Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS INC.

For the three and nine month periods ended September 30, 2015 and from April 8, 2014 (date of incorporation) to September 30, 2014 (Unaudited)

GOLDEN LEAF HOLDINGS INC.

Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. Dollars)
For the three and nine month periods ended September 30, 2015 and from April 8, 2014 (date of incorporation) to September 30, 2014 (Unaudited)

GOLDEN LEAF HOLDINGS INC.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)
As at September 30, 2015 and December 31, 2014
(Expressed in U.S. dollars)

		September 30, 2015		December 31, 2014 (restated - Note 22)
ASSETS				
CURRENT				
Cash	$	1,133,339	$	600,078
Accounts receivable (note 6)		1,561,629		358,987
Sales tax recoverable		58,425		47,535
Biological assets (note 7)		770,778		224,854
Inventory (note 7)		1,787,544		534,986
Prepaid expenses and deposits		859,491		339,788
Total current assets		6,171,206		2,106,228
Property, plant and equipment (note 8)		6,234,228		710,790
Intangible assets		30,000		40,000
Total assets	$	12,435,434	$	2,857,018
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities		1,799,394		380,794
Income taxes payable (note 20)		834,187		32,202
Subscriptions payable		-		40,000
Current portion of long-term debt (note 10)		34,011		15,828
Convertible notes and notes payable (note 9)		2,203,147		-
Total current liabilities	$	4,870,739	$	468,824
Long term debt (note 10)		1,654,201		75,121
Warrants liability		9,324,370		507,607
Total liabilities	$	15,849,310	$	1,051,552
SHAREHOLDERS' EQUITY				
Share capital (note 12)		12,831,838		4,747,153
Warrant reserve (note 13)		2,497,376		260,366
Share based compensation (note 14)		172,064		-
Contributed surplus		62,570		-
Deficit		(18,977,724)		(3,202,053)
Total shareholders' equity		(3,413,876)		1,805,466
Total liabilities and shareholders' equity	$	12,435,434	$	2,857,018

Going Concern (note 2)
Commitments (note 15)
Subsequent Events (note 21)

See accompanying notes to interim condensed consolidated financial statements.

GOLDEN LEAF HOLDINGS INC.

Interim Condensed Consolidated Statement of Operations and Comprehensive Loss (Unaudited)

For the three and nine month periods ended September 30, 2015 and from April 8, 2014 (date of incorporation) to September 30, 2014 (Unaudited)

(Expressed in U.S. dollars)

	For the three month periods ending September, 30		For the nine month periods ending September, 30	
	2015	2014	2015	2014
Sales	$ 2,950,859	$ 284,159	$ 7,834,711	$ 284,159
Gain on changes in fair value of biological assets	(770,778)	-	(770,778)	-
Inventory expensed to cost of sales	1,899,224	208,505	4,921,500	208,505
Productions costs	591,237	-	591,237	-
Cost of sales expense	1,719,683	208,505	4,741,959	208,505
Gross profit	1,231,176	75,654	3,092,752	75,654
Expenses				
General and administration	2,530,929	853,630	5,106,184	1,299,229
Professional fees paid with warrants	488,155	-	2,237,011	-
Write down of inventory	-	141,280	-	141,280
Sales and marketing	460,465	202,174	1,030,553	217,386
Research and development	178,319	-	366,976	-
Depreciation and amortization	75,776	-	123,576	-
Total expenses	3,733,644	1,197,084	8,864,300	1,657,895
Loss before undernoted items	(2,502,468)	(1,121,430)	(5,771,548)	(1,582,241)
Interest expense	29,454	7,917	57,803	12,018
Other loss (income)	152,294	(107,385)	8,789,154	8,305
Loss before income taxes	(2,684,216)	(1,021,962)	(14,618,505)	(1,602,564)
Incomes taxes (note 20)	443,142	29,385	1,157,168	29,385
Net Loss and comprehensive loss	(3,127,358)	(1,051,347)	(15,775,673)	(1,631,949)
Basic and diluted loss per share	$ (0.05)	$ (0.05)	$ (0.29)	$ (0.03)
Weighted average number of common shares outstanding	57,810,620	22,312,666	54,234,291	20,257,397

See accompanying notes to interim condensed consolidated financial statements.

GOLDEN LEAF HOLDINGS INC.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the nine month period ended September 30, 2015 and from April 8, 2014 (date of incorporation) to December 31, 2014

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, April 8, 2014	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of common shares (note 12)	4,837,906	-	-	-	-	4,837,906
Share issuance costs (note 12)	(117,665)	-	-	-	-	(117,665)
Issuance of warrants (note 11, 13)	-	271,020	-	-	-	271,020
Exercise of warrants for common shares	26,912	(10,654)	-	-	-	16,258
Net loss and comprehensive loss for the period	-	-	-	-	(3,202,053)	(3,202,053)
Balance at December 31, 2014	$ 4,747,153	$ 260,366	$ -	$ -	$ (3,202,053)	$ 1,805,466

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2015	$ 4,747,153	$ 260,366	$ -	$ -	$ (3,202,053)	$ 1,805,466
Issuance of common shares (note 12)	8,196,443	-	-	-	-	8,196,443
Share issuance costs (note 12)	(51,818)	-	-	-	-	(51,818)
Issuance of warrants (note 11, 13)	-	2,237,010	-	-	-	2,237,010
Issuance of share-based compensation (note 14)	-	-	172,064	-	-	172,064
Shares cancellation and misc. contributed surplus	(59,940)	-	-	62,570	-	2,630
Net loss and comprehensive loss for the period	-	-	-	-	(15,775,673)	(15,775,673)
Balance at September 30, 2015	$ 12,831,838	$ 2,497,376	$ 172,064	$ 62,570	$ (18,977,726)	$ (3,413,876)

See accompanying notes to interim condensed consolidated financial statements.

GOLDEN LEAF HOLDINGS INC.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)
For the nine month period ended September 30, 2015 and from April 8, 2014
(date of incorporation) to September 30, 2014 (Expressed in U.S. dollars)

	For the nine month period ended September 30, 2015	For the period from April 8 to September 30, 2014
Cash provide by (used in):		
Operating activities:		
Net Loss	(15,775,673)	$ (1,631,948)
Depreciation of property, plant and equipment	113,576	4,038
Amortization of intangible assets	10,000	-
Accretion and interest expense	13,138	5,589
Bad debt expense	473,516	-
Share based compensation	172,064	141,280
Non cash expenses	2,237,010	171,143
Loss on fair value adjustment to warrants liability	8,816,762	(57,445)
Changes in working capital items		
Accounts receivable	(1,676,158)	(142,337)
Sales tax recoverable	(10,890)	(30,407)
Accounts payable and accrued liabilities	1,418,600	381,844
Income taxes payable	801,985	29,385
Biological assets	(545,924)	(284,093)
Inventory	(1,252,558)	(435,036)
Prepaid expenses and deposits	(519,701)	(241,526)
Cash used in operating activities	(5,724,253)	(2,089,514)
INVESTING ACTITIVES		
Deposits on property, plant and equipment	(434,600)	(93,488)
Purchase of property, plant and equipment	(5,012,791)	(435,719)
Cash used in investment activities	(5,447,391)	(529,207)
FINANCING ACTIVITIES		
Issuance of common shares	8,096,503	3,964,178
Issuance of convertible notes payable	2,190,010	-
Payment of share issuance costs	(51,818)	(4,122)
Proceeds from long-term debt	1,500,000	-
Repayment of long-term debt	(29,790)	-
Proceeds from related party loan	305,000	212,500
Repayment of related party loan	(305,000)	(212,500)
Cash provided by financing activities	11,704,904	3,960,056
Increase in cash during the period	533,260	1,341,335
Cash, beginning of period	600,078	-
Cash, end of period	**$ 1,133,339**	**$ 1,341,335**

See accompanying notes to these consolidated financial statements

1. Incorporation and operations

Golden Leaf Holdings Inc. ("Golden Leaf" or the "Company") was incorporated under the laws of the Canada Business Corporations Act on April 8, 2014 and began operations on July 1, 2014. The Company carries on the business of growing, processing and distributing medical cannabis products in the State of Oregon in the United States of America ("USA"). The Company's corporate office is at 400-1235 Bay St., Toronto, Ontario Canada M5R 3K4 and its principal place of business is at 400-517 SW 4th Ave., Portland, Oregon USA 97204.

2. Going concern assumption

The interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. The going concern basis of presentation assumes that Golden Leaf will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has funded its cash requirements since commencement of operations in July 2014 through the issuance of common shares, convertible notes, and related party loans. The Company has generated sales of $7.8 million for the nine month period ending September 30, 2015. To fund its future working capital needs and expansion plans the Company anticipates the issuance of additional common shares and/or debt through various rounds of financing. In early October 2015, the Company completed a reverse-takeover transaction ("RTO") were the Company took over control and the listing status of Longacre Resources Inc. ("Longacre") (see Note 21). This transaction will provide the Company with another option to access capital to fund future growth and working capital.

Since inception in April 2014, the Company had completed multiple rounds of financing which generated gross proceeds of $16.2 million. Cancelled shares during the first quarter of 2,997,000 do not impact gross proceeds (see Note 12). In management's view, even though operations show an accumulated deficit of $19.0 million since inception, the proceeds from the financing activities mentioned above and the Company's access to additional capital will provide sufficient working capital and liquidity for the company to continue as a going concern for the next year.

These interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying amounts of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

The assessment of the validity of the going concern assumption requires significant judgment by management relating to the Company's ability to achieve profitable operations, raise debt and/or equity financing in the future and meet its obligations as they come due.

3. Statement of compliance

These interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2015 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' and in accordance with the accounting policies adopted in the Company's most recent annual financial statements for the period from April 8, 2014 (date of incorporation) to December 31, 2014. The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2014 financial statements (as restated), which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

4. Basis of presentation

Except where specified, the interim condensed consolidated financial statements have been prepared in U.S. dollars, which is the Company's functional currency, on a historical cost basis. The accounting policies set out below have been applied to all accounting periods. While the Company was incorporated and funded during the second quarter in 2014, operations commenced on July 1, 2014.

5. Significant accounting policies

Basis of consolidation
The Company consolidates the financial statements of the following wholly owned subsidiaries:

- Greenpoint Holdings Delaware Inc.
- Greenpoint Oregon Inc.
- Left Coast Connections Inc.
- GP Management Inc.
- Greenpoint Science Ltd.

In addition, a new subsidiary, Greenpoint Real Estate LLC (an Oregon entity), was formed during the period ended September 30, 2015.

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

The preparation of the Company's interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually 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 results could differ from these estimates.

Biological assets
The Company's biological assets consist of cannabis plants cultivated and harvested in the Company's grow facilities in and around Portland, Oregon. In previous periods, for a variety of reasons, the fair value of biological assets could not be measured reliably. As such, the Company has historically measured these assets at their cost. However, based on the maturation of the Company's growing operations and the physical growth of the plants themselves, the Company now feels that it can reliably measure the fair value of its biological assets (see Note 7).

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

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

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

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

6. Accounts receivable

	September 30, 2015	December 31, 2014
Accounts Receivable	$2,109,229	$443,361
Allowance for doubtful accounts	(547,600)	(84,374)
	$ 1,561,629	$ 358,987

Bad debt expense amounts for the three and nine month periods are $348,365 and $473,515, respectively. These amounts are included in general and administrative expenses.

7. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The company measures it's biological assets at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Any production costs incurred during the growth cycle of the plants is expensed as incurred. During the current quarter, the Company expensed $591,237 of production costs.

Inventory consists of harvested cannabis flower and concentrated products such as oils and edibles. Any costs incurred to bring inventory to the condition and location of sale are included in cost. The following provides a summary of the various costs incurred in key stages of production:

	Biological assets	'Inventory
Raw materials	-	230,969
Work-in-process	206,265	191,420
Finished goods	18,589	112,597
Balance, December 31, 2014	$ 224,854	$ 534,986
Raw materials	-	184,190
Work-in-process	770,778	910,901
Finished goods	-	692,453
Balance, September 30, 2015	$ 770,778	$ 1,787,544

8. Property, plant and equipment

	Land and Buildings	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost							
Balance, Dec 31, 2014	-	312,795	231,377	63,547	41,835	103,672	753,226
Additions	3,289,833	1,578,496	611,946	97,426	65,024	218,840	5,861,565
Dispositions	-	-	-	-	-	(103,672)	(103,672)
Balance, Sept 30, 2015	$ 3,289,833	$ 1,891,291	$ 843,323	$ 160,973	$ 106,859	$ 218,840	$ 6,511,119
Accumulated Amortization							
Balance, Dec 31, 2014	-	(23,540)	(11,309)	(4,305)	(1,554)	(1,728)	(42,436)
Expense	(35,000)	(109,131)	(47,913)	(22,784)	(9,214)	(20,775)	(244,817)
Dispositions	-	-	-	-	-	10,361	10,361
Balance, Sept 30, 2015	$ (35,000)	$ (132,671)	$ (59,222)	$ (27,089)	$ (10,768)	$ (12,142)	$ (276,892)
Carrying amount							
Balance, Dec 31, 2014	$ -	$ 289,255	$ 220,068	$ 59,242	$ 40,281	$ 101,944	$ 710,790
Balance, Sept 30, 2015	$ 3,254,833	$ 1,758,620	$ 784,101	$ 133,884	$ 96,091	$ 206,698	$ 6,234,228

The Company closed on a 96 acre property in the State of Oregon on September 28, 2015 with a purchase price of $3.3 million. The financing for the property was comprised of a $1.5 million secured promissory note with a fixed annual rate of 9% (Note 10), $1.7 million in convertible debentures with annual rates of 12% (Note 9), and cash paid by the Company. 145,000 warrants were issued in conjunction with the debt financing at $1.00 U.S dollar. The property will serve as the main facility for the Oregon based grow and manufacturing operations, as well as the main campus for the corporate offices in the U.S. The purchase transaction was conducted by Greenpoint Real Estate, LLC.

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

Total depreciation expense for the three month period ending September 30, 2015 and nine month period then ending was $140,237 and $252,949 respectively. Of the total expense, $64,461 was allocated to inventory in the three month period ending September 30, 2015 and $129,373 during the nine month period then ended.

9. Convertible notes payable

	September 30, 2015	December 30 2014
Proceeds from issuance of convertible notes	$ 2,190,010	$ -
Accretion and interest expense	13,137	-
Carrying amount of convertible note at September 30, 2015	$ 2,203,147	$ -

In connection with the property acquisition discussed in Note 8, the Company issued $1.7M of convertible debentures to a syndicate of investors for the purposes of financing the acquisition. All notes within the syndicate carry annual interest rates of 12% for a term of 24 months with all outstanding principal and interest due on September 17, 2017. The debentures are convertible to common shares at $1.00 U.S. dollar and include 100,000 warrants which are allocated amongst the individual note holders.

During the first quarter of 2015, the Company issued two convertible notes. The principal amounts are $250,000 each, with a rate of 8% per annum. The maturity dates of the notes are March 9, 2016 and March 11, 2016 respectively. Prepayment is allowed without penalty. The convertible notes also provide for a conversion option, in whole or in part, within the loan term at $1 U.S. dollar per share. The notes payable also provided for 25,000 warrants to each of the holders at inception, at $1.00 U.S dollar per common share. Interest payments are due September 9 and 21, 2015 respectively, and at settlement.

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

10. Long-term debt

	September 30, 2015	December 30 2014
Long term debt	$ 1,688,212	$ 90,949
Less: current portion	(34,011)	(15,828)
Carrying amount of long-term debt at September 30, 2015	$ 1,654,201	$ 75,121

Long term debt consists of vehicle loans and a note payable secured by real property. Vehicle loans of $188,212 are secured by the Company's vehicles, due in June 2021 and repayable in monthly blended installments of $3,184.

In connection with the property acquisition discussed in Note 8, the Company issued a secured note payable for $1.5 million with a term of 24 months carrying interest at an annual rate of 9% with interest due in monthly installments and all outstanding principal due on September 14, 2017. The holder of this note has also been granted 45,000 warrants at $1.00 U.S. dollar as part of the financing arrangement.

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

11. Warrants liability

During the period between June 13 and November 28, 2014, the Company issued 13,722,250 warrants in conjunction with private placements pertaining to (vii) and (viii) in Note 12. The warrants have an expiry period of 3 years from date of issuance and an exercise price of $0.50 Canadian dollars per common share.

The warrants were valued at $565,052 at the time of issuance. Per IAS 39, the warrants issued under these placements meet the definition of a derivative and must be measured at fair value at each reporting date. At September 30, 2015, a loss of $8,816,762 was recorded into Other Loss due to significant changes in the year end risk-free rate, foreign exchange rate, and reduction in the expected life of the warrants. At December 31, 2014, a gain of $57,445 was recorded in Other Income due to changes in the year end risk-free rate, foreign exchange rate, and reduction in the expected life of the warrants. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	September 30, 2015	**December 31, 2014**
Expected life	2.0 to 2.2 years	2.8 to 2.9 years
Risk-free interest rate	0.67%	1.21%
Dividend yield	0%	0%
Foreign exchange rate	.7461	.8950
Expected volatility	70%	70%

12. Share capital

Authorized - An unlimited number of common shares at no par value.

The following table reflects the continuity of share capital from December 31, 2014 to September 30, 2015:

	Number of Shares		Amount
Balance, December 31, 2014	52,957,166	$	4,747,153
Shares issued – Private placements (i)	221,000		204,532
Shares cancelled (ii)	(2,997,000)		(59,940)
Shares issued – Private placements, net of issuance costs (iii)	7,098,500		6,922,260
Shares issued for services (iv)	1,122,070		-
Shares issued - Private placements (v)	1,037,000		1,017,833
Balance, September 30, 2015	59,438,736	$	12,831,838

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

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

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

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

12. Share capital (continued)

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

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

13. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2014 (restated)	2,548,025		$ 260,366
Warrants issued - consulting fees (i)	4,075,000	CDN $0.20	322,698
Warrants issued - management consulting (ii)	1,000,000	CDN $0.20	138,591
Warrants issued - consulting fees (iii)	500,000	CDN $0.50	301,823
Warrants issued - security services (iv)	100,000	CDN $0.20	7,935
Warrants issued - private placement fees (v)	50,000	CDN $0.20	3,968
Warrants issued - management consulting (vi)	1,500,000	USD $1.00	693,224
Warrants issued - private placement fees (vii)	340,450	USD $1.00	157,339
Warrants issued - loan interest expense (viii)	21,000	USD $1.00	9,705
Warrants issued - property consulting fees (ix)	200,000	USD $1.00	92,430
Warrants issued - property consulting fees (ix)	200,000	USD $5.00	21,143
Warrants issued - in conjunction with employment (x)	1,380,000	USD $1.00	63,559
Warrants issued - in conjunction with employment (x)	1,000,000	CDN $0.20	239,868
Warrants issued - for services (xi)	208,950	USD $1.00	71,896
Warrants issued - for services (xi)	235,410	USD $.50	112,831
Balance, September 30, 2015	13,358,835		$2,497,376

(i) During the three months ending March 31, 2015, the company issued 4,075,000 warrants. These warrants were issued for consulting services related to the private placements, research and development, and marketing. The expense related to these professional fees is $322,697. These warrants have an exercise price of $0.20 Canadian.

(ii) A member of the executive management team was awarded 1,000,000 warrants as a signing bonus issued at $0.20 Canadian dollars.

(iii) Consulting fees were settled with 500,000 warrants issued at $0.50 Canadian dollars.

(iv) Security services firm was provided with 100,000 warrants at $0.20 Canadian dollars

(v) The Company issued 50,000 warrants for non-brokered private place fees for services earlier in the year at $0.20 Canadian dollars.

(vi) Members of the executive management team were awarded 1,500,000 warrants as a signing bonus issued at $1.00 U.S. dollars.

(vii) The Company issued 340,450 warrants for non-brokered private place fees for services earlier in the year at $1.00 U.S. dollars.

(viii) In lieu of interest payments, 21,000 warrants were issued for a short-term loan from a related party at $1.00 U.S. dollars. See note 16.

(ix) Property management services for the Aurora property discussed in Note 22 were settled with two tranches of warrants. 200,000 units were issued at $1.00 U.S. dollar and 200,000 units were issued at $5.00 U.S. dollars.

(x) The Company issued 2,380,000 warrants to employees as share based compensation. 1,000,000 of these were issued at $1.00 Canadian dollars and 1,380,000 were issued at $1.00 U.S. dollars.

(xi) The Company issued 444,360 warrants to advisors for services. 208,950 were issued at $1.00 U.S. dollars and 235,410 were issued at $.50 U.S. dollars.

13. Warrant reserve (continued)

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

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

14. 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. The total number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares. The options are subject to vesting periods set by the Board of Directors and have an expiry period of no more than 10 years from the grant date.

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

Total number of options at December 31, 2014		-
Number of options granted at $.20 Canadian dollars		
Options granted in January 2015, expires January 2018		3,475,000
Number of options granted at $1.00 U.S. dollars		
Options granted in January 2015, expires January 2018		200,000
Options granted in February 2015, expires February 2018		350,000
Options granted in April 2015, expires in April 2018		170,000
Options granted in May 2015, expires in May 2018		150,000
Options granted in June 2015, expires in June 2018		1,200,000
Options granted in July 2015, expires in July 2018		600,000
Options granted in August 2015, expires in August 2018		900,000
Options granted in September 2015, expires in September 2018		200,000
Options converted to warrants in conjunction with granting referenced below		(1,650,000)
Options cancelled		(166,667)
Total number of options at September 30, 2015		5,428,333
Number of exercisable options issued in Canadian dollars		874,840
Number of exercisable options issued in U.S. dollars		345,320
Weighted average exercise price of options at December 31, 2014	$	-
Weighted average exercise price of options at September 30, 2015 in U.S. dollars	$	0.63

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

14. Stock option plan (continued)

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

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

The value attributed to the 5,428,333 stock options expensed as shared based compensation was $172,064 for the nine month period ended September 30, 2015.

15. Commitments

The Company and its subsidiaries have entered into operating lease agreements for its premises. Future lease payments amount to $179,571:

2015	$	46,464
2016		113,638
2017		19,469
	$	179,571

The operating leases are for the Company's dispensary and corporate office and operations.

16. 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 nine months ended September 30, 2015 includes the following expenses:

Salaries, commissions, bonuses and benefits	$	402,500
Consulting fees paid to officers of the Company		344,582
	$	747,082

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

During the first and second quarters of 2015 respectively, loans for $150,000 and $155,000 were received from an employee. The loans were repaid during the same quarters in which the loans were made. The employee was issued 5,000 warrants and 21,000 warrants respectively for the loans. No additional interest was charged. The warrants issued are within the totals disclosed in notes 11 and 13 (xiv).

16. Related party transactions (continued)

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

17. Capital management

The Company defines capital that it manages as its shareholders' equity, long-term debt and warrants liability. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As of September 30, 2015, total managed capital was $7,564,692. Total managed capital at December 31, 2014 was $2,388,194.

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

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.

The Company expects the capital resources available will be sufficient to carry its business and operations through 2015.

18. Segmented disclosure

While the Company has locations in both in Canada and the United States of America, it manages its operations in one business segment. At September 30, 2015, all the Company's assets are located in the United States of America. All revenues are generated in the United States of America.

19. Financial instruments and risk management

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

(a) Fair value

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

The carrying value of long-term debt approximates fair value upon initial recognition and subsequent to that date it has been amortized using the effective interest rate method. At September 30, 2015, its carrying value approximates fair value based on current market rates for similar instruments.

19. Financial instruments and risk management (continued)

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

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

The Company recognizes the warrants associated with the initial private placements during the year as financial liabilities designated as FVTPL where changes to fair value based on changes to the inputs are recognized in profit or loss. The estimated fair value of the warrants is categorized within Level 2 of the fair value hierarchy. Refer to note 11 for information regarding the valuation technique and inputs used to determine fair value.

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

(b) Credit risk

The Company's principal financial assets are cash and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at September 30, 2015.

The Company's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment. The Company does not have significant exposure to any individual customer and has estimated bad debts of $547,600 and $84,374 at September 30, 2015 and December 31, 2014, respectively.

(c) Interest rate risk

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

(d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue common shares and debt in the future (see note 21).

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

20. Taxation

The Company reconciles the expected income tax recovery (expense) at the combined USA and Canadian statutory income tax rate of 28.4% (USA-34%, Canada-26.3%) to the amounts recognized in the consolidated statement of operations.

The Company has estimated an income tax liability for the nine month period ended September 30, 2015, as follows:

	September 30, 2015	December 31, 2014
Loss before income taxes	$ (14,618,505)	$ (3,169,851)
Estimated tax recovery at combined rate of 28.4%	(4,151,655)	(867,037)
Expenses not deductible in Canada	2,311,548	-
Losses - benefit not realized in Canada	463,399	394,877
Losses not deductible under IRC S 280E in the U.S.	2,533,876	504,362
Income tax expense	$ 1,157,168	$ 32,202

The company made estimated tax payments to US federal government and State of Oregon in the amounts of $229,302 and $61,178 respectively for Q1 and Q2 2015 tax liability.

The Company had taxable income in the USA and has apportioned all of its US income to the State of Oregon. It had tax losses in Canada in 2014 and for the nine month period ended September 30, 2015.

The tax rate in the State of Oregon is 6.6% which is deductible for US federal tax purposes. In aggregate, the estimated total US federal and state tax rate is approximately 38%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its US tax on the basis of gross receipts less cost of goods sold. Although other expenses have been incurred to generate the sales revenue, Code Section 280E denies deductions and credits attributable to a trade or business of trafficking in controlled substances.

Internal Revenue Code (“IRC”) Code 280E – Expenditures in connection with the illegal sale of drugs 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 a perspective of Federal law.

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

As of September 30, 2015, the Company has estimated Canadian non-capital losses of $2,350,000. This non-capital loss is available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expires in 2035. The deferred tax benefit of these tax losses has not been set up as an asset.

21. Subsequent events

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

The company entered into a subscription agreement with a private investor ("Purchaser") that fully consummated on October 6, 2015. The agreement, which was subject to Purchaser's appointment to serve as a member of the Company's Board of Directors, allowed for the Purchaser to subscribe as follows: 1,000,000 Common Shares for aggregate consideration of $1,000,000 (funding as of "closing date"); at "closing", the Company then issued three separate warrants for 1,000,000 "units", each purchasable at an exercise price $1.00. Each "Unit" is comprised of one Common Share and one half of one common share purchase warrant (which will entitle the holder thereof to acquire one Common Share (a "Warrant Share") at a price of USD $.50 per Share for each of two Units). The aggregate exercisable Warrant Shares amounts to 4,500,000 shares (3,000,000 shares at $1.00 and 1,500,000 shares at $0.50).

At October 14, 2015, the Company's Board of Directors approved the issuance of 150,000 more stock options to new employees with an exercise price of $1.00 U.S. dollars. An additional 600,000 shares have been offered to new employees, but as of the issuance of these financial statements, the Company's Board of Directors has not yet approved the issuance of those options. All the options vest evenly over 3 years and expire 10 years from the grant date.

22. Restatement of previously issued financial statements

In the course of preparing the financial statements for the quarterly review June 30, 2015, a historical accounting issue was identified that affected the December 31, 2014 year ended financial statements. For the year ended December 31, 2014 the company accounted for the 13,722,250 warrants issued during private placements discussed in note 10 at the time issuance only. The warrants were also treated as an equity instrument. Due to the issuance of the warrants at an exercise price of $.50 Canadian dollars, the warrants are required to be re-classified as a liability per IAS 32. In addition, per IAS 39, the warrants are to be re-valued at each subsequent reporting period end based on changes in the risk-free rate, foreign exchange rate and reduction in the expected life of the warrants.

As part of the reissuance, the tax liability was also adjusted to reflect completed tax filings for the 2014 fiscal period.

The effects of these changes are summarized as follows:

a. An decrease in current liabilities at December 31, 2014 of $60,898
b. An increase in long term liabilities at December 31, 2014 of $507,607
c. A net decrease in shareholders' equity at December 31, 2014 of $446,709
d. A decrease in the net loss of $15,648 at December 31, 2014

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

22. Restatement of previously issued financial statements (continued)

The following tables summarize the impact of the restatement adjustments on the company's previously reported consolidated financial statements.

Consolidated Statement of Financial Position

December 31, 2014	As Reported	Adjustment	As Restated
Assets			
Current			
Cash	$600,078	-	$600,078
Account Receivable	358,987	-	358,987
Sales taxes recoverable	47,535	-	47,535
Biological assets	224,854	-	224,854
Inventory	534,986	-	534,986
Prepaid expenses and deposits	339,789	-	339,788
Total current assets	$2,106,228	-	$2,106,228
Property, plant, equipment	710,790	-	710,790
Intangible assets	40,000	-	40,000
Total assets	2,857,018	-	2,857,018
Liabilities			
Current			
Accounts payable and accrued liabilities	$380,794	-	$380,794
Income taxes payable	93,100	(60,898)	32,202
Subscriptions payable	40,000	-	40,000
Current portion of long-term debt	15,828	-	15,828
Total current liabilities	529,722	(60,898)	468,824
Long term debt	75,121	-	75,121
Warrants liability	-	507,607	507,607
Total liabilities	604,843	446,709	1,051,552
Shareholders' equity			
Share capital	4,747,153	-	4,747,153
Warrant reserve	722,723	(462,357)	260,366
Deficit	(3,217,701)	15,648	(3,202,053)
Total shareholders' equity	$2,252,175	(446,709)	1,805,466
Total liabilities and shareholders' equity	$2,857,018	-	$2,857,018

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

22. Restatement of previously issued financial statements (continued)

Consolidated Statement of Shareholders' Equity

Balance, April 8, 2014	-	-	-
Issuance of common shares	$ 4,837,906	-	$ 4,837,906
Share issuance costs	(117,665)	-	(117,665)
Issuance of warrants	731,250	(460,230)	271,020
Exercise of warrants for common shares	18,385	(2,127)	16,258
Net loss and comprehensive loss for the period	(3,217,701)	15,648	(3,202,053)
Balance at December 31, 2014	$ 2,252,175	$ (446,709)	$ 1,805,466