Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the three months ended March 31, 2016

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. Dollars)
For the three months ended March 31, 2016

Notice of No Auditor Review of Condensed Interim Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying condensed interim financial statements of Golden Leaf Holdings Ltd. as of March 31, 2016 and the notes to condensed interim financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)
As at March 31, 2016 and December 31, 2015
(Expressed in U.S. dollars)

		Period Ended			
		March 31, 2016		December 31, 2015	
ASSETS					
CURRENT					
Cash		$	908,589	$	263,695
Accounts receivable	Note 6		1,088,591		726,625
Income tax receivable	Note 20		90,696		-
Sales tax recoverable			129,101		94,002
Biological assets	Note 7		28,208		56,915
Inventory	Note 7		922,839		1,239,427
Prepaid expenses and deposits			525,640		472,034
Total current assets			3,693,664		2,852,698
Property, plant and equipment	Note 8		6,077,856		6,179,710
Intangible assets	Note 9		14,843,416		145,833
Total assets		$	24,614,936	$	9,178,241
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities			2,115,895		1,761,580
Income taxes payable	Note 20		-		455,136
Subscriptions payable			194,630		123,526
Current portion of long-term debt	Note 11		30,292		31,848
Convertible notes and notes payable	Note 10		1,900,000		500,000
Total current liabilities		$	4,240,817	$	2,872,090
Long term debt	Note 11		1,621,724		1,603,456
Convertible notes payable	Note 10		4,925,706		1,690,000
Warrants liability	Note 12		2,103,748		4,841,706
Derivative liability	Note 13		933,149		-
Total liabilities		$	13,825,144	$	11,007,252
SHAREHOLDERS' EQUITY					
Share capital	Note 12	$	28,158,095		15,481,051
Warrant reserve	Note 14	$	2,897,159		2,968,655
Share option reserve	Note 15	$	470,179		319,091
Contributed surplus		$	59,940		59,940
Deficit		$	(20,795,581)		(20,657,748)
Total shareholders' equity			10,789,792		(1,829,011)
Total liabilities and shareholders' equity		$	24,614,936	$	9,178,241

Going Concern (note 2)
Commitments (note 16)
Subsequent Events (notes 20)
See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Operations and Comprehensive Loss (Unaudited)
For the three months ended March 31, 2016 and March 31, 2015
(Expressed in U.S. dollars)

		For the three months ended	
		March 31, 2016	March 31, 2015
Sales		$ 2,476,688	$ 1,319,201
Gain on changes in fair value of biological assets		(28,208)	-
Inventory expensed to cost of sales		1,550,810	960,311
Productions costs		291,633	-
Cost of sales expense		1,814,235	960,311
Gross profit		662,453	358,890
Expenses			
General and administration		2,159,764	824,307
Professional fees paid with equity instruments	Note 14, 15	528,801	322,347
Sales and marketing		302,871	236,278
Research and development		122,072	75,787
Depreciation and amortization	Note 8	30,306	12,642
Total expenses		3,143,814	1,471,362
Loss before undernoted items		(2,481,361)	(1,112,472)
Interest expense		129,525	7,509
Other loss		10,523	4,426
(Gain)/loss on change in fair value of warrant liability		(2,737,958)	8,837,465
Gain before income taxes		116,549	(9,961,872)
Incomes taxes	Note 20	254,382	137,455
Net Loss and comprehensive loss		(137,833)	(10,099,327)
Basic and diluted loss per share		$ (0.00)	$ (0.19)
Weighted average number of common shares outstanding		68,976,253	52,489,288

See accompanying notes consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the three months ended March 31, 2016

	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)	10,492,046	-	-	-	-	10,492,046
Share issuance costs (note 12)	(51,811)	-	-	-	-	(51,811)
Issuance of warrants (note 11, 13)	-	2,823,480	-	-	-	2,823,480
Exercise of warrants and options for common shares	353,603	(115,191)				238,412
Issuance of share-based compensation (note 14)	-		319,091	-	-	319,091
Shares cancellation and misc. contributed surplus	(59,940)	-		59,940	-	-
Net loss and comprehensive loss for the period	$ -	$ -	$ -		$ (17,455,695)	$ (17,455,695)
Balance at December 31, 2015	$ 15,481,051	$ 2,968,655	$ 319,091	$ 59,940	$ (20,657,748)	$ (1,829,011)

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2016	$ 15,481,051	$ 2,968,655	$ 319,091	$ 59,940	$ (20,657,748)	$ (1,829,011)
Issuance of common shares (note 12)	12,385,992	-	-	-	-	12,385,992
Share issuance costs (note 12)	-	-	-	-	-	-
Issuance of warrants (note 11, 13)	-	196,523	-	-	-	196,523
Exercise of warrants and options for common shares	291,052	(219,925)	-	-	-	71,127
Issuance of share-based compensation (note 14)		-	151,088	-	-	151,088
Shares cancellation and misc. contributed surplus	-	(48,094)	-	-	-	(48,094)
Net loss and comprehensive loss for the period	$ -	$ -	$ -	**$ -**	$ (137,833)	$ (137,833)
Balance at March, 31, 2016	$ 28,158,095	$ 2,897,159	$ 470,179	$ 59,940	$ (20,795,581)	$ 10,789,792

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS INC.

Consolidated Statement of Cash Flows

For the three month periods ending March 31, 2016 and March 31, 2015 (Expressed in U.S. dollars)

			For the three month period ending March 31, 2016		For the three month period ending March 31, 2015
Cash provide by (used in):					
Operating activities:					
Net Loss		$	(137,833)	$	(9,861,235)
Depreciation of property, plant and equipment			141,635		12,642
Amortization of intangible assets			-		6,875
Loss on disposal of assets			-		
Interest expense			127,969		-
Bad debt expense			-		-
Taxes paid			(800,000)		
Income tax expense			344,864		166,258
Share based compensation	Note 15		(69,229)		25,075
Professional fees paid w ith equity instruments			528,801		-
Loss on fair value adjustment to w arrants liability			(2,737,958)		8,837,465
Gain on fair value of biological assets			28,708		-
Other non-cash transactions			933,149		243,626
Changes in working capital items					
Accounts receivable			(366,121)		(300,389)
Sales tax recoverable			(35,099)		(7,904)
Accounts payable and accrued liabilities			224,791		164,289
Biological assets	Note 7		(85,623)		(85,970)
Inventory			402,210		(26,523)
Prepaid expenses and deposits			(144,854)		15,234
Cash used in operating activities		$	(1,644,590)	$	(810,556)
INVESTING ACTITIVES					
Deposits on property, plant and equipment			-		-
Purchase of property, plant and equipment	Note 8		51,467		-
Purchases of long-term assets			(1,866,298)	-	413,002
Cash used in investment activities		$	(1,814,831)	$	(413,002)
FINANCING ACTIVITIES					
Issuance of common shares			368,169		361,012
Payment of share issuance costs			-		(13,526)
Issuance of convertible notes payable	Note 10		3,736,146		500,000
Proceeds from long-term debt	Note 11		-		-
Repayment of long-term debt			-		(3,820)
Proceeds from related party loan			90,000		-
Repayment of related party loan			(90,000)		-
Cash provided by financing activities		$	4,104,315	$	843,666
Increase/(Decrease) in cash during the period			644,894		(379,893)
Cash, beginning of period			263,695		600,078
Cash, end of period		**$**	**908,589**	**$**	**220,185**
Interest paid during the period		$	42,750	$	7,509

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. On October 15th, 2015, the Company completed a reverse takeover of Longacre Resources Inc. Longacre Resources had no significant assets other than cash with no commercial operations at the time. Golden Leaf Holdings Ltd. Is now traded on the Canadian Stock Exchange under the ticker CNSX:GLH. 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 36 Toronto St. Suite 1000, Toronto, Ontario Canada M5C 2C5 and its principal place of business is at 517 SW 4th Ave. Suite 400, Portland, Oregon USA 97204.

On October 6, 2015, the Company executed a reverse takeover ("RTO") merger agreement with Longacre Resources Inc. ("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 of the amalgamation, there was 61,223,736 issued and outstanding common shares on an undiluted basis.

In accordance with IFRS 3, Business Combination, the substance of the transaction is a reverse takeover of a non-operating company. The transaction does not constitute a business combination as Longacre does not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with Golden Leaf being identified as the acquirer and the equity consideration being measured at fair value. The resulting statement of financial position is presented as a continuance of the original Golden Leaf and comparative figures presented in the financial statements after the reverse takeover are those of the original Golden Leaf.

IFRS 2 applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or service received in return. Because GLH would have issued shares with a value in excess of the assets received, IFRS 2 would indicate that the difference is recognized in comprehensive loss as a transaction cost. The amount assigned to the transaction cost of $830,179 is the difference between the fair value of the consideration and the net identifiable assets of Longacre acquired by Golden Leaf and included in the consolidated statement of loss and comprehensive loss as Other loss (income).

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

1. Incorporation and operations (continued)

The fair value of the consideration is determined based on the percentage of ownership the legal parent's shareholders have in the amalgamated entity after the transaction. This represents the fair value of the shares that Golden Leaf would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of Golden Leaf acquiring 100% of the shares in Longacre. The percentage of ownership Longacre shareholders had in the combined entity is 1.27% after the issue of 775,000 Longacre shares. The fair value of the consideration in the RTO is equivalent to the fair value of the 775,000 Longacre shares controlled by original Longacre shareholders. The fair value of the Longacre shares was estimated to be $775,000 based on fair market value of $1.00 per share based on the last private placement value prior to the amalgamation. Based on the statement of financial position of Longacre at the time of the RTO, the net assets at estimated fair value that were acquired by Golden Leaf were ($55,179) and the resulting transaction cost charged to the statement of loss and comprehensive loss is as follows:

	Amount $
Consideration	775,000
Identifiable assets acquired	
Cash	2,584
Amounts receivable	1,399
Accounts payable and accrued liabilities	(59,162)
	(55,179)
Listing expense	830,179

Total recorded to share capital is $775,000 as net liabilities acquired were booked and paid in the ordinary course of business by GLH.

2. Going concern

Golden Leaf Holdings has been incurring operating losses and cash flow deficits since its inception, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the gradual relaxing of prohibitions in the United States on the cannabis industry. The Company's revenues have not yet been able to rise to levels materially capable of covering the costs related to the infrastructure investment (both capital and operating). As such, the Company has been depleting its invested capital as it simultaneously navigates regulatory evolution and uncertainty, awaits the imminent changes in the Oregon marketplace and other jurisdictions that will fuel market expansion, and continues necessary investments.

2. Going concern (continued)

As of March 31, 2016 the Company's cash balances were $908,589. Despite raising additional funds in Q2 2016, the Company's burn rate, including unanticipated regulatory delays and disruption to the Company's core business, has largely exhausted those funds as of the issuance of this report. The date for legalization in Oregon of the recreational oils and edibles market (in which the Company has been approved to participate and intends to operate), as an extension of its existing medical oils and edibles business, is now firm at June 2, 2016. The Company is extremely encouraged by the realization of this long-awaited development.

The Company is actively engaged in additional capital raising efforts to ensure the continued operations of the enterprise and capitalize on the imminent market expansion of its core activities. These efforts include, but may not be limited to, filling the remaining balance of the C$10 million convertible debenture financing previously initiated. However, although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to us or the Company will be able to generate sufficient cash flow from operations.

These circumstances indicate the existence of material uncertainty that casts substantial doubt as to our ability to meet our business plan and our obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis that assumes we will be able to continue to realize our assets and discharge our liabilities in the normal course of business, and do not reflect the adjustments to assets and liabilities that would be necessary if we were unable to obtain adequate financing. If we are unable to raise funds and execute our business plan, we may not be able to continue as a going concern.

3. Statement of compliance

These interim condensed consolidated financial statements for the three month ended March 31, 2016 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 year ended December 31, 2015. The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2015 financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

4. Basis of presentation

Except where specified, the consolidated financial statements have been prepared in U.S. dollars, which is the Company's presentation currency, on a historical cost basis. The accounting policies set out below have been applied to all accounting periods.

5. Significant accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the Company's Consolidated Financial Statements for the year ended December 31, 2015.

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

6. Accounts receivable

	March 31, 2016	December 31, 2015
Accounts Receivable	$1,548,084	$1,186,118
Allowance for doubtful accounts	(459,493)	(459,493)
	$ 1,088,591	$ 726,625

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 its biological assets at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Any production costs incurred during the growth cycle of the plants is expensed as incurred. During the current quarter, the Company expensed $291,634 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	-	-
Work-in-process	56,915	534,471
Finished goods	-	704,956
Balance, December 31, 2015	$ 56,915	$ 1,239,427
Raw materials	-	66,938
Work-in-process	28,208	460,395
Finished goods	-	395,506
Balance, March 31, 2016	$ 28,208	$ 922,839

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2016

8. Property, plant and equipment

	Buildings	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, Dec 31, 2015	2,038,634	1,800,000	2,050,300	260,456	147,772	110,077	188,546	6,595,785
Additions	14,628	-	35,465	874	(7,732)	(15,642)	-	27,593
Dispositions	-	-	-	-	-	-	-	-
Balance, March 31, 2016	$ 3,853,262	$ 1,800,000	$ 2,085,765	$ 261,330	$ 140,040	$ 94,435	$ 188,546	$ 6,623,378
Accumulated Amortization								
Balance, Dec 31, 2015	(39,980)	-	(258,796)	(39,068)	(37,380)	(16,788)	(24,063)	(416,075)
Expense	-	-	(102,431)	(13,023)	(8,636)	(4,055)	(10,941)	(139,086)
Dispositions	9,639	-	-	-	-	-	-	9,639
Balance, March 31, 2016	$ (30,341)	$ -	$ (361,227)	$ (52,091)	$ (46,016)	$ (20,843)	$ (35,004)	$ (545,522)
Carrying amount								
Balance, Dec 31, 2015	$ 1,998,654	$ 1,800,000	$ 1,791,504	$ 221,388	$ 110,392	$ 93,289	$ 164,483	$ 6,179,710
Balance, Mach 31, 2016	$ 3,822,921	$ 1,800,000	$ 1,724,538	$ 209,239	$ 94,024	$ 73,592	$ 153,542	$ 6,077,856

Total depreciation expense for the three months ended March 31, 2016 and March 31, 2015 was $139,086 and $30,395 respectively. Of the total expense, $102,340 and $26,753 was allocated to inventory during the three months ended March 31, 2016 and March 31, 2015, respectively.

9. Intangibles

	Balance at January 1, 2016	Additions	Disposals / adjustments	Balance March 31, 2016
Cost				
Dispensary license	40,000		-	$ 40,000
Licensing agreement	125,000			125,000
BMF Acquisition		14,706,333		14,706,333
Total	165,000	$ 14,706,333	-	$ 14,871,333
Accumulated Amortization				
Dispensary license	(15,000)	$ (2,500)		$ (17,500)
Licensing agreement	(4,167)	(6,250)		(10,417)
Total	(19,167)	$ (8,750)	-	$ (27,917)
Net book value	145,833	14,697,583		14,843,416

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

10. Notes payable

	March 31, 2016	December 31, 2015
Proceeds from issuance of Convertibe notes (i)	$ 400,000	$ 500,000
Proceeds from issuance of convertible notes (ii)	1,690,000	1,690,000
Proceeds from issuance of convertible notes (iii)	3,235,706	-
Note Payable to Peter Saladino (BMF) as part of asset purchase (iv)	1,500,000	-
Carrying amount of convertible note at end of period	$ 6,825,706	$ 2,190,000

i. 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 due September 9 and 21, 2015 were paid during the fourth quarter. $100,000 of this total was repaid in March 2016. The Company will continue to accrue and pay interest as per the note until full repayment is made.

   Per IAS 32, the Company assessed the fair value of this debt 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.

ii. In connection with the property acquisition in September 2015, the Company issued $1.7 million of convertible debentures to a syndicate of investors for the purposes of financing the acquisition. All notes within the syndicate carry annual interest rates of 12% for a term of 24 months with all outstanding principal and interest due on September 17, 2017. 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.

   Per IAS 32, the Company assessed the fair value of this debt 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. Notes payable (continued)

iii. GLH completed a convertible senior unsecured debt financing in Q1 and Q2 2016. The offering allowed for up to C$10 million of debentures at 10% interest paid semi-annually with a term to September 11, 2017 and convertible to Common Shares at C$0.67, through a syndicate of agents led by Dundee Securities Inc. and including Liberty North Capital as an advisor to the Company. The Company raised a gross total of C$7,538,000 in two tranches, the 1st of C$5,863,000 closing March 14, 2016 and the 2nd of C$1,675,000 closing April 4.

The 1st tranche resulted in proceeds of C$5,502,432 (less C$360,568 of fees and expenses), and also resulted in 382,447 compensation options issued, each exercisable for one Common Share and one half of one warrant at an exercise price of C$0.67. Each whole underlying warrant is exercisable for one Common Share at an exercise price of C$0.85. In addition, the 1st tranche resulted in shares issued of 853,164 to members of the syndicate. Due to anti-dilution provisions, there was also a “make whole” addition to the debentures payable of C$582,000 for the 1st tranches for the lead institutions that participated in the financing.

Per IAS 32, these debentures and conversion option are considered financial liabilities as they fail the fixed for fixed test as they are denominated in CAD while the Company’s functional currency is USD. Per IAS 39 the embedded derivative must be valued and recorded as a derivative liability with the remaining being apportioned to the debt liability. The “make whole” provision is in substance a bond discount and therefore will be recorded as a contra liability and amortized throughout the life of the obligation. The derivative liability will be recorded at fair value at each reporting period.

iv. GLH assumed a $1,500,000 note payable to Peter Saladino at 10% interest per the amended terms of the asset purchase agreement with BMF. Note is due January 2017.

11. Long-term debt

		March 31, 2016		December 31, 2015
Long term debt	$	1,652,016	$	1,635,304
Less: current portion		(30,292)		(16,214)
Carrying amount of long-term debt	$	1,621,724	$	1,619,090

Long term debt consists of vehicle loans and a note payable secured by real property. Vehicle loans of $167,963 are secured by the Company’s vehicles, due in June 2021 and repayable in monthly blended installments of $3,184.

In connection with and secured by the property acquisition in September 2015, the Company issued a secured promissory note payable for $1.5 million with a term of 24 months carrying interest at an annual rate of 9% with interest due in monthly installments and all outstanding principal due on September 14, 2017. The holder of this note has also been granted 45,000 warrants at $1.00 U.S. dollar as part of the financing arrangement.

Per IAS 32, the Company assessed the fair value of this debt 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.

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

12. Warrants liability

During 2014, the Company issued 13,722,250 warrants in conjunction with private placements. 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. During the three months ended March 31, 2015, 55,000 of these warrants were exercised and 375,000 to date.

The warrants were valued at $2,103,748 at March 31, 2016 and $4,841,706 at Decmeber 31, 2015. 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. For the three months ended March 31, 2016, a gain of $2,737,598 was recorded in the statement of operations due to significant changes in the market price of the common shares. For the three months ended March 31, 2015, a loss of $8,837,465 was recorded in the statement of operations due to significant changes in the private placement round undertaken in the period. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	March 31, 2016	**March 31, 2015**
Expected life	1.5 to 1.7 years	2.5 to 2.6 years
Risk-free interest rate	0.62%	1.21%
Dividend yield	0%	0%
Foreign exchange rate	.7212	.8950
Expected volatility	70%	70%

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the options 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 options.

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

13. Share capital

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

The following table reflects the continuity of share capital from December 31, 2015 to March 31, 2016:

	Number of Shares		Amount
Balance, December 31, 2015	62,324,236	$	15,481,051
Shares issued – BMF Acquisition (i)	30,769,777		11,946,285
Shares issued in conjunction with debt financing (ii)	853,164		439,708
Shares issued - warrant exercises (iii)	608,218		288,913
Shares issued - option exercises (iv)	15,278		2,139
Balance, March 31, 2016	94,570,673	$	28,158,096

(i) On April 8, 2014, the Company issued 30,769,777 common shares to the owner of BMF Washington, LLC in conjunction with the asset purchase agreement. The shares reflected a value of $12,000,000 based on the trading price of C$0.54/$0.39. $53,715 was recorded to warrant reserve to account for the 300,000 warrants also issued at the same conversion price, with the residual held in share capital.

(ii) In conjunction with the completion of the first tranche of a convertible senior unsecured debt financing, the Company issued 853,164 to members of the syndicate facilitating the efforts.

(iii) During the first quarter 2016, the Company issued 608,218 shares upon exercise of warrants and recorded proceeds of $101,220 related to these issuances.

(iv) The Company issued 15,278 shares upon exercise of employee stock options and recorded proceeds of $2,139 related to these issuances.

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

14. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2015	17,231,669		$2,968,655
Warrants issued (i)	300,000	USD $0.39	53,715
Warrants issued - consulting (ii)	382,447	CDN $0.67	107,728
Warrants issued - consulting (iii)	191,224	CDN $0.85	35,080
Warrants exercised (iv)	(553,218)	CDN $0.20	(219,925)
Warrants cancelled (v)	(105,556)	USD $1.00	(48,094)
Balance, March 31, 2016	17,446,566		$2,897,159

(i) Warrants issued in conjunction with purchase of BMF Washington (see note 13 above).
(ii) The Company issued 382,447 warrants to advisors for services in conjunction with convertible debt financing at CDN $0.67 Warrants. The amount of $107,728 has been expensed.
(iii) The Company issued 191,224 warrants to advisors for services in conjunction with convertible debt financing at CDN $0.85 Warrants. The amount of $35,080 has been expensed.
(iv) 553,218 warrants were exercised during the quarter.
(v) 105,556 warrants were cancelled during the quarter related to expiry provisions

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

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

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the options 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 options.

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

Of the total options, 2,305,556 stock options were issued with an exercise price of $0.20 Canadian dollars and 3,597,499 stock options were issued at an exercise price of $1.00 U.S. dollars.

Total number of options at December 31, 2015		5,367,222
Options granted in January 2016		700,000
Options exercised in January 2016		(15,278)
Options cancelled during Q1 2016		(148,889)
Total number of options at March 31, 2016		5,903,055
Number of exercisable options issued in Canadian dollars		958,194
Number of exercisable options issued in U.S. dollars		654,445
Weighted average exercise price of options at March 31, 2015 in USD	$	0.62

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%

During the three months ended March 31, 2016 $128,623 was included in stock compensation expense in the consolidated statement of operations.

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

16. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensary and corporate office. Future lease payments amount to $79,143:

2016		59,674
2017		19,469
	$	79,143

17. 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 three months ended March 31, 2016 includes the following expenses:

		Three Months Ended	
		March 31, 2016	March 31, 2015
Salaries, commissions, bonuses and benefits	$	191,250	234,250
Consulting fees paid to officers of the Company		53,750	30,000
Stock Compensation, including w arrants and shares, for officers and directors		71,103	-
	$	316,103	264,250

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.

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

Don Robinson, CEO provided a personal guarantee of the US $1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director.

In February 2016, Sam Pillersdorf, Board Member, provided a short-term loan of US $90,000 to the Company in February, 2016 which was repaid in March 2016 shortly after completion of the 1st tranche of convertible debt financing, for consideration of 20,000 warrants with an exercise price of US $0.42.

In the 2nd Tranche completed April 2016, Michael Cohl, Board Member, purchased $500,000 CDN of debentures.

18. Capital management

The Company defines capital that it manages as its shareholders' equity, long-term debt and warrant liability. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As of March 31, 2016 total managed capital was $6,306,151. Total managed capital at March 31, 2015 was $1,919,345.

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.

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.

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. At March 31, 2016, its carrying value approximates fair value based on current market rates for similar instruments.

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

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

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

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

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 12 and 14 for information regarding the valuation technique and inputs used to determine fair value.

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

19. Financial instruments and risk management (continued)

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

(a) Credit risk

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at March 31, 2016.

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 $459,452 and $185,846 at March 31, 2016 and March 31, 2015, respectively.

(b) 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.

(c) 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.

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-38%, Canada-26.3%) to the amounts recognized in the consolidated statement of operations.

The Company has estimated an income tax liability for the three months ended March 31, 2016, as follows:

	March 31, 2016	March 31, 2015
Loss before income taxes	$ 148,340	$ (9,617,975)
Estimated tax recovery at combined rate of 28.4%	39,013	(2,575,928)
Expenses not deductible in Canada	(1,061,890)	2,428,306
Losses - benefit not realized in Canada	106,042	-
Losses not deductible under IRC S 280E in the U.S.	662,453	390,882
Income tax expense	$ 254,382	$ 243,260

20. Taxation (continued)

The Company made estimated tax payments to US federal government in the amounts of $800,000 in Q1 for 2015 and Q1 2016 estimated 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 year ended December 31, 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 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.

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 2016 has been prepared based on the assumption Cost of Sales is a valid expense for income tax purposes.

As of March 31, 2016, the Company has estimated Canadian non-capital losses of $9,700,000. This non-capital loss is available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expires between 2034 and 2035. The deferred tax benefit of these tax losses has not been set up as an asset.

21. Subsequent events

Golden Leaf completed the 2nd tranche of its convertible senior unsecured debt financing in Q2 2016. The offering allowed for up to CDN $10 million of debentures at 10% interest paid semi-annually with a term to Sept 11, 2017 and a convertible provision to a common share at CDN $0.67, through a syndicate of agents led by Dundee Securities Inc. and including Liberty North Capital as an advisor to the company. The 2nd tranche raised a gross total of $1,675,000 CAD closing April 5, 2016 and included $500,000 CAD from Board member Michael Cohl ($500,000 CAD).

The 2nd tranche resulted in proceeds of C$1,564,127 (less C$110,823 of fees and expenses), and also resulted in 140,298 compensation options issued, each exercisable for one common share and one half of one warrant at an exercise price of C$0.67. Each whole underlying warrant is exercisable for one common share at an exercise price of C$0.85. Due to anti-dilution provisions, there was also a "make whole" addition to the debentures payable of C$216,000 for the 2nd tranche for the lead institutions that participated in the financing resulting in total notes payable of C$8,336,000 for the first two tranches.