') were accounted for using the acquisition method, in accordance with IFRS 3 – Business combinations, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The Company allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values of the net assets acquired was recorded as goodwill. The purchase price and the allocation of the purchase price is as follows:

	NevWa, LLC Acquisition	Medical Marihuana Group Corporation ("MMG") Acquisition	Medical Marijuana Group Consulting Ltd. ("MMC") Acquisition	Total excluding Chalice Farms Acquisition
Assets acquired				
Cash	\$ -	\$ 195,091	\$ 17,649	\$ 212,740
Deposits	-	12,468	2,044	14,512
Accounts receivable	-	-	152,962	152,962
Other receivables	-	121,018	51,775	172,793
Inventory	304,285	-	-	304,285
Biological assets	77,667	-	-	77,667
Property, plant and equipment	420,804	1,187,531	-	1,608,335
Intangible assets	1,323,900	7,690,320	1,512,896	10,527,116
	\$ 2,126,656	\$ 9,206,428	\$ 1,737,326	\$ 13,070,410
Liabilities assumed				
Accounts payable and accrued liabilities	\$ 100,000	\$ 1,720,661	\$ 159,267	\$ 1,979,928
Related party loans	-	323,584	58,022	381,606
	100,000	2,044,245	217,289	2,361,534
Fair value of identifiable net assets acquired	\$ 2,026,656	\$ 7,162,183	\$ 1,520,037	\$ 10,708,876
Goodwill arising on acquisition:				
Total cash consideration	\$ 2,237,027	\$ -	\$ -	\$ 2,237,027
Total share consideration	-	8,952,369	4,593,160	13,545,529
Total consideration	2,237,027	8,952,369	4,593,160	15,782,556
Fair value of identifiable net assets acquired	2,026,656	7,162,183	1,520,037	10,708,876
Goodwill arising from transaction	\$ 210,371	\$ 1,790,186	\$ 3,073,123	\$ 5,073,680

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21. Acquisition of Chalice Farms

On July 12, 2017, the Company acquired the operations of Chalice Farms, comprised of the assets of CFA Productions, LLC and 100% of the membership interest of CFA Retail, LLC (Collectively, "Chalice Farms"). This acquisition was accounted for using the acquisition method, in accordance with IFRS 3 – Business combinations, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The Company completed purchase accounting for the Chalice Farms acquisition and the measurement period was closed on July 1, 2018. As a result, the Company recorded an adjustment of \$734,973 between consideration payable and goodwill, reflecting the fair market value of consideration payable by applying a discount for the time value of money. The face value of contingent consideration payable of \$9,527,350, in the form of \$5,000,000 cash and \$4,527,350 of Company stock at a volume weighted average price for the thirty trading days ending on the payment date, was discounted to \$8,792,377, its fair value at the acquisition date. The consolidated financial statements have been restated for the adjustments discussed above, as at December 31, 2017 and the year then ended. Refer to Note 31.

As restated, total acquisition consideration of \$45,326,729 consisted of \$19,250,000 paid in cash, 17,284,352 paid in stock of the Company, and \$8,792,377 in consideration payable recorded at fair value. The Company allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values of the net assets acquired was recorded as goodwill. The purchase price and the allocation of the purchase price is as follows:

Assets acquired	
Cash	\$ (203,854)
Inventory	1,351,855
Deposits	200,770
Property, plant and equipment	2,885,540
Intangible assets	15,700,000
	\$ 19,934,311
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 688,487
Notes payable	81,840
	\$ 770,327
Fair value of identifiable net assets acquired	\$ 19,163,984
<u>Goodwill arising on acquisition:</u>	
Total consideration (Restated, Note 31)	\$ 45,326,729
Fair value of identifiable net assets acquired	19,163,984
Goodwill arising from transaction (Restated, Note 31)	\$ 26,162,745

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21. Acquisition of Chalice Farms (continued)

During 2018, the Company recorded impairment losses of \$3,718,254 and \$447,309, with respect to Chalice Farms brands and license, respectively. Refer to Note 11.

During 2018, the Company recorded goodwill impairment loss of \$5,765,026. Refer to Note 11.

Total consideration:

Consideration paid in cash	\$	19,250,000
Consideration paid in shares		17,284,352
Consideration payable (Restated, Note 31)		8,792,377
Total consideration (Restated, Note 31):	\$	45,326,729

In April 2018, the earn-out payment period under the Chalice Farms Asset Purchase Agreement (“APA”) was extended from the 14-day timeline from the delivery of 2017 financial statements to the earlier of (i) November 2, 2019, or (ii) a liquidity event of \$25M or greater.

Modification to the terms of the consideration payable was accounted for as a debt extinguishment. The Company recognized the gain on settlement of debt extinguishment of \$999,153 reflected in other income on the consolidated statement of operations and comprehensive loss (Note 23). The consideration payable under the new terms was initially recorded at fair value of \$8,489,848. The accretion expense associated with the consideration payable is recognized over the term of the earn-out payment period. During 2018 and 2017, the Company recognized the accretion expense with respect to the consideration payable of \$751,758 and \$410,340, respectively. Consideration payable was at \$8,956,809 and \$9,202,717, at December 31, 2018 and 2017, respectively. The 2017 consolidated financial statements were restated to reflect this change. Refer to Note 31.

22. Transaction costs

Transaction costs totaled \$1,686,425 and \$8,518,490 for the years ending December 31, 2018 and 2017, respectively. These costs are comprised as follows:

	2018	2017
Issuance of convertible debentures	\$ 640,798	\$ 1,678,482
Financing commissions	426,434	2,253,915
Acquisition of subsidiaries	-	4,370,093
Sale of property	-	132,000
Other	619,193	84,000
Total	\$ 1,686,425	\$ 8,518,490

23. Other (income) loss

Other (income) loss for the years ending December 31:

		2018	2017
Impairment of intangible assets	Note 11	\$ 4,165,563	\$ 9,350,000
Impairment of goodwill	Note 11	5,765,026	-
Gain on settlement of debt extinguishment	Note 21	(999,153)	-
(Gain) loss on foreign exchange		(1,285,731)	62,405
Other		(313,482)	375,008
Total		\$ 7,332,223	\$ 9,787,413

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24. 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, 2018 and 2017 includes the following expenses:

	2018	2017
Salaries, commissions, bonuses and benefits	\$ 1,243,458	\$ 1,249,778
Consulting fees	93,000	-
Stock Compensation, including warrants and shares	1,232,553	936,571
	\$ 2,569,011	\$ 2,186,349

Don Robinson, former CEO, provided a personal guarantee of the \$1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director. This note was settled in full as of December 31, 2017 as part of an offset agreement between Saladino, BMF and GLH.

The Company was engaged in a licensing and leasing arrangement with BMF in connection with the assets purchased in January 2016. BMF Washington is 100% owned by Peter Saladino, Director. During the year ended December 31, 2017, the Company recorded \$1,100,006 of royalty revenues from BMF Washington, LLC, a related party and strategic partner, under its brand licensing arrangement which was deemed terminated as of February 9, 2018.

Consideration payable with face value of \$9,527,350, related to Chalice Farms acquisition, is owed to William Simpson, former CEO, Michael Genovese, COO, and Gary Zipfel, Director (Note 21).

On September 5, 2017, the Company converted C\$447,000 and C\$819,000 debentures held by Peter Saladino and Michael Cohl, respectively, at a conversion price of C\$0.21 in exchange for 6,144,132 common shares.

As part of the Company's Bridge Loan financing in September 2017, Gary Yeoman, a former Director, Gary Zipfel, Director, and Phillip Millar, President of MMGC and MMCC, placed notes of C\$50,000, C\$750,000 and C\$50,000 respectively. These amounts were all subsequently extended as part of the debenture unit placement on November 2, 2017. The same individuals also received 47,600, 714,000 and 47,600 common share purchase warrants respectively.

On October 27, 2017, as consideration for the acquisition of Medical Marijuana Group Corporation, Gary Yeoman, a former Director, received 2,171,428 common shares as consideration.

On November 13, 2017, as compensation for share pledges made to facilitate the placement of additional financing, Gary Yeoman and Phillip Millar were awarded 937,500 and 2,812,500 warrants exercisable for up to 24 months at an exercise price of C\$0.21.

On November 15, 2017, the Company remitted \$467,049 to BMF for a variety of expenses incurred to support the assets of NevWa, LLC prior to the acquisition close in June 2017.

On November 20, 2017, the Company remitted \$267,845 to Peter Saladino, Director, for various costs incurred in support of financing efforts and the NevWa, LLC assets.

On December 29, 2017, as consideration for the acquisition of Medical Marijuana Group Consulting Ltd., Gary Yeoman, a former Director and Phillip Millar, President of MMGC and MMCC, received 1,785,714 and 5,357,143 common shares, respectively, as consideration.

The Company leases both its corporate headquarters in Portland and its grow facility outside of Portland, which is currently under construction, from CPPOR LLC ("CPP"), of which Gary Zipfel,

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24. Related party transactions (continued)

Director, is the sole member. During 2017, the Company paid total rents of \$114,600 and \$96,000, respectively, for these properties. In 2018, in an effort to support the Company, CPP entered into a rent abatement agreement with the Company for grow facility under construction for the entire 2018 year. Rent payments for the grow facility resumed upon completion of construction in January 2019.

25. Sale of Aurora property and repayment of secured convertible debentures

On September 25, 2017, the Company sold its interest in the Aurora Property. In 2015, the Company had issued secured convertible debentures (“Debentures”) in connection with the purchase of the Aurora Property.

The Company repaid the Debentures pursuant to the terms of a repayment agreement dated September 25, 2017. The repayment was in the form of a cash amount of \$403,962 and 9,250,048 shares valued at \$1,321,851 on the date of repayment (“Repayment”) (Note 15). There was no gain or loss recognized upon repayment of Debentures as they were measured at fair value on the date of derecognition.

In conjunction with the repayment the Company issued 100,000 warrants to a holder to incentivize conversion. Each warrant has an expiry of two years from the date of issuance and have an exercise price of C\$0.28 per common share.

In conjunction with the repayment the Company issued a further 200,000 warrants to incentivize conversion. Each warrant has an expiry of two years from the date of issuance and have an exercise price of C\$0.20 per common share.

26. 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. As of December 31, 2018 and 2017, total managed capital was \$46,871,502 and \$49,596,523, respectively.

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.

27. Legal matters

In 2018, the Company finalized a settlement with a former employee for an employment-related claim that was made during 2017. The claim alleged damages of \$376,003, not including penalties or attorney’s fees. The Company settled the claim by transferring to the former employee excess production equipment valued at \$220,000. This amount was accrued in full at December 31, 2017.

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27. Legal matters (continued)

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC, an Oregon limited liability company, were sued in the Circuit Court of the State of Oregon in Lane County on November 7, 2017 by the plaintiff, 3590 West 3rd Owner, LLC, an Oregon limited liability company. On February 1, 2019, subsequent to December 31, 2018 balance sheet date, the parties settled the case. The settlement did not have a material impact on the Company's financial statements and the amount was accrued in full in the 2018 financial statements.

28. Financial instruments and risk management

The implementation of IFRS 9 by the Company as applicable to its financial instruments is described in Note 5. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

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

(a) Fair value

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

The 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, 2017		Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Liabilities						
Warrant liability	FVTPL		-	-	14,300,616	14,300,616
Convertible debentures	FVTPL		-	-	30,631,470	30,631,470

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

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

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28. Financial instruments and risk management (continued)

expected volatility of the Company's shares which was estimated at 85% and 70% at December 31, 2018 and 2017, 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, 2018 and 2017.

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 \$235,665 and \$nil at December 31, 2018 and 2017, respectively.

(c) Interest rate risk

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

(d) Liquidity risk

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

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2018						
Trade and other payables	\$ 2,717,521	\$ 2,717,521	\$ 2,717,521	\$ -	\$ -	\$ -
Loans and other borrowings	383,839	383,839	25,492	46,229	312,118	-
Convertible debt	13,885,757	13,885,757	8,888,946	4,996,811	-	-
Total	\$ 16,987,117	\$ 16,987,117	\$ 11,631,959	\$ 5,043,040	\$ 312,118	\$ -

(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.

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28. Financial instruments and risk management (continued)

The following is an analysis of U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at December 31, 2018:

Financial Assets	
Cash	\$ 4,775,003
Trade and other receivables	412,407
	\$ 5,187,410
Financial Liabilities	
Trade and other payables	274,083
Convertible debt	13,885,757
	\$ 14,159,840

29. Segment Information

The Company defines its major operating segments as Oregon wholesale, Oregon retail, Nevada wholesale, Canada cultivation and Canada consulting operations. Due to the jurisdictional cannabis compliance issues ever-present in the industry, each operation is by nature an operational segment. The Oregon wholesale and retail operations share supply chain components and cannot be discretely separated beyond gross margin; however, they have disparate revenue and margin metrics and thus will be presented as such. The Nevada wholesale operations are geographically and jurisdictionally distinct and are reviewed based on gross margin performance. The Canadian companies, although under common management, are different business models and thus are reviewed by management independently based on revenues and gross margin.

2018	Oregon Retail	Oregon Wholesale	Nevada Wholesale	Canada Cultivation	Canada Consulting	Other	Consolidated
Product sales	\$ 10,642,942	\$ 2,323,441	\$ 1,668,585	\$ 816,687	\$ 895,903	\$ -	\$ 16,347,558
Consulting revenue	-	-	-	-	41,952	62,817	104,769
Total Revenue	\$ 10,642,942	\$ 2,323,441	\$ 1,668,585	\$ 816,687	\$ 937,855	\$ 62,817	\$ 16,452,327
Inventory expensed to cost of sales	6,894,384	4,729,943	1,662,032	40,250	31	-	13,326,640
Production costs	-	478,198	24,342	505,485	-	-	1,008,025
Gross margin, excluding fair value items	\$ 3,748,558	\$ (2,884,700)	\$ (17,789)	\$ 270,952	\$ 937,824	\$ 62,817	\$ 2,117,662
Fair value changes in biological assets included in inventory sold	-	-	37,976	189,755	-	-	227,731
(Gain) Loss on changes in fair value of biological assets	-	6,793	(73,966)	(234,162)	-	-	(301,335)
Gross profit (loss)	\$ 3,748,558	\$ (2,891,493)	\$ 18,201	\$ 315,359	\$ 937,824	\$ 62,817	\$ 2,191,266
Assets	\$ 3,393,895	\$ 12,546,890	\$ 7,998,464	\$ 2,307,980	\$ 383,832	\$ 46,845,964	73,477,025
Liabilities	\$ 149,428	\$ 907,952	\$ 4,838	\$ 468,404	\$ 163,757	\$ 25,193,511	26,887,890

2017	Oregon Retail	Oregon Wholesale	Nevada Wholesale	Canada Cultivation	Canada Consulting	Other	Consolidated
Product sales	\$ 4,821,617	\$ 5,127,419	\$ 462,196	\$ -	\$ -	\$ -	\$ 10,411,232
Royalties	-	-	-	-	-	1,100,066	1,100,066
Total Revenue	\$ 4,821,617	\$ 5,127,419	\$ 462,196	\$ -	\$ -	\$ 1,100,066	\$ 11,511,298
Inventory expensed to cost of sales	2,669,020	6,095,447	771,135	-	-	-	9,535,602
Production costs	-	460,417	5,241	-	-	-	465,658
Gross margin, excluding fair value items	\$ 2,152,597	\$ (1,428,445)	\$ (314,180)	\$ -	\$ -	\$ 1,100,066	\$ 1,510,038
(Gain) Loss on changes in fair value of biological assets	-	-	(198,000)	-	-	-	(198,000)
Gross profit (loss)	\$ 2,152,597	\$ (1,428,445)	\$ (116,180)	\$ -	\$ -	\$ 1,100,066	\$ 1,708,038
Assets (Restated, Note 31)	\$ 3,540,876	\$ 9,800,715	\$ 3,389,811	\$ 1,336,736	\$ 213,939	\$ 56,767,731	\$ 75,049,808
Liabilities (Restated, Note 31)	\$ 221,724	\$ 516,381	\$ 113,243	\$ 399,517	\$ 206,801	\$ 56,256,347	\$ 57,714,013

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30. 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,	
	2018	2017 (Restated, Note 31)
Loss before income taxes	\$ (4,487,531)	\$ (56,339,452)
Statutory tax rates	26.50%	26.50%
Estimated income taxes (recovery) computed at the statutory rates	(1,189,196)	(14,929,955)
Expenses not deductible in U.S.	(235)	1,924,226
Expenses not deductible in Canada	(2,693,897)	4,140,773
Change in benefit of future tax assets not recognized in Canada	(2,175,731)	3,787,441
Change in benefit of future tax assets not recognized in US	257,331	3,843,078
Losses not deductible under IRC S 280E in the U.S.	5,702,717	2,307,147
Effect of foreign tax rates	(21,632)	(1,181,450)
Other	203,454	251,970
Income tax (recovery) expense	\$ 82,811	\$ 143,230

The enacted tax rate in Canada of 26.50% (2017 - 26.50%) and in the United States 27.60% (2017 - 38.26%) where the Company operates is applied in the tax provision calculation.

Provision for income taxes consists of the following:

	December 31,	
	2018	2017
Current income tax (recovery)	\$ 82,811	\$ 143,230
Deferred income tax (recovery)	-	-
Total income tax (recovery) expense	\$ 82,811	\$ 143,230

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

	December 31,	
	2018	2017
Non-capital losses carried forward	\$ 6,451,043	\$ 2,068,277
Convertible debentures	(494,283)	(1,554,600)
Warrant liability	-	(110,400)
Financing fees	2,335,225	716,100
Intangible assets	3,072,621	1,904,295
Property, plant and equipment	537,708	454,617
Unrealized FMV gain on biological assets	(15,795)	(55,440)
Valuation allowance	(11,886,519)	(3,422,849)
	\$ -	\$ -

The combined tax rate in the State of Oregon and municipal governing bodies is 7.6% which is deductible for U.S. federal tax purposes. In aggregate, the estimated total U.S. federal and state tax rate is approximately 27.60%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its U.S. tax on the basis of gross receipts less cost of goods sold. Although

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30. Taxation (continued)

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

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

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

Although the production and sale of marijuana and related products for medical purposes is legal in the State of Oregon, it is still considered to be illegal from the perspective of Federal law. ORS 317.763 allows Oregon taxpayers filing a corporate excise or income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by ORS 475B.010 to 475B.395.

As of December 31, 2018, the Company has estimated Canadian non-capital losses of \$24,342,923. 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 2038. The deferred tax benefit of these tax losses has not been set up as an asset.

31. Restatement

Under IFRS 3, *Business Combinations*, changes in fair value of the consideration payable that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustment against goodwill. As a result of completion of Chalice Farms acquisition accounting during the measurement period ending on July 1, 2018, the Company discounted consideration payable for the time value of money. As at December 31, 2017, the Company recorded a \$734,973 reduction to goodwill and consideration payable, respectively, and for the year ending December 31, 2017, recognized \$410,340 interest expense in the consolidated financial statements.

The consolidated financial statements have been restated for the adjustments discussed above, as at December 31, 2017 and the year then ended as detailed in the following tables:

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31. Restatement (continued)

Consolidated Statement of Financial Position

	As previously reported	Adjustments	As Restated
ASSETS			
Total current assets	\$ 11,629,357	\$ -	\$ 11,629,357
Property, plant and equipment	5,956,910	-	5,956,910
Intangible assets	26,227,116	-	26,227,116
Goodwill	31,971,398	(734,973)	31,236,425
Total assets	\$ 75,784,781	\$ (734,973)	\$ 75,049,808
LIABILITIES			
Total current liabilities	\$ 3,380,158	\$ -	\$ 3,380,158
Long term debt	80,381	-	80,381
Note payable	389,916	-	389,916
Convertible debentures carried at fair value	30,360,225	-	30,360,225
Consideration payable	9,527,350	(324,633)	9,202,717
Warrant liability	14,300,616	-	14,300,616
Total liabilities	\$ 58,038,646	\$ (324,633)	\$ 57,714,013
SHAREHOLDERS' EQUITY			
Share capital	\$ 108,552,681	-	108,552,681
Warrant reserve	5,083,561	-	5,083,561
Share option reserve	1,087,640	-	1,087,640
Contributed surplus	59,940	-	59,940
Accumulated other comprehensive loss	9,828	-	9,828
Deficit	(97,047,515)	(410,340)	(97,457,855)
Total shareholders' equity	17,746,135	(410,340)	17,335,795
Total liabilities and shareholders' equity	\$ 75,784,781	\$ (734,973)	\$ 75,049,808

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31. Restatement (continued)

Consolidated Statement of Operations and Comprehensive Loss

	As previously reported	Adjustments	As Restated
Total Revenue	\$ 11,511,298	\$ -	\$ 11,511,298
Gross margin, excluding fair value items	1,510,038	-	1,510,038
(Gain) Loss on changes in fair value of biological assets	(198,000)	-	(198,000)
Gross profit	\$ 1,708,038	\$ -	\$ 1,708,038
Total expenses	\$ 11,668,001	\$ -	\$ 11,668,001
Loss before items noted below	\$ (9,959,963)	\$ -	\$ (9,959,963)
Interest expense	1,549,780	410,340	1,960,120
Transaction costs	8,518,490	-	8,518,490
Loss on disposal of assets	470,071	-	470,071
Impairment of financing lease receivable	432,557	-	432,557
Impairment of purchase option	5,200,000	-	5,200,000
Other (income) loss	9,787,413	-	9,787,413
(Gain) Loss on change in fair value of warrant liabilities	7,714,578	-	7,714,578
(Gain) Loss on change in fair value of liabilities	12,296,260	-	12,296,260
(Income) Loss before income taxes	(55,929,112)	(410,340)	(56,339,452)
Current income tax expense (recovery)	143,230	-	143,230
Net gain (loss)	\$ (56,072,342)	\$ (410,340)	\$ (56,482,682)
Other comprehensive loss			
Reversal of unrealized loss on available for sale purchase option, net of tax for impairment	\$ 530,000	\$ -	\$ 530,000
Items that will be reclassified subsequently to profit or loss:			
Cumulative translation adjustment	9,828	-	9,828
Comprehensive income (loss)	\$ (55,532,514)	\$ (410,340)	\$ (55,942,854)
Basic and diluted loss per share	\$ (0.21)		\$ (0.21)
Weighted average number of common shares outstanding	262,011,877		262,011,877

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31. Restatement (continued)

Consolidated Statement of Cash Flows

	As previously reported	Adjustments	As Restated
Cash provide by (used in):			
Operating activities:			
Net Gain (Loss)	\$ (56,072,342)	\$ (410,340)	\$ (56,482,682)
Depreciation of property, plant and equipment	572,695	-	572,695
Loss on disposal of assets	470,071	-	470,071
Interest expense	852,427	410,340	1,262,767
Income tax expense	143,230	-	143,230
Share based compensation	1,239,670	-	1,239,670
Professional fees paid with equity instruments	377,528	-	377,528
(Gain)/loss on fair value adjustment to warrants liability	7,714,578	-	7,714,578
(Gain)/loss on fair value adjustment to debt	12,296,260	-	12,296,260
Transaction cost	3,554,305	-	3,554,305
Gain on fair value of biological assets	(198,000)	-	(198,000)
Impairment of finance lease receivable	432,556	-	432,556
Impairment of intangible assets and goodwill	14,550,000	-	14,550,000
Other non-cash transactions	1,041,230	-	1,041,230
Changes in working capital items			
Accounts receivable	(127,240)	-	(127,240)
Other receivables	691,725	-	691,725
Sales tax recoverable	(198,945)	-	(198,945)
Accounts payable and accrued liabilities	(2,030,245)	-	(2,030,245)
Biological assets	107,373	-	107,373
Inventory	(1,024,665)	-	(1,024,665)
Prepaid expenses and deposits	54,275	-	54,275
Cash used in operating activities	\$ (15,553,514)	\$ -	\$ (15,553,514)
INVESTING ACTIVITIES			
Cash used in investment activities	\$ (20,974,311)	\$ -	\$ (20,974,311)
FINANCING ACTIVITIES			
Cash provided by financing activities	\$ 38,596,809	\$ -	\$ 38,596,809
Increase/(Decrease) in cash during the year	\$ 2,068,984	\$ -	\$ 2,068,984
Cash, beginning of period	3,940,463	-	3,940,463
Cash, end of period	\$ 6,009,447	\$ -	\$ 6,009,447

32. Comparative figures

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