

Interim Condensed Consolidated Financial Statements of

**GOLDEN LEAF HOLDINGS LTD.**

For the three and nine month periods ended September 30, 2016 (Unaudited)

# **GOLDEN LEAF HOLDINGS LTD.**

Interim Condensed Consolidated Financial Statements (Unaudited)  
(Expressed in U.S. Dollars)  
For the three and nine month periods ended September 30, 2016

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## **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 September 30, 2016 and the notes to condensed interim financial statements.

# GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

As at September 30, 2016 and December 31, 2015

(Expressed in U.S. dollars)

	Period Ended	
	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 237,079	\$ 263,695
Accounts receivable	Note 6 1,116,959	726,625
Foreign sales tax recoverable	176,690	94,002
Biological assets	Note 7 268,085	56,915
Inventory	Note 7 684,950	1,239,427
Prepaid expenses and deposits	341,849	472,034
<b>Total current assets</b>	<b>\$ 2,825,612</b>	<b>\$ 2,852,698</b>
Property, plant and equipment	Note 8 6,161,558	6,179,710
Intangible assets	Note 9 14,716,332	145,833
<b>Total assets</b>	<b>\$ 23,703,502</b>	<b>\$ 9,178,241</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 2,552,519	\$ 1,683,262
Interest payable	541,752	78,318
Income taxes payable	Note 21 157,558	455,136
Subscriptions payable	118,941	123,526
Current portion of long-term debt	Note 11 33,472	31,848
Related party note payable	Note 18 200,000	-
Convertible notes and notes payable	Note 10 1,743,121	500,000
<b>Total current liabilities</b>	<b>\$ 5,347,363</b>	<b>\$ 2,872,090</b>
Long term debt	Note 11 1,573,568	1,603,456
Convertible notes payable	Note 10 8,024,851	1,690,000
Warrants liability	Note 12 651,854	4,841,706
Derivative liability	Note 12 36,044	-
<b>Total liabilities</b>	<b>\$ 15,633,680</b>	<b>\$ 11,007,252</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	Note 13 \$ 28,710,633	\$ 15,481,051
Warrant reserve	Note 14 2,985,291	2,968,655
Share option reserve	Note 15 753,889	319,091
Contributed surplus	59,940	59,940
Deficit	(24,439,931)	(20,657,748)
<b>Total shareholders' equity</b>	<b>\$ 8,069,822</b>	<b>\$ (1,829,011)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 23,703,502</b>	<b>\$ 9,178,241</b>

Going Concern (note 2)  
 Commitments (note 17)  
 Subsequent Events (note 22)

/s/ Don Robinson, Director

See accompanying notes to consolidated financial statements.

/s/ Alex Winch, Director

# GOLDEN LEAF HOLDINGS LTD.

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

For the three and nine month periods ended September 30, 2016 and September 30, 2015 (as restated)

(Expressed in U.S. dollars)

	For the three month period ended September 30		For the nine month period ended September 30	
	2016	2015 (as restated)	2016	2015 (as restated)
Sales	\$ 2,475,996	\$ 2,771,193	\$ 7,560,987	\$ 7,048,064
Gain on changes in fair value of biological assets	-	(770,778)	(274,220)	(770,778)
Inventory expensed to cost of sales	1,722,669	2,227,558	5,520,973	5,599,200
Production costs	192,255	591,237	723,409	591,237
Cost of sales expense	\$ 1,914,924	\$ 2,048,017	\$ 5,970,162	\$ 5,419,659
Gross profit	\$ 561,072	\$ 723,176	\$ 1,590,825	\$ 1,628,405
Expenses				
General and administration	\$ 1,852,208	\$ 2,487,861	\$ 6,080,333	\$ 5,354,223
Professional fees paid with equity instruments	69,499	1,093,195	668,615	2,831,995
Sales and marketing	266,417	460,465	876,191	1,030,553
Research and development	30,000	178,319	182,072	366,975
Depreciation and amortization	92,796	75,776	225,975	123,576
Total expenses	\$ 2,310,920	\$ 4,295,616	\$ 8,033,186	\$ 9,707,322
Loss before undernoted items	\$ (1,749,848)	\$ (3,572,440)	\$ (6,442,361)	\$ (8,078,917)
Interest expense	531,089	29,454	1,313,434	57,803
Other loss	101,978	219,334	129,186	196,855
(Gain)/loss on change in fair value of derivative liabilities	(414,615)	149,500	(4,761,220)	8,808,836
Gain/(loss) before income taxes	\$ (1,968,300)	\$ (3,970,728)	\$ (3,123,761)	\$ (17,142,411)
Incomes taxes	243,485	296,936	658,422	643,639
Net Loss and comprehensive loss	\$ (2,211,785)	\$ (4,267,664)	\$ (3,782,183)	\$ (17,786,050)
Basic and diluted loss per share	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.33)
Weighted average number of common shares outstanding	95,965,147	57,810,620	86,763,738	54,234,291

See accompanying notes to consolidated financial statements.

# GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)  
For the nine months ended September 30, 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 13)	12,585,221	-	-	-	-	12,585,221
Share issuance costs (note 13)	-	-	-	-	-	-
Issuance of warrants (note 14)	-	268,015	-	-	-	268,015
Exercise of warrants and options for common shares	449,731	(203,285)	(2,139)	-	-	244,307
Issuance of share-based compensation (note 15)	194,630	-	436,937	-	-	631,567
Shares cancellation and misc. contributed surplus	-	(48,094)	-	-	-	(48,094)
Net loss and comprehensive loss for the period	-	-	-	-	(3,782,183)	(3,782,183)
Balance at September 30, 2016	\$ 28,710,633	\$ 2,985,291	\$ 753,889	\$ 59,940	\$ (24,439,931)	\$ 8,069,822

See accompanying notes to consolidated financial statements.

# GOLDEN LEAF HOLDINGS INC.

## Consolidated Statement of Cash Flows

For the nine month periods ending September 30, 2016 and September 30, 2015 (as restated)

(Expressed in U.S. dollars)

		Nine months ended September 30, 2016	Nine months ended September 30, 2015 (as restated)
<b>Cash provide by (used in):</b>			
<b>Operating activities:</b>			
Net Loss		\$ (3,782,183)	\$ (17,786,050)
Depreciation of property, plant and equipment	Note 8	194,307	129,373
Amortization of intangible assets	Note 9	31,668	10,000
Interest expense		1,313,434	-
Income taxes paid		(956,000)	-
Income tax expense	Note 21	658,422	-
Bad debt expense	Note 6	252,318	473,515
Share based compensation	Note 15	629,319	232,004
Professional fees paid with equity instruments	Note 14	668,615	2,237,010
(Gain)/loss on fair value adjustment to warrants liability	Note 12	(4,761,220)	8,816,763
Gain on fair value of biological assets	Note 7	(274,220)	-
Other non-cash transactions		702,827	-
<b>Changes in working capital items</b>			
Accounts receivable	Note 6	(642,652)	(762,309)
Sales tax recoverable		(82,688)	(10,339)
Accounts payable and accrued liabilities		20,881	1,304,099
Income taxes payable		-	288,241
Biological assets	Note 7	63,050	(545,924)
Inventory	Note 7	554,477	(655,707)
Prepaid expenses and deposits		130,185	(519,490)
Cash used in operating activities		\$ (5,279,459)	\$ (6,788,814)
<b>INVESTING ACTIVITIES</b>			
Deposits on property, plant and equipment		-	\$ (434,600)
Purchase of property, plant and equipment	Note 8	\$ (176,155)	(5,136,159)
Purchases of intangible assets	Note 9	(1,590,000)	-
Cash used in investment activities		\$ (1,766,155)	\$ (5,570,759)
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares	Note 13	\$ 378,497	\$ 9,218,573
Payment of share issuance costs		-	(51,818)
Issuance of convertible notes payable	Note 11	6,440,502	2,190,000
Proceeds from long-term debt	Note 12	-	1,500,000
Repayment of long-term debt		-	(29,790)
Proceeds from related party loan	Note 18	290,000	305,000
Repayment of related party loan	Note 18	(90,000)	(305,000)
Cash provided by financing activities		\$ 7,018,999	\$ 12,826,965
<b>Increase/(Decrease) in cash during the period</b>		<b>\$ (26,616)</b>	<b>\$ 467,392</b>
<b>Cash, beginning of period</b>		<b>263,695</b>	<b>600,078</b>
<b>Cash, end of period</b>		<b>\$ 237,079</b>	<b>\$ 1,067,470</b>
Interest paid during the period		\$ 275,558	\$ 29,454

# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
For the three and nine month periods ended September 30, 2016

## 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. Golden Leaf Holdings Ltd. is now traded on the Canadian Stock Exchange under the ticker CNSX:GLH and as of November 1, 2016 on the US OTC Markets under OTCMKTS:GLDFF. 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 24075 Klupenger Rd. NE, Aurora, OR 97002.

On October 6, 2015, the Company executed a reverse takeover ("RTO") merger agreement with Longacre Resources Inc. ("Longacre"). Longacre had no significant assets other than cash with no commercial operations at the time. 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 Golden Leaf 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).

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:



# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
For the three and nine month periods ended September 30, 2016

## 1. Incorporation and operations (continued)

	Amount \$
<b>Consideration</b>	775,000
<b>Identifiable assets acquired</b>	
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 Golden Leaf.

## 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.

As of September 30, 2016 the Company's cash balances were \$237,079, however subsequent to the balance sheet date the Company closed CDN \$12M of debt financing which provides a greater runway for growth. Additionally, subsequent to the date of this report the Cannabis market in Oregon has experienced turbulence due to regulatory challenges and climate related crop losses. Due to this there is a temporary shortage of raw materials which has limited the Company's ability to manufacture and sell its products which will result in a material reduction in cash flow for the fourth quarter. The Company has a healthy amount of capital but is actively pursuing additional financing sources still, in hopes of continued investment resources. 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, or the Company will be able to generate sufficient cash flow from operations.

These circumstances do not indicate the existence of material uncertainty that casts substantial doubt as to the reasonableness of the going concern assumption, however, given the uncertain market conditions in which the Company operates, and the anticipated burn rate of the current funding, it may be possible Company will need to raise additional capital to support operations within 12 months. 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, and do not reflect the adjustments to assets and liabilities that would be necessary if the Company were unable to obtain adequate financing. If the Company is unable to raise funds and execute its business plan, it may not be able to continue as a going concern.

# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
For the three and nine month periods ended September 30, 2016

## 3. Statement of compliance

These interim condensed consolidated financial statements for the three and nine month periods ended September 30, 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, with the exception of the following.

The Company's revenue is composed of the following:

- Wholesale sales of extracts and dried Cannabis flower through its subsidiary Greenpoint Oregon, Inc.
- Retail revenue at the Company's dispensary, Left Coast Connections, Inc.
- Royalty and equipment leasing revenues resulting from its strategic partnership with BMF Washington, LLC.

Revenue is recognized when the risk and rewards of ownership pass to the buyer, the amount of revenue can be reliably measured, the costs and possible return of goods can be reliably measured, there is no continuing management involvement or control with the goods, and when collection is reasonably assured. This generally occurs when the products are delivered to a customers' location, compliant documentation has been signed evidencing the arrangement. Revenue related to barter transactions is recognized when the aforementioned criteria are met and such that the goods exchanged are of a dissimilar nature. Royalty and equipment leasing arrangements are billed and recognized monthly in accordance with schedules outlined in the contractual arrangements governing these agreements.

## 6. Accounts receivable

	September 30, 2016
Trade accounts receivable	\$ 950,026
Allow ance for doubtful accounts	(587,467)
Total trade accounts receivable	\$ 362,559

Bad debt expense for both the three and nine month periods ended September 30, 2016 is \$91,144 and \$252,318, respectively. The amount is included in general and administrative expenses. Other receivables of \$754,400 related to the licensing and equipment leasing arrangement with BMF Washington are included in total accounts receivable.

# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
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## 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 \$192,255 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	-	\$ 150,414
Work-in-process	\$ 268,085	455,465
Finished goods	-	79,071
Balance, September 30, 2016	\$ 268,085	\$ 684,950

As of the date of this report, the Company is currently processing its 2016 harvest. Yields and values of agricultural products can vary based on the climate and other factors and Oregon has experienced an especially wet October which has decreased the expected yield of the harvest. In addition, the Oregon cannabis market is experiencing a period of uncertainty with regards to testing as the OLCC regulatory structure has recently been implemented as of October 1. As a result, a material percentage of crops are failing for one or more pesticide tests, which could significantly impair valuation. The Company has experienced some negative test results, but there remains uncertainty in the local market as to the reliability of the tests, the total affected proportion of the harvest, and whether any alternative uses will arise for these products. As a result of these factors, the Company has opted to record no gain on the fair market value of biological assets for the current quarter and has evaluated the current balance for reasonableness and determined it is an appropriately conservative figure given the expectation that some portion of the crop will be saleable as finished flower or raw trim.

# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
For the three and nine month periods ended September 30, 2016

## 8. Property, plant and equipment

	Buildings	Land	Building improvements	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
<b>Cost</b>									
Balance, Dec 31, 2015	\$ 1,490,000	\$ 1,800,000	\$ 548,634	\$ 2,050,300	\$ 260,456	\$ 147,772	\$ 110,077	\$ 188,546	\$ 6,595,785
Additions	-	-	74,854	435,980	45,725	(9,732)	25,203	-	572,030
Dispositions	-	-	-	-	-	-	-	-	-
Balance, September 30, 2016	\$ 1,490,000	\$ 1,800,000	\$ 623,488	\$ 2,486,280	\$ 306,181	\$ 138,040	\$ 135,280	\$ 188,546	\$ 7,167,815
<b>Accumulated Amortization</b>									
Balance, Dec 31, 2015	\$ (39,980)	-	-	\$ (258,796)	\$ (39,068)	\$ (37,380)	\$ (16,788)	\$ (24,063)	\$ (416,075)
Expense	(11,378)	-	\$ (114,503)	(346,432)	(50,458)	(29,087)	(19,423)	(24,747)	(596,028)
Dispositions	5,846	-	-	-	-	-	-	-	5,846
Balance, September 30, 2016	\$ (45,512)	-	\$ (114,503)	\$ (605,228)	\$ (89,526)	\$ (66,467)	\$ (36,211)	\$ (48,810)	\$ (1,006,257)
<b>Carrying amount</b>									
Balance, Dec 31, 2015	\$ 1,450,020	\$ 1,800,000	\$ 548,634	\$ 1,791,504	\$ 221,388	\$ 110,392	\$ 93,289	\$ 164,483	\$ 6,179,710
Balance, September 30, 2016	\$ 1,444,488	\$ 1,800,000	\$ 508,985	\$ 1,881,052	\$ 216,655	\$ 71,573	\$ 99,069	\$ 139,736	\$ 6,161,558

Total depreciation expense for the nine months ended September 30, 2016 and September 30, 2015 was \$596,028 and \$252,949, respectively. Of the total expense, \$346,431 and \$129,373 was allocated to inventory during the nine months ended September 30, 2016 and September 30, 2015, respectively.

## 9. Intangible assets

	Balance at June 30, 2016	Additions	Disposals / adjustments	Balance at September 30, 2016
<b>Cost</b>				
Dispensary license	\$ 40,000	-	-	\$ 40,000
Licensing agreement	125,000	-	(125,000)	-
Brands	14,706,333	-	-	14,706,333
Total	\$ 14,871,333	-	(125,000)	\$ 14,746,333
<b>Accumulated Amortization</b>				
Dispensary license	\$ (25,250)	\$ (4,751)	-	\$ (30,001)
Licensing agreement	(16,667)	(4,166)	\$ 20,833	-
Total	\$ (41,917)	\$ (8,917)	20,833	\$ (30,001)
<b>Net book value</b>	\$ 14,829,416	\$ (8,917)	-	\$ 14,716,332

The Company has mutually agreed to cease its licensing agreement with Dixie Brands, Inc. This resulted in a write-off of intangible assets of \$125,000 and accumulated amortization of \$20,833, resulting in a net write-off of \$104,167.

# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
For the three and nine month periods ended September 30, 2016

## 10. Notes payable

	September 30, 2016	December 31, 2015
Convertible notes (i)	\$ 243,121	\$ 500,000
Convertible notes (ii)	1,690,000	1,690,000
Convertible notes (iii)	6,334,851	-
Note Payable to Peter Saladino (BMF) as part of asset purchase (iv)	1,500,000	-
Carrying amount of convertible note at end of period	\$ 9,767,972	\$ 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. Of this total, \$100,000 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.

# GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)  
For the three and nine month periods ended September 30, 2016

## 10. Notes payable (continued)

- iii. The Company completed a convertible senior unsecured debt financing during the first three quarters of 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\$8,904,000 in six tranches, the first of C\$5,863,000 closing March 14, the second of C\$1,675,000 closing April 4, the third of C\$318,000 closing June 14, the fourth of C\$419,000 closing June 22, the fifth of C\$500,000 closing July 15, and the sixth of C\$129,000 closing August 8.

The debentures resulted in proceeds of C\$8,432,809 (less C\$471,191 of fees and expenses), and also resulted in 455,582 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 first 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\$798,000 for the 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. The note is due January 2017.

## 11. Long-term debt

	September 30, 2016	December 31, 2015
Long term debt	\$ 1,607,040	\$ 1,635,304
Less: current portion	(33,472)	(16,214)
Carrying amount of long-term debt	\$ 1,573,568	\$ 1,619,090

Long term debt consists of vehicle loans and a note payable secured by real property. Vehicle loans of \$150,449 are secured by the Company's vehicles, mature in June 2021, and are 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.

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## 12. Derivative liabilities

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 nine months ended September 30, 2016, 55,000 of these warrants were exercised, and to-date 375,000 have been exercised.

The warrants were valued at \$651,854 at September 30, 2016 and \$4,841,706 at December 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 nine month period ended September 30, 2016, a gain of \$4,189,852 was recorded in the statement of operations due to significant changes in the market price of the common shares. For the nine months ended September 30, 2015, a loss of \$8,808,836 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:

	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Expected life	1.7 to 1.9 years	2.0 to 2.2 years
Risk-free interest rate	0.68%	0.67%
Dividend yield	0%	0%
Foreign exchange rate	\$0.7717	\$0.7461
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.

Of the \$4,189,852 gain on the statement of operations, \$571,368 was due to the derivative liability resulting from the Aurora debentures.

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## 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 September 30, 2016:

	Number of Shares	Amount
Balance, December 31, 2015	62,324,236	\$ 15,481,051
Shares issued – BMF Acquisition (i)	30,769,777	\$ 11,946,284
Shares issued in conjunction with debt financing (ii)	853,164	439,708
Shares issued - warrant exercises (iii)	1,423,218	447,592
Shares issued - option exercises (iv)	15,278	2,139
Shares issued - executive stock compensation (v)	333,333	194,630
Shares issued - services rendered (vi)	420,000	199,229
Balance, September 30, 2016	96,139,006	\$ 28,710,633

- (i) In March 2016, 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 three quarters in 2016, the Company issued 1,423,218 shares upon exercise of warrants and recorded proceeds of \$447,592 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.
- (v) The Company issued 333,333 shares as stock compensation for an executive.
- (vi) The Company issued 420,000 shares in lieu of amounts owed to organizations for services rendered. The shares reflected a value of \$199,229.

## 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)	522,745	CDN \$0.67	132,000
Warrants issued - consulting (iii)	261,373	CDN \$0.85	45,336
Warrants issued - consulting (vi)	1,000,000	CDN \$1.50	33,975
Warrants issued - consulting (vii)	20,000	USD \$0.42	2,989
Warrants exercised (iv)	(1,620,843)	CDN \$0.20	(203,285)
Warrants cancelled (v)	(2,336,806)	USD \$1.00	(48,094)
Balance, September 30, 2016	15,378,138		\$2,985,291

- (i) Warrants issued in conjunction with purchase of BMF Washington assets (see note 13 above).
- (ii) The Company issued 522,745 warrants to advisors for services in conjunction with convertible debt financing at CDN \$0.67 Warrants. The amount of \$132,000 has been expensed.
- (iii) The Company issued 261,373 warrants to advisors for services in conjunction with convertible debt financing at CDN \$0.85 Warrants. The amount of \$45,336 has been expensed.
- (iv) 1,620,843 warrants were exercised through September 30, 2016.



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## (v) 14. Warrant reserve (continued)

- (vi) 2,336,806 warrants were cancelled through September 30, 2016 related to expiry provisions.
- (vii) The Company issued 1,000,000 warrants for services in lieu of accounts payable.
- (viii) The Company issued 20,000 warrants to a director for interest payable.

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 years
Risk-free interest rate	0.68%
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, 2,281,668 stock options were issued with an exercise price of \$0.20 Canadian dollars and 3,222,499 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)
Options cancelled during Q2 2016	(398,888)
Options granted in August 2016	810,000
Options cancelled during Q3 2016	(343,056)
Total number of options at September 30, 2016	5,971,111
Number of exercisable options issued in Canadian dollars	1,199,961
Number of exercisable options issued in U.S. dollars	1,412,778
Weighted average exercise price of options at September 30, 2016 in USD	\$ 0.75

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## 15. 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%

During the three and nine month periods ended September 30, 2016, \$213,930 and \$629,319, respectively, was included in stock compensation expense in the consolidated statement of operations.

## 16. Earnings per share

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

Diluted net income (loss) per common share is calculated by dividing the applicable net income (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:

	September 30, 2016	December 31, 2015
Warrants	28,725,387	30,633,918
Stock options (ESOP)	5,904,444	5,367,222
Vesting share awards	1,444,447	1,777,778
Convertible debt	16,412,383	2,190,000
Total	52,486,661	39,968,918

Subsequent to the balance sheet date, the Company issued an additional 40 million potentially dilutive convertible share options as part of its latest debenture funding and repriced the conversion option on all existing convertible CDN denominated debentures from C\$.67 to C\$.30 creating an additional 17.86 million potentially dilutive share options, of which 4.45 million shares were converted subsequent to the balance sheet date.

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## 17. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensary and recreational processing facility. Future lease payments amount to \$350,770:

2016	\$	34,301
2017		145,469
2018		108,000
Thereafter		63,000
	\$	350,770

During Q2 and Q3, the Company entered into two fixed rate supply contracts for minimum quantities of trim and flower which were contingent upon delivery of 50% of minimum quantities of trim and flower meeting the Company's quality standards. As of the date of this report, these plants have been harvested however delivery of quantities of 50% of minimum quantities of trim and flower has not yet occurred as of the date of this report and therefore no obligation exists. It is likely that some portion of the crop does not meet minimum quality standards, however as of the date of this report, the Company is unable to estimate the amount of this crop that will meet its standards. As such, no value has been recorded for these commitments.

## 18. 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 and nine months ended September 30 includes the following expenses:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Salaries, commissions, bonuses and benefits	\$ 191,250	\$ -	\$ 573,750	\$ 402,500
Consulting fees paid to officers of the Company	-	216,800	107,500	344,582
Stock Compensation, including warrants and shares	45,821	-	192,107	-
	\$ 237,071	\$ 216,800	\$ 873,357	\$ 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.

In the first 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 which was repaid in March 2016 shortly after completion of the first tranche of convertible debt financing, for consideration of 20,000 warrants with an exercise price of US \$0.42.

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

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

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## **18. Related party transactions (continued)**

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

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

In the sixth tranche of convertible debentures completed in August 2016, Peter Saladino purchased \$129,000 CDN of debentures.

In September 2016, Peter Saladino, Board Member, provided a short-term loan of US \$100,000 to the Company, which was repaid in October 2016.

In September 2016, Michael Cohl, Board Member, provided a short-term loan of US \$100,000 to the Company, which was repaid in October 2016.

## **19. Capital management**

The Company defines capital that it manages as its shareholders' equity, long-term debt, convertible notes payable, 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 September 30, 2016 total managed capital was \$18,687,380. Total managed capital at December 31, 2015 was \$6,306,151.

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.

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## 20. 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 September 30, 2016, its carrying value approximates fair value based on current market rates for similar instruments.

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

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

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

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

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.

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 September 30, 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 \$587,467 and \$459,493 at September 30, 2016 and December 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.

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## 20. Financial instruments and risk management (continued)

### (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.

## 21. 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 nine months ended as follows:

	September 30, 2016	September 30, 2015
Loss before income taxes	\$ (3,123,761)	\$ (17,142,411)
Estimated tax recovery at combined rate of 38.4%	(1,199,524)	(6,582,686)
Expenses not deductible in Canada (Permanent items)	(910,844)	3,245,729
Losses - benefit not realized in Canada	977,248	(3,152,314)
Losses not deductible under IRC S 280E in the U.S.	1,791,543	7,132,910
Income tax expense	\$ 658,422	\$ 643,639

The Company made estimated tax payments to US federal government, State of Oregon, and municipal governments in the amounts of \$956,000 during the nine month period ended September 30, 2016 for the prior year's tax liability as well as 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.

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## **21. Taxation (continued)**

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 September 30, 2016, the Company has estimated Canadian non-capital losses of \$9,300,000. 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.

## **22. Subsequent events**

The Company completed three tranches of its convertible senior secured debt financing in late October and early November 2016. The offering allowed for up to CDN \$12 million of debentures at 10% interest paid semi-annually with a term to April 26, 2018 and a conversion provision to a common share at CDN \$0.30 through a syndicate of agents led by MMCAP. Total gross proceeds of CDN \$12M was raised through these three tranches. From these gross proceeds a total of CDN \$1.5 million was held back for commissions, professional and legal fees related to these fundraising efforts. These debentures are subject to a mandatory 4 month hold period before any conversion can be executed.

Subsequent to the balance date and receipt of debenture funding, the Company paid all outstanding interest payment due to the syndicate of investors in connection with the purchase the Aurora property. The Company also paid all outstanding principal and interest due for two matured convertible notes from March 2015.

On October 26<sup>th</sup>, the Company announced the appointment of Chief Financial Officer Eugene Hill.

The referendum vote to allow recreational and medical cannabis in unincorporated Marion County failed on Tuesday, November 8<sup>th</sup>. This will force the Company to suspend Cannabis cultivation and processing at its Aurora facility at some point close to January 1, 2017. Management will consider multiple options for utilization of or possible disposal of the Aurora property as well as contingencies for operational locations moving forward.