

Interim Condensed Consolidated Financial Statements of

**GOLDEN LEAF HOLDINGS LTD.**

For the three and nine months ended September 30, 2018 (Unaudited)

# **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 months ended September 30, 2018 and 2017

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**Notice of No Auditor Review of Interim Condensed Financial Statements**

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying interim condensed financial statements of Golden Leaf Holdings Ltd. as of September 30, 2018 and the notes to these interim condensed financial statements.

# GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)  
As at September 30, 2018 and December 31, 2017  
(Expressed in U.S. dollars)

		September 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		\$ 12,341,673	\$ 6,009,447
Accounts receivable	Note 6	1,206,512	377,746
Other receivables		198,674	-
Income tax recoverable		686,944	432,000
Sales tax recoverable		593,899	442,832
Biological assets	Note 7	218,060	90,627
Inventory	Note 7	3,201,889	3,623,255
Prepaid expenses and deposits		1,616,215	348,176
Assets held for sale		35,274	305,274
<b>Total current assets</b>		<b>\$ 20,099,140</b>	<b>\$ 11,629,357</b>
Property, plant and equipment	Note 8	6,144,273	5,956,910
Intangible assets	Note 9	26,006,313	26,227,116
Goodwill		31,971,398	31,971,398
<b>Total assets</b>		<b>\$ 84,221,124</b>	<b>\$ 75,784,781</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities		2,330,518	\$ 2,867,735
Interest payable		10,956	48,524
Current portion of long-term debt	Note 11	29,511	131,610
Current portion of convertible debentures carried at fair value	Note 10	-	271,245
Derivative liability		92,178	61,044
<b>Total current liabilities</b>		<b>\$ 2,463,163</b>	<b>\$ 3,380,158</b>
Long term debt	Note 11	64,455	80,381
Note payable	Note 10	313,815	389,916
Convertible debentures carried at fair value	Note 10	11,645,447	30,360,225
Consideration payable		9,527,350	9,527,350
Warrant liability	Note 12	5,779,121	14,300,616
<b>Total liabilities</b>		<b>\$ 29,793,351</b>	<b>\$ 58,038,646</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	Note 13	138,249,400	\$ 108,552,681
Warrant reserve	Note 14	4,078,120	5,083,561
Share option reserve	Note 15	3,117,665	1,087,640
Contributed surplus		59,940	59,940
Accumulated other comprehensive (gain) loss		(35,960)	9,828
Deficit		(91,041,392)	(97,047,515)
<b>Total shareholders' equity</b>		<b>\$ 54,427,773</b>	<b>\$ 17,746,135</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 84,221,124</b>	<b>\$ 75,784,781</b>

Going Concern (Note 2)  
Commitments (Note 16)  
Segmented Information (Note 21)  
Subsequent events (Note 23)  
See accompanying notes to consolidated financial statements.

# GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Operations and Comprehensive Gain (Loss) (Unaudited)  
For the three and nine months ended September 30, 2018 and 2017  
(Expressed in U.S. dollars)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<b>Revenues</b>				
Product sales	\$ 5,104,251	\$ 3,078,891	\$ 11,958,978	\$ 7,427,378
Royalties	-	50,000	-	50,000
Consulting revenue	8,662	-	35,838	-
<b>Total Revenue</b>	<b>\$ 5,112,913</b>	<b>\$ 3,128,891</b>	<b>\$ 11,994,816</b>	<b>\$ 7,477,378</b>
<b>Inventory expensed to cost of sales</b>				
Production costs	3,825,330	2,315,490	9,579,838	5,684,389
Gross margin, excluding fair value items	476,512	181,213	887,739	520,278
Fair value changes in biological assets included in inventory sold	811,071	632,188	1,527,239	1,272,711
(Gain) Loss on changes in fair value of biological assets Note 7	(91,672)	-	37,976	-
<b>Gross profit</b>	<b>\$ 444,201</b>	<b>\$ 731,188</b>	<b>\$ 1,736,978</b>	<b>\$ 1,371,711</b>
<b>Expenses</b>				
General and administration	3,182,236	3,313,869	9,248,288	6,970,399
Share based compensation Note 15	539,758	676,018	2,183,179	1,052,587
Professional fees paid with equity instruments	-	116,588	-	284,079
Sales and marketing	557,500	319,665	1,381,552	885,877
Depreciation and amortization Note 8, 9	376,977	225,922	1,080,772	359,225
<b>Total expenses</b>	<b>\$ 4,656,471</b>	<b>\$ 4,652,062</b>	<b>\$ 13,893,791</b>	<b>\$ 9,552,167</b>
<b>Loss before undernoted items</b>	<b>\$ (4,212,270)</b>	<b>\$ (3,920,874)</b>	<b>\$ (12,156,813)</b>	<b>\$ (8,180,456)</b>
Interest (income) expense, net	(31,280)	556,427	884,295	1,413,859
Transaction costs	454,292	2,365,821	926,192	2,365,821
Loss on disposal of assets	-	25,500	5,000	319,700
Impairment of financing lease receivable	-	27,422	-	82,266
Other (income) loss	(12,410)	37,296	(134,813)	200,124
(Gain) Loss on change in fair value of warrant liability Note 12	1,372,824	(2,841,983)	(9,254,878)	(3,080,362)
(Gain) Loss on change in fair value of liabilities Note 10	(506,686)	(1,148,020)	(10,477,289)	(2,733,810)
<b>Gain (loss) before income taxes</b>	<b>\$ (5,489,010)</b>	<b>\$ (2,943,337)</b>	<b>\$ 5,894,680</b>	<b>\$ (6,748,054)</b>
Current income tax expense	3,842	219,587	12,276	419,587
<b>Net Gain (Loss)</b>	<b>\$ (5,492,852)</b>	<b>\$ (3,162,924)</b>	<b>\$ 5,882,404</b>	<b>\$ (7,167,641)</b>
<b>Other comprehensive loss</b>				
Cumulative translation adjustment	(7,475)	-	45,788	-
<b>Comprehensive gain (loss)</b>	<b>\$ (5,485,377)</b>	<b>\$ (3,162,924)</b>	<b>\$ 5,836,616</b>	<b>\$ (7,167,641)</b>
<b>Basic and diluted gain (loss) per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ 0.01</b>	<b>(0.04)</b>
<b>Weighted average number of common shares outstanding</b>	<b>580,321,291</b>	<b>345,710,474</b>	<b>563,832,540</b>	<b>203,386,663</b>

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, 2018 and 2017

(Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2017	\$ 34,282,314	\$ 3,501,409	\$ 993,211	\$ 267,701	\$ 59,940	\$ (530,000)	\$ (41,510,472)	\$ (2,935,897)
Issuance of common shares	56,431,800	-	-	(267,701)	-	-	-	56,164,099
Issuance of warrants and broker units	-	199,077	-	-	-	-	-	199,077
Exercise of warrants and options for common shares	276,097	(141,940)	(20,600)	-	-	-	-	113,557
Issuance of share-based compensation	569,808	-	511,593	-	-	-	-	1,081,401
Expiry of warrants and stock options	-	-	-	-	-	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	(7,167,641)	(7,167,641)
Balance at September 30, 2017	\$ 91,560,019	\$ 3,558,546	\$ 1,484,204	\$ -	\$ 59,940	\$ (530,000)	\$ (48,678,113)	\$ 47,454,596

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2018	\$ 108,552,681	\$ 5,083,561	\$ 1,087,640	\$ -	\$ 59,940	\$ 9,828	\$ (97,047,515)	\$ 17,746,135
Issuance of common shares (note 13)	17,170,388	-	-	-	-	-	-	17,170,388
Issuance of warrants and broker units (note 14)	-	426,367	-	-	-	-	-	426,367
Exercise of warrants and options for common shares (notes 14, 15)	12,416,403	(1,431,808)	-	-	-	-	-	10,984,595
Issuance of share-based compensation (note 15)	109,928	-	2,153,744	-	-	-	-	2,263,672
Expiry of warrants and stock options	-	-	(123,719)	-	-	-	123,719	-
Net loss and comprehensive loss for the period	-	-	-	-	-	(45,788)	5,882,404	5,836,616
Balance at September 30, 2018	\$ 138,249,400	\$ 4,078,120	\$ 3,117,665	\$ -	\$ 59,940	\$ (35,960)	\$ (91,041,392)	\$ 54,427,773

See accompanying notes to consolidated financial statements.

# GOLDEN LEAF HOLDINGS LTD.

Interim Consolidated Statement of Cash Flows (Unaudited)  
For the nine month periods ended September 30, 2018 and 2017  
(Expressed in U.S. dollars)

	For the nine months ended September 30,	
	2018	2017
<b>Cash provide by (used in):</b>		
<b>Operating activities:</b>		
Net Gain (Loss)	\$ 5,882,404	\$ (7,167,641)
Depreciation of property, plant and equipment	Note 8 859,969	211,957
Amortization of intangible assets	220,803	-
Loss on disposal of assets	5,000	319,700
Interest expense	884,295	1,413,859
Income taxes paid	(324,620)	-
Income tax expense	69,676	419,357
Bad debt expense	141,325	-
Share based compensation	Note 15 2,153,744	676,018
Professional fees paid with equity instruments	-	116,588
(Gain)/loss on fair value adjustment to warrants liability	Note 12 (9,254,878)	(3,080,362)
(Gain)/loss on fair value adjustment to debt	Note 10 (10,705,635)	(1,148,020)
Transaction cost	926,192	2,365,821
Gain on fair value of biological assets	Note 7 (247,715)	(99,000)
Reserve for obsolete inventory	Note 7 192,100	-
Impairment of finance lease receivable	-	82,266
Other non-cash transactions	(393,625)	(82,333)
<b>Changes in working capital items</b>		
Accounts receivable	Note 6 (970,091)	3,431
Other receivables	(198,674)	369,937
Sales tax recoverable	(151,067)	(105,031)
Accounts payable and accrued liabilities	(278,804)	2,394,124
Biological assets	Note 7 120,282	-
Inventory	Note 7 229,266	(1,698,365)
Prepaid expenses and deposits	(203,022)	-
Cash used in operating activities	\$ (11,043,075)	\$ (5,007,694)
<b>INVESTING ACTIVITIES</b>		
Deposits on property, plant and equipment	Note 8 -	(357,080)
Purchase of property, plant and equipment	Note 8 (1,052,332)	(1,548,929)
Proceeds from disposal of property plant and equipment	-	706,932
Investment in MMGC	-	(1,168,859)
Payment of deposits and retainers	(1,268,039)	-
Purchases of intangible assets	-	-
Payment of accrued transaction costs	(38,413)	-
Net cash outflow on acquisition of subsidiaries	-	(21,750,000)
Cash used in investment activities	\$ (2,358,784)	\$ (24,117,936)
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	Note 13 21,669,001	26,956,972
Payment of share issuance costs	Note 13 (1,021,949)	-
Repayment of convertible notes	-	(603,000)
Repayment of long-term debt	(194,126)	(34,596)
Interest paid	(718,841)	-
Repayment of related party loan	-	(500,000)
Cash provided by financing activities	\$ 19,734,085	\$ 25,819,376
<b>Increase/(Decrease) in cash during the period</b>	<b>\$ 6,332,226</b>	<b>\$ (3,306,254)</b>
<b>Cash, beginning of period</b>	<b>6,009,447</b>	<b>3,940,463</b>
<b>Cash, end of period</b>	<b>\$ 12,341,673</b>	<b>\$ 634,209</b>
Interest paid during the period	884,295	185,813
Taxes paid during the period	324,620	-

See accompanying notes to these consolidated financial statements

# 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 months ended September 30, 2018

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## 1. Incorporation and operations

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

The Company is in the business of producing and distributing cannabis oil and flower products within the Oregon and Nevada adult-use regulated markets as well as the Canadian medical market, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC, Medical Marijuana Group Corporation and Medical Marijuana Group Consulting Ltd. Starting in September 2018, the Company is also operating a dispensary in Northern California under a transitional consulting agreement.

## 2. Going concern

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

As of September 30, 2018, the Company’s cash balances were \$12,341,673. On January 31, 2018 the Company received gross proceeds of C\$17,554,050 from a bought deal private placement transaction, in addition to significant warrant exercise activity which has further bolstered the Company’s cash position.

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 that 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. Such adjustments could be material. 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 and nine-month periods ended September 30, 2018 have been prepared in accordance with International Accounting Standard (“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, 2017. The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2017 financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).



# 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 months ended September 30, 2018

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## 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 except for biological assets, certain financial assets, and financial liabilities measured at fair value. The accounting policies set out below have been applied to all accounting periods. Certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications had no effect on the reported results of operations.

## 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, 2017 with the exception of the following:

### *Changes in Accounting Policies – Financial Instruments*

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

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

#### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

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

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

# 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 months ended September 30, 2018

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## 5. Significant accounting policies (continued)

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

### (ii) Measurement

Financial assets and liabilities at amortized cost. Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL. Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### (iv) Derecognition

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

### *Changes in Accounting Policies – Revenue from Contracts with Customers*

The company adopted all requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

The company has assessed the impact from this new standard. Under IFRS 15, revenue from the sale of cannabis would be recognized at the point in time when control over goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's previous revenue recognition policy under IAS 18.

Based on the Company's assessment, the adoption of this new standard does not have a material impact on its consolidated financial statements.

# 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 months ended September 30, 2018

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## 5. Significant accounting policies (continued)

### *New Accounting Policy – Biological Assets*

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

The new accounting policy and biological assets disclosure are consistent with the guidelines in Canadian Securities Administrators ("CSA") Staff Notice 51-357, *Staff Review of Reporting Issuers in the Cannabis Industry*.

## 6. Accounts receivable

	September 30, 2018	December 31, 2017
Accounts receivable	\$ 1,212,824	\$ 377,746
Allowance for doubtful accounts	(6,312)	-
	\$ 1,206,512	\$ 377,746

## 7. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. Biological assets are valued in accordance with IAS 41 *Agriculture* and are presented at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Since actively traded commodity market prices are not available for cannabis plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3). Unrealized fair value changes on growth of biological assets are recorded in a separate line on the face of the statement of operations.

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest. For biological assets that are still growing, the fair value ascribed to them is a percentage of the fair value at point of harvest, based on where the plants are in their grow cycle. As at September 30, 2018, on average, the biological assets were 13% complete as to the next expected harvest date.

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

On April 1, 2018, the Company adopted a production costs capitalization policy using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories*. A portion of production costs related to the transformation of biological assets from the point of recognition to the point of harvest are capitalized and included in the fair value measurement of biological assets. Previously, production costs were expensed as incurred. The adoption of this policy does not represent a change in an accounting

# 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 months ended September 30, 2018

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## 7. Biological assets and inventory (continued)

policy under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, as production costs related to cannabis cultivation and grow activities were previously immaterial to the Company's financial results.

In determining the fair value of biological assets, management is required to make several estimates with respect to significant unobservable inputs, including the expected yields for the cannabis plants, listed selling price of dry cannabis, the stage of plant growth at which point of harvest is determined, wastage and costs to sell. Estimated yield per plant varies by strain and is obtained through historical growing results or grower estimate if historical results are not available. The Company used a range of 90.8 to 177.66 grams per plant in the valuation of biological assets at September 30, 2018. The listed selling price of dry cannabis varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available. The Company used a range of \$2.42 to \$4.19 per gram in valuation of biological assets at September 30, 2018. Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest. For the nine months ended September 30, 2018, costs to sell were nil as the biological assets in Nevada and Canada were not sold to retail customers.

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

- Selling price per gram – calculated as the weighted average selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices. For the Company's Nevada cultivation, these prices were market prices as at September 2018. For the Company's Canadian cultivation, these prices represented the ultimate selling prices to wholesale buyers.
- Stage of growth – represents the weighted average number of weeks out of the 16 week growing cycle that biological assets have reached as of the measurement date.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.

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

	September 30, 2018	10% change as at September 30, 2018
Selling price per gram	\$3.75	\$ 20,000
Stage of growth	2 weeks	\$ 1,000
Yield by plant	155.45 grams	\$ 25,000
Wastage	5%	\$ 1,000

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

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## 7. Biological assets and inventory (continued)

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

During the nine-month periods ended September 30, 2018 and 2017 the Company recognized \$247,715 and \$99,000, respectively, of gain on the change in fair market value of biological assets reflecting the increased value relating to the growth and harvest of the flower from cannabis plants.

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

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

During the nine-month periods ended September 30, 2018 and 2017, \$264,075 and \$106,038 respectively, of depreciation was allocated to inventory and expensed as cost of sales. Any costs

incurred to bring inventory to the condition and location of sale are included in cost. Inventory expensed to cost of sales for the nine-month periods ended September 30, 2018 and 2017 was \$9,579,838 and \$5,684,389, respectively. The following provides a summary of the various costs incurred in key stages of production:

	Biological assets	Inventory
Raw materials	\$ -	\$ 451,767
Work-in-process	90,627	1,274,542
Finished goods	-	1,896,946
Balance, December 31, 2017	\$ 90,627	\$ 3,623,255
Raw materials	-	1,305,616
Work-in-process	218,060	1,025,382
Finished goods	-	870,891
Balance, September 30, 2018	\$ 218,060	\$ 3,201,889

During the nine-month period ended September 30, 2018, the Company expensed \$192,100 of packaging materials to cost of sales which were destroyed due to obsolescence after the balance sheet date. The Company also recorded a general reserve for excess and obsolete inventory in the amount of \$192,100.

The Company's biological assets at September 30, 2018 is comprised of:

Balance, January 1, 2018	\$ 90,627
Gain on fair value of biological assets	247,715
Increase in biological assets due to capitalized costs	49,980
Transfer to finished goods	(170,262)
Balance, September 30, 2018	\$ 218,060

# GOLDEN LEAF HOLDINGS LTD.

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## 8. Property, plant and equipment

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
<b>Cost</b>								
Balance, Jan 1, 2018	\$ 867,351	\$ 290,404	\$ 1,835,863	\$ 3,736,610	\$ 235,778	\$ 938,496	\$ 222,112	\$ 8,126,614
Additions	119,592	-	268,373	767,265	117,498	38,673	-	1,311,401
Dispositions	-	-	-	-	-	(36,236)	-	(36,236)
Balance, Sep 30, 2018	\$ 986,943	\$ 290,404	\$ 2,104,236	\$ 4,503,875	\$ 353,276	\$ 940,933	\$ 222,112	\$ 9,401,779
<b>Accumulated Amortization</b>								
Balance, Jan 1, 2018	\$ -	\$ -	\$ (609,494)	\$ (920,057)	\$ (109,279)	\$ (423,093)	\$ (107,781)	\$ (2,169,704)
Expense	(147,134)	-	(289,049)	(462,170)	(44,439)	(144,423)	(36,823)	(1,124,038)
Dispositions	-	-	-	-	-	36,236	-	36,236
Balance, Sep 30, 2018	\$ (147,134)	\$ -	\$ (898,543)	\$ (1,382,227)	\$ (153,718)	\$ (531,280)	\$ (144,604)	\$ (3,257,506)
<b>Carrying amount</b>								
Balance, Jan 1, 2018	\$ 867,351	\$ 290,404	\$ 1,226,369	\$ 2,816,553	\$ 126,499	\$ 515,403	\$ 114,331	\$ 5,956,910
Balance, Sep 30, 2018	\$ 839,809	\$ 290,404	\$ 1,205,693	\$ 3,121,648	\$ 199,558	\$ 409,653	\$ 77,508	\$ 6,144,273

Total depreciation expense for the nine months ended September 30, 2018 and 2017 was \$1,124,044 and \$331,960, respectively.

## 9. Intangible Assets

	Balance at January 1, 2018	Additions	Disposals / adjustments	Balance at Sep 30, 2018
<b>Cost</b>				
License	\$ 11,414,220	\$ -	\$ -	\$ 11,414,220
Customer Relationships	1,512,896	-	-	1,512,896
Brands	13,300,000	-	-	13,300,000
Total	\$ 26,227,116	\$ -	\$ -	\$ 26,227,116
<b>Accumulated Amortization</b>				
License	\$ -	\$ -	\$ -	\$ -
Customer Relationships	-	(220,803)	-	(220,803)
Brands	-	-	-	-
Total	\$ -	\$ (220,803)	\$ -	\$ (220,803)
<b>Net book value</b>	\$ 26,227,116	\$ (220,803)	\$ -	\$ 26,006,313

## 10. Convertible debt and notes payable

	September 30, 2018	December 31, 2017
Current portion of convertible debentures carried at fair value	\$ -	\$ 271,245
Mortgage note payable	313,815	389,916
Convertible debentures carried at fair value	11,645,447	30,360,225
Carrying amount of convertible notes at end of period	\$ 11,959,262	\$ 31,021,386

The Company has elected to account for the convertible debentures at fair value through profit and loss on initial recognition and as of the date of extinguishment for its convertible debentures. A gain of \$10,477,289 has been recorded through change in fair value of liabilities on the Interim Condensed Consolidated Statement of Operations and Comprehensive Gain (Loss) (Unaudited) for the nine-month period ended September 30, 2018.

For the year ended December 31, 2017, \$18.14 million debentures were converted. For the nine-month period ended September 30, 2018, \$7.05 million debentures have been converted.

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## 11. Long-term debt

	September 30, 2018	December 31, 2017
Long term debt	\$ 93,966	\$ 211,991
Less: current portion	(29,511)	(131,610)
Carrying amount of long-term debt	\$ 64,455	\$ 80,381

Long term debt consists of vehicle loans, one of which was paid off in entirety in the second quarter of 2018. Vehicle loans of \$159,599 are secured by the Company's vehicles, due in June 2021 and repayable in monthly blended installments of \$2,155.

## 12. Warrants liability

	Units	Amount
Balance, December 31, 2017	117,765,944	\$ 14,300,616
Warrants issued	38,980,000	\$ 3,810,975
Warrants exercised	(18,481,615)	(3,077,592)
Change in fair market value		(9,254,878)
Balance, September 30, 2018	138,264,329	\$ 5,779,121

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

Per IFRS 9, certain warrants meet the definition of a derivative and must be measured at fair value at each reporting date. The warrants were valued at \$ 5,779,121 at September 30, 2018 and \$14,300,616 at December 31, 2017. For the nine months ended September 30, 2018, a gain of \$9,254,878 was recorded in the statement of operations due to significant changes in the market price of the common shares. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	September 30, 2018	December, 31 2017
Expected life	0.8 - 1.4 years	1.3 - 1.9 years
Risk-free interest rate	2.18%	0.84%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7755	0.7701
Expected volatility	70.00%	70.00%

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 that the warrants granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

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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 at the Company's shareholders' meetings.

The following table reflects the continuity of share capital from December 31, 2017 to September 30, 2018:

	Number of Shares	Amount
Balance, December 31, 2017	477,000,336	\$ 108,552,681
Shares issued - conversion of debentures (i)	34,390,717	8,006,927
Shares issued - warrant exercises (ii)	30,098,819	12,416,403
Shares issued - private placement financing (iii)	38,980,000	9,028,092
Shares issued - payment of accrued commissions and transaction costs (iv)	1,622,692	135,369
Shares issued - compensation options exercise (v)	500,000	109,928
Balance, September 30, 2018	582,592,564	\$ 138,249,400

- (i) During the first nine months of 2018, 33,590,465 shares were issued in respect of conversion of convertible debentures.
- (ii) The Company issued 30,598,819 shares upon exercise of warrants and compensation options.
- (iii) During the first nine months of 2018, 38,980,000 shares were issued in conjunction with the bought deal private placement unit offering resulting in gross proceeds of C\$17,541,000; C\$4,702,743 of these proceeds were allocated to warrant liabilities (Note 12). The Company paid share issuance costs of C\$1,263,779 for this transaction.
- (iv) The Company issued 1,622,692 shares as payment for accrued commissions payable and transaction costs.

## 14. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2018	29,274,531		\$ 5,083,561
Warrants issued (i)	2,278,800	CDN \$0.45	\$ 426,367
Warrants issued (ii)	5,425,995	CDN \$0.37	-
Exercise of compensation options (iii)	(10,851,990)		(1,402,433)
Exercise of warrants (iv)	(796,167)		(29,375)
Balance, September 30, 2018	25,331,169		\$ 4,078,120

- (i) The Company issued 2,278,800 warrants as compensation options at C\$0.45 as part of the bought deal private placement offering.
- (ii) The Company issued 5,425,995 warrants at C\$0.37 upon exercise of compensation options. The value of these warrants has been previously recorded upon initial recognition of compensation options.
- (iii) During the first nine months of 2018, 10,851,990 compensation options were exercised.
- (iv) During the first nine months of 2018, 796,167 warrants were exercised.



# GOLDEN LEAF HOLDINGS LTD.

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## 14. Warrant reserve (continued)

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

	September 30, 2018	December, 31 2017
Expected life	0.8 - 1.4 years	1.3 - 1.9 years
Risk-free interest rate	2.18%	0.84%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7755	0.7701
Expected volatility	70.00%	70.00%

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 over 3 years with a one-year cliff and have an expiry period of no more than 10 years from the grant date.

Total number of options at December 31, 2017	22,057,223
Options granted at \$0.46 Canadian dollars	2,000,000
Options granted at \$0.39 Canadian dollars	24,850,000
Options granted at \$0.30 Canadian dollars	200,000
Options granted at \$0.26 Canadian dollars	4,250,000
Options granted at \$0.22 Canadian dollars	13,750,000
Options exercised	(500,000)
Options expired	(12,530,556)
Total number of options at September 30, 2018	54,076,667
Number of exercisable options issued in Canadian dollars	22,533,333
Number of exercisable options issued in U.S. dollars	508,333
Weighted average exercise price of options at September 30, 2018 in USD	\$ 0.24

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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:

	September 30, 2018	December 31, 2017
Expected life	3 years	3 years
Risk-free interest rate	0.00% - 1.66%	0.00% - 1.59%
Dividend yield	0.00%	0.00%
Expected volatility	70.00%	70.00%
Expected forfeiture rate	0.00%	0.00%

During the nine months ended September 30, 2018 and 2017, \$2,183,179 and \$1,052,587, respectively, was included in stock compensation expense in the consolidated statement of operations.

On January 24, 2018, the Company issued 23,550,000 stock options to employees and consultants with an exercise price of C\$0.39.

On June 29, 2018, the Company issued 13,750,000 stock options to the Company's Board of Directors with an exercise price of C\$0.22.

## 16. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, and grow facilities. Future lease payments amount to \$10,599,344:

2018	\$	578,285
2019		2,620,634
2020		2,374,053
2021		1,980,889
2022		1,404,298
Thereafter		1,641,185
	\$	10,599,344

## 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 nine months ended September 30, 2018 and 2017 includes the following expenses:

	September 30,	
	2018	2017
Salaries, commissions, bonuses and benefits	\$ 820,009	\$ 586,707
Stock compensation, including warrants and shares, for officers and directors	932,245	660,896
	\$ 1,752,254	\$ 1,247,603

The Company leases both its corporate headquarters in Beaverton, Oregon and its grow facility outside of Portland, which is currently under construction, from CPP OR LLC ("CPP"), of which Gary Zipfel, Director, is the sole member. To support the Company, CPP entered into a rent abatement agreement with the Company for the entirety of 2018 for its corporate headquarters and Oregon cultivation facility. Additional monthly rent in the amount of \$23,536 payable to CPP began in May 2018 to support the Company's

# GOLDEN LEAF HOLDINGS LTD.

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## 17. Related party transactions (continued)

corporate headquarters and production build out costs and is included in its commitments schedule. Rent payment on the corporate headquarters and cultivation facility will resume in 2019.

## 18. Capital management

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

The Company manages and adjusts its capital structure based upon 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.

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. Legal Matters

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC ("GRE"), an Oregon limited liability company (collectively, the "Defendants"), were sued in the Circuit Court of the State of Oregon in Lane County on November 7, 2017 by the plaintiff, 3590 West 3rd Owner, LLC, an Oregon limited liability company ("Plaintiff"). The claims made by Plaintiff arise out of a lease between the parties and are breach of contract, foreclosure of landlord's lien and foreclosure of security interest. The amount of damages claimed are \$1,052,403, plus interest and certain other fees and costs. The Defendants deny all of the claims made and are preparing an Answer to file in response to the Plaintiff's Complaint against the Defendant's. The parties participated in a judicial settlement conference for Wednesday, March 14, 2018 in Portland, Oregon, for the purpose of attempting to reach a mutually agreeable settlement to resolve this matter. This attempt to settle was unsuccessful and on April 17, 2018 the Plaintiffs filed an Amended Complaint revising their prayed for damage amount from \$1,052,403 USD to \$3,210,328 USD. On May 1, 2018, the Defendants filed an Amended Answer denying the allegations in the Amended Complaint and dropping Defendant's \$42,931 counterclaim.

On August 31, 2018, Alex Wall and GRE (collectively, the "Plaintiffs"), filed a Complaint (the "Complaint") and Motion for Temporary Restraining Order ("TRO") against Daniel Berge (the "Defendant") in the Circuit Court for the State of Oregon in Clackamas County, Oregon. Plaintiffs' Complaint, alleges, among other claims, breach of contract and intentional interference with economic relations. The dispute essentially involves Plaintiffs' lease rights to a portion of certain real property located at 19630 S. McCord Road, Oregon City, Oregon (the "Premises"). Defendant had threatened to disregard Plaintiffs' lease rights and take other actions which would have interfered with Plaintiffs' rights to possession of the Premises and the GRE business activities being conducted there.

The Motion for TRO was granted and issued by the Circuit Court Judge on August 31, 2018.

On September 7, GRE and the Defendant entered into a Stipulated Preliminary Injunction, restraining the Defendant from:

- a. Interfering with Plaintiff Alex Wall and GRE's right to possession of the Premises.

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## 19. Legal Matters (continued)

- b. Interfering with the utilities provided to the Premises;
- c. Restricting Plaintiffs' access to the Premises, including restricting Plaintiffs' ability to ingress to and egress from the Premises from a certain driveway;
- d. Damaging the cannabis plants located in the Premises; and
- e. Removing any property from the Premises.

As part of the Stipulated Preliminary Injunction, Plaintiffs agreed to comply with State of Oregon medical marijuana laws at all times that Plaintiffs occupy the Premises with respect to their activities at the Premises.

There is no trial date set at this time for a hearing on the Plaintiffs' underlying Complaint and the Company and GRE are confident that these issues will be resolved without the need to go to trial. The Company assesses the likelihood of a potential lawsuit as neither remote nor probable, and therefore has not recorded a provision for this loss at September 30, 2018.

## 20. Financial instruments and risk management

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

### (a) Fair value

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

The carrying value of long-term debt approximates fair value upon initial recognition. At September 30, 2018, 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:

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

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

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

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

September 30, 2018		Level 1	Level 2	Level 3	Total
Category		\$	\$	\$	\$
<b>Financial Assets</b>					
Available for sale purchase option	FVTPL	\$ -	\$ -	\$ -	\$ -
<b>Financial Liabilities</b>					
Warrant liability	FVTPL	-	-	5,779,121	5,779,121
Convertible debentures	FVTPL	-	-	11,645,447	11,645,447
December 31, 2017		Level 1	Level 2	Level 3	Total
Category		\$	\$	\$	\$
<b>Financial Assets</b>					
Available for sale purchase option	FVTPL	\$ -	\$ -	\$ -	\$ -
<b>Financial Liabilities</b>					
Warrant liability	FVTPL	-	-	14,300,616	14,300,616
Convertible debentures	FVTPL	-	-	30,360,225	30,360,225

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

The convertible debentures were valued using a binominal option pricing model to estimate the value of the combined convertible instrument. The most significant assumption used in this valuation is the expected volatility of the Company's shares which has been estimated at 70%.

Refer to Note 12 for further information on valuation of warrant liability.

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

### (b) Credit risk

The carrying amounts of cash and accounts receivable on the consolidated statement of financial position represent the Company's maximum credit exposure at September 30, 2018.

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk.

The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the consolidated statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment.

The Company does not have significant exposure to any individual customer and has bad debts of \$780 and \$141,325 for the three- and nine- months ended September 30, 2018, and allowance for doubtful accounts of \$6,312 at September 30, 2018 and \$0 at December 31, 2017. Doubtful accounts receivable of \$135,013 were written off as at September 30, 2018.

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

### (c) Interest rate risk

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

### (d) Liquidity risk

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

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
<b>As at September 30, 2018</b>						
Trade and other payables	\$ 2,341,474	\$ 2,341,474	\$ 2,341,474	\$ -	\$ -	\$ -
Loans and other borrowings	407,781	407,781	29,511	378,270	-	-
Convertible debt	11,645,447	11,645,447	-	11,645,447	-	-
<b>Total</b>	<b>\$ 14,394,702</b>	<b>\$ 14,394,702</b>	<b>\$ 2,370,985</b>	<b>\$ 12,023,717</b>	<b>\$ -</b>	<b>\$ -</b>

### (e) Foreign exchange risk

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

The following is an analysis of U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at September 30, 2018:

<b>Financial Assets</b>	
Cash	\$ 5,070,033
Trade and other receivables	912,361
	<b>\$ 5,982,394</b>
<b>Financial Liabilities</b>	
Trade and other payables	\$ 628,720
Loans and other borrowings	313,895
Convertible debt	11,645,447
	<b>\$ 12,588,062</b>

# **GOLDEN LEAF HOLDINGS LTD.**

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## **21. Segmented Information**

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

Key decision makers primarily review revenue, cost of sales expense and gross margin as the primary indicators of segment performance. The Oregon wholesale operation has historically been the major focus on the Company's management activities, however the addition of Retail and Nevada has further broadened the scope of management's activities. As these management activities continue to coalesce, the segment information will expand based on managements agreed upon allocation of costs beyond gross margin.

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For the three and nine months ended September 30, 2018

For the three months ended September 30,	Oregon Retail		Oregon Wholesale		Nevada Wholesale		Canada Cultivation		Canada Consulting		Other		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Product sales	\$ 3,126,862	\$ 1,948,058	\$ 667,883	\$ 1,040,154	\$ 435,724	\$ 90,679	\$ 618,885	\$ -	\$ 230,969	\$ -	\$ 23,928	\$ -	\$ 5,104,251
Royalties	-	-	-	-	-	-	-	-	-	-	-	50,000	-	50,000
Consulting revenue	-	-	-	-	-	-	-	-	8,662	-	-	-	8,662	-
Total Revenue	\$ 3,126,862	\$ 1,948,058	\$ 667,883	\$ 1,040,154	\$ 435,724	\$ 90,679	\$ 618,885	\$ -	\$ 239,631	\$ -	\$ 23,928	\$ 50,000	\$ 5,112,913	\$ 3,128,891
Inventory expensed to cost of sales	1,951,726	1,128,820	1,407,448	1,085,085	466,156	101,585	-	-	-	-	-	-	3,825,330	2,315,490
Production costs	-	-	135,428	180,581	-	632	341,084	-	-	-	-	-	476,512	181,213
Gross margin, excluding fair value items	\$ 1,175,136	\$ 819,238	\$ (874,993)	\$ (225,512)	\$ (30,432)	\$ (11,538)	\$ 277,801	\$ -	\$ 239,631	\$ -	\$ 23,928	\$ 50,000	\$ 811,071	\$ 632,188
Fair value changes in biological assets included in inventory sold	-	-	-	-	(91,672)	-	-	-	-	-	-	-	91,672	-
(Gain) Loss on changes in fair value of biological assets	-	-	-	-	24,640	(99,000)	433,902	-	-	-	-	-	458,542	(99,000)
Gross profit (loss)	\$ 1,175,136	\$ 819,238	\$ (874,993)	\$ (225,512)	\$ 36,600	\$ 87,462	\$ (156,101)	\$ -	\$ 239,631	\$ -	\$ 23,928	\$ 50,000	\$ 444,201	\$ 731,188

For the nine months ended September 30,	Oregon Retail		Oregon Wholesale		Nevada Wholesale		Canada Cultivation		Canada Consulting		Other		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Product sales	\$ 7,705,954	\$ 2,915,738	\$ 1,688,395	\$ 4,420,961	\$ 1,184,161	\$ 90,679	\$ 618,885	\$ -	\$ 737,655	\$ -	\$ 23,928	\$ -	\$ 11,958,978
Royalties	-	-	-	-	-	-	-	-	-	-	-	50,000	-	50,000
Consulting revenue	-	-	-	-	-	-	-	-	35,838	-	-	-	35,838	-
Total Revenue	\$ 7,705,954	\$ 2,915,738	\$ 1,688,395	\$ 4,420,961	\$ 1,184,161	\$ 90,679	\$ 618,885	\$ -	\$ 773,493	\$ -	\$ 23,928	\$ 50,000	\$ 11,994,816	\$ 7,477,378
Inventory expensed to cost of sales	5,164,680	1,529,039	3,561,847	4,053,765	852,920	101,585	391.00	-	-	-	-	-	9,579,838	5,684,389
Production costs	-	-	367,888	519,646	14,366	632	505,485	-	-	-	-	-	887,739	520,278
Gross margin, excluding fair value items	\$ 2,541,274	\$ 1,386,699	\$ (2,241,340)	\$ (152,450)	\$ 316,875	\$ (11,538)	\$ 113,009	\$ -	\$ 773,493	\$ -	\$ 23,928	\$ 50,000	\$ 1,527,239	\$ 1,272,711
Fair value changes in biological assets included in inventory sold	-	-	-	-	37,976	-	-	-	-	-	-	-	37,976	-
(Gain) Loss on changes in fair value of biological assets	-	-	-	-	(100,470)	(99,000)	(147,245)	-	-	-	-	-	(247,715)	(99,000)
Gross profit (loss)	\$ 2,541,274	\$ 1,386,699	\$ (2,241,340)	\$ (152,450)	\$ 379,369	\$ 87,462	\$ 260,254	\$ -	\$ 773,493	\$ -	\$ 23,928	\$ 50,000	\$ 1,736,978	\$ 1,371,711

	Oregon Retail		Oregon Wholesale		Nevada Wholesale		Canada Cultivation		Canada Consulting		Other		Consolidated		
	As at	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017	Sep 30 2018	Dec 31 2017
	Assets	\$ 41,081,471	\$ 3,540,876	\$ 12,216,379	\$ 9,800,715	\$ 4,549,132	\$ 3,389,811	\$ 11,864,397	\$ 1,336,736	\$ 4,758,590	\$ 213,939	\$ 9,751,155	\$ 57,502,704	\$ 84,221,124	\$ 75,784,781
Liabilities	\$ 331,191	\$ 221,724	\$ 6,928,411	\$ 516,381	\$ 259,663	\$ 113,243	\$ 296,466	\$ 399,517	\$ 163,827	\$ 206,801	\$ 21,813,793	\$ 56,580,980	\$ 29,793,351	\$ 58,038,646	



# **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 months ended September 30, 2018

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## **22. Subsequent events**

Subsequent to the balance sheet date, \$214,000 of debentures have been converted into 1,019,047 shares.

On November 5, 2018, the Company announced that it has signed a non-binding letter of intent to merge with Terra Tech Corp. ("Terra Tech"). The transaction is subject to several regulatory approvals, and the teams of both companies are collaborating in anticipation of joining forces.

On November 5, 2018, the Company announced launch of four flavours of Golden Fruit Chews in Nevada, complementing the Company's existing array of product offerings at the wholesale level.