Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

As at and for the three months ended March 31, 2020 (Unaudited)

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Financial Statements
(Expressed in U.S. Dollars, unless otherwise stated)
As at and for the three months ended March 31, 2020

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 interim condensed consolidated financial statements of Golden Leaf Holdings Ltd. for the three months ended March 31, 2020 and the notes to interim condensed consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)
As at March 31, 2020 and December 31, 2019
(Expressed in U.S. dollars)

		March 31, 2020	December 31, 2019
CURRENT			
Cash		$ 1,543,102	$ 3,531,202
Accounts receivable	Note 6	259,424	167,178
Other receivables	Note 6	452,273	447,901
Income tax recoverable		6,497	74,034
Sales tax recoverable		283,331	271,866
Biological assets	Note 8	-	88,078
Inventory	Note 8	3,889,697	2,965,304
Prepaid expenses and deposits		558,469	325,329
Total current assets		6,992,793	7,870,892
Property, plant and equipment	Note 9	3,412,671	3,723,489
Notes receivable	Note 7	919,488	919,488
Right-of-use assets, net	Note 10	4,400,294	4,333,064
Intangible assets	Note 11	10,737,423	10,737,423
Goodwill	Note 11	4,056,172	4,056,172
Total assets		30,518,841	31,640,528
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		2,135,555	1,564,982
Interest payable		304,699	125,900
Income taxes payable		314,789	-
Deferred income tax payable		248,852	248,852
Sales tax payable		11,282	187,520
Current portion of long-term debt	Note 13	76,173	82,404
Lease liability	Note 13	920,877	843,238
Total current liabilities		4,012,227	3,052,896
Long term debt	Note 13	29,952	29,952
Long term lease liability	Note 13	4,185,920	4,090,806
Convertible debentures carried at fair value	Note 12	4,706,141	4,706,141
Consideration payable - cash portion	Note 13	4,286,978	4,218,866
Consideration payable - equity portion	Note 13	4,897,507	4,940,667
Total liabilities		22,118,725	21,039,328
SHAREHOLDERS' EQUITY			
Share capital	Note 14	147,873,002	147,763,499
Warrant reserve	Note 15	1,553,850	1,980,217
Share option reserve	Note 16	4,082,010	4,181,350
Contributed surplus		59,940	59,940
Deficit		(145,168,686)	(143,383,806)
Total shareholders' equity		8,400,116	10,601,200
Total liabilities and shareholders' equity		$ 30,518,841	$ 31,640,528

Going concern (Note 2)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:
(Signed) "Alex Winch", Director
(Signed) "Karl R. Miller, Jr.", Director

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statements of Operations and Comprehensive Gain (Loss) (Unaudited)
For the three months ended March 31, 2020 and 2019
(Expressed in U.S. dollars)

		For the three months ended March 31,			
			2020		2019
Revenues					
Product sales	Note 21	$	4,239,582	$	3,728,959
Consulting revenue	Note 21		430,722		202,070
Total Revenue			4,670,304		3,931,029
Inventory expensed to cost of sales	Note 8, 21		2,964,192		2,364,969
Production costs	Note 21		-		128,577
Gross margin, excluding fair value items			1,706,112		1,437,484
(Gain) loss on changes in fair value of biological assets	Note 8, 21		(20,714)		-
Gross profit			1,726,826		1,437,484
Expenses					
General and administration			2,045,274		2,774,831
Share based compensation	Note 16		129,579		411,926
Sales and marketing			535,026		628,685
Depreciation and amortization	Note 9		568,345		630,849
Total expenses			3,278,224		4,446,291
Loss before items noted below			(1,551,398)		(3,008,807)
Interest expense			551,101		731,001
Transaction costs			-		6,108
Loss (gain) on disposal of assets	Note 9		7,822		(16,945)
Other income			(28,439)		(141,197)
Gain on change in fair value of warrant liabilities			-		(499,662)
Gain on change in fair value of convertible debentures	Note 12		-		(36,169)
Loss before income taxes			(2,081,882)		(3,051,943)
Current income tax expense			358,284		11,624
Net loss from continuing operations		$	(2,440,166)	$	(3,063,567)
Income from discontinued operations	Note 7		-		17,524
Net loss		$	(2,440,166)	$	(3,046,043)
Other comprehensive loss					
Items that will be reclassified subsequently to profit or loss:					
Cumulative translation adjustment			-		892,214
Comprehensive loss		$	(2,440,166)	$	(3,938,257)
Basic and diluted loss per share from continuing operations		$	(0.00)	$	(0.01)
Basic and diluted loss per share from discontinued operations		$	-	$	0.00
Weighted average number of common shares outstanding			859,890,063		534,900,058

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the three months ended March 31, 2020 and 2019
(Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2019	$ 138,511,038	$ 4,052,164	$ 4,777,929	$ 59,940	$ (125,930)	$ (100,686,006)	$ 46,589,135
Share-based compensation	-	-	411,926	-	-	-	411,926
Expiry of w arrants and stock options	-	-	(57,247)	-	-	57,247	-
Net loss and comprehensive loss for the year	-	-	-	-	(892,214)	(3,046,043)	(3,938,257)
Balance at March 31, 2019	$ 138,511,038	$ 4,052,164	$ 5,132,608	$ 59,940	$ (1,018,144)	$ (103,674,802)	$ 43,062,804

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2020	$ 147,763,499	1,980,217	$ 4,181,350	$ 59,940	$ -	$ (143,383,806)	$ 10,601,200
Issuance of common shares	109,503	-	-	-	-	-	109,503
Share-based compensation (Note 16)	-	-	129,579	-	-	-	129,579
Expiry of w arrants and stock options	-	(426,367)	(228,919)	-	-	655,286	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(2,440,166)	(2,440,166)
Balance at March 31, 2020	$ 147,873,002	$ 1,553,850	$ 4,082,010	$ 59,940	$ -	$ (145,168,686)	$ 8,400,116

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2020 and 2019
(Expressed in U.S. dollars)

		For the three months ended March 31,	
		2020	2019
Cash (used in) provided by:			
OPERATING ACTIVITIES:			
Net loss		$ (2,440,166)	$ (3,046,043)
Depreciation of property, plant and equipment	Note 9	369,360	472,325
Lease amortization		198,985	156,718
Amortization of intangible assets	Note 11	-	77,105
Gain on disposal of assets	Note 9	-	(16,945)
Interest expense		416,146	741,662
Income tax expense		382,326	11,624
Bad debt expense		-	68
Share based compensation	Note 16	129,579	411,926
Gain on fair value adjustment to w arrants liability		-	(499,662)
Gain on fair value adjustment to debt		-	(36,169)
Gain on fair value of biological assets	Note 8	(20,714)	(303,439)
Reserve for obsolete inventory	Note 8	-	82,909
Other non-cash transactions		41,338	(824,809)
Changes in working capital items			
Accounts receivable	Note 6	(92,246)	(124,680)
Other receivables	Note 6	(4,372)	85,656
Sales tax recoverable		(11,465)	52,800
Lease liabilities		(149,822)	(127,691)
Accounts payable and accrued liabilities		570,573	(623,548)
Sales tax payable		(176,238)	(172,695)
Biological assets	Note 8	(75,136)	300,474
Inventory	Note 8	(740,465)	(508,029)
Prepaid expenses and deposits		(233,140)	397,275
Cash used in operating activities		(1,835,457)	(3,493,168)
INVESTING ACTITIVES			
Purchase of property, plant and equipment	Note 9	(66,364)	(539,036)
Proceeds from disposal of property plant and equipment		-	45,000
Cash used in investment activities		(66,364)	(494,036)
FINANCING ACTIVITIES			
Repayment of long-term debt	Note 13	(6,231)	-
Interest paid		(80,048)	-
Cash used in financing activities		(86,279)	-
Decrease in cash during the period		(1,988,100)	(3,987,204)
Cash, beginning of period		3,531,202	12,275,372
Cash, end of period		**$ 1,543,102**	**$ 8,288,168**

See accompanying notes to these consolidated financial statements

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 California markets. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "GLH" as well as the OTCQB under the trading symbol "GLDFF".

The Company is in the business of producing and distributing cannabis oil and flower products within Oregon, Nevada and California adult-use regulated markets, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC. Effective December 31, 2019, the Company sold its two Canadian subsidiaries, Medical Marihuana Group Corporation ("MMG") and Medical Marijuana Group Consulting Ltd. ("MMC," and together with MMG, the "Canadian Operations").

2. Going concern

Golden Leaf has been incurring operating losses and cash flow deficits since its inception, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the gradual relaxing of prohibitions on the cannabis industry in the United States and the legalization of cannabis in Canada. As at March 31, 2020, the Company had an accumulated deficit of $145,168,686 (December 31, 2019 - $143,383,806). The Company's revenues have not yet risen to levels materially capable of covering the costs related to the infrastructure investment (both capital and operating). As such, the Company has been depleting its capital as it simultaneously navigates regulatory evolution and uncertainty, awaits the imminent changes in other United States jurisdictions that will fuel market expansion, and continues to make necessary investments.

As of March 31, 2020, the Company's cash balances were $1,543,102. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under acceptable terms. As well, there can be no assurance that the Company will be able to generate sufficient cash flows from operations.

These circumstances indicate the existence of material uncertainty that casts substantial doubt as to the Company's ability to meet its business plans and its obligations as they become due, and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future and does not reflect the adjustments to assets and liabilities that would be necessary if it were unable to obtain adequate financing. Such adjustments could be material. If the Company is unable to raise funds and execute its business plans, it may not be able to continue as a going concern.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. As at the financial statement approval date, the outbreak and the related mitigation measures have had the following impacts on the Company's operations, among others: Required compliance with enhanced federal employee benefits regulations, intermittent supply chain disruptions and cash management challenges. The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the U.S. and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time.

3. Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended December 31, 2019 ("last annual financial statements), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

These interim financial statements were approved by the Company's Board of Directors on May 20, 2020.

4. Basis of presentation

Except where specified, the interim financial statements have been prepared in U.S. dollars, which is the Company's presentation and functional currency, on a historical cost basis except for certain financial assets and financial liabilities measured at fair value. The accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements as at and for the year ended December 31, 2019. Certain prior period amounts have been reclassified for consistency with current period presentation (Note 7).

5. Significant accounting policies

Discontinued Operations

Effective December 31, 2019, the Company sold its two subsidiaries in Canada, MMG and MMC. The MMG and MMC segments meet the criteria of a discontinued operation under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.* These operating segments were not previously classified as held-for-sale or as discontinued operations. The comparative Consolidated Statements of Operations and Comprehensive Loss has been restated to show the discontinued operations separately from continuing operations (Note 7).

6. Accounts receivable

	March 31, 2020	December 31, 2019
Accounts Receivable	$ 653,168	$ 545,272
Allowance for doubtful accounts	(378,094)	(378,094)
	$ 275,074	$ 167,178

Other receivables of $452,273 (December 31, 2019 - $447,901) represent funds advanced via short-term secured promissory notes to TozMoz, LLC ("TozMoz"), which the Company is in the final stages of acquiring. These notes are secured primarily by the production equipment owned by TozMoz and will offset the cash component of consideration payable upon the close of the transaction.

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

7. Discontinued operations

In the fourth quarter of 2019, management entered into an agreement to sell its two Canadian subsidiaries, MMG and MMC. The sale was completed on December 31, 2019.

The Canadian Operations were sold for aggregate consideration of C$3,000,000. The consideration is comprised of C$1,800,000 in cash, C$200,000 in an unsecured loan, and C$1,000,000 in a secured vendor take-back loan.

The unsecured loan is interest free for 24 months following the close. The payment schedule is at the discretion of the purchaser with a maturity date of December 2021.

The C$1M vendor take back loan is secured by the MMG property and bears interest at a rate of 5% per annum, repayable as to interest only, monthly over 24 months. The principal amount of the secured loan shall be paid by the end of the loan term, which is December 2021.

The MMG and MMC segments meet the criteria of a discontinued operation under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.* These operating segments were not previously classified as held-for-sale or as a discontinued operation. The comparative Consolidated Statements of Operations and Comprehensive Loss has been restated to show the discontinued operation separately from continuing operations.

Results of discontinued operations:

		For the three months ended March 31, 2019
Net sales	$	351,819
Cost of goods sold		21,430
Selling and administrative expenses		226,908
Depreciation and amortization		75,297
Other expense		10,661
Net gain (loss) from discontinued operations	$	17,524

Cash used in discontinued operations:

		March 31, 2019
Net cash used in operating activities	$	(16,691)
Net cash used in investing activities		(16,262)
Decrease in cash during the period		(32,953)
Cash, beginning of period		412,303
Cash, end of period	$	379,350

MMG and MMC were deconsolidated as at December 31, 2019, as the sale was finalized prior to the 2019 fiscal year-end.

8. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on the selling price less any costs to sell up to the point of harvest.

For biological assets that are still growing, the fair value ascribed to them is a percentage of the fair value at point of harvest, based on where the plants are in their grow cycle.

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 54.48 grams per plant in the valuation of biological assets at March 31, 2020. (December 31, 2019 – 54.48 grams) The listed selling price of dry cannabis varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available. The Company used a price of $1.46 per gram in valuation of biological assets at March 31, 2020. (December 31, 2019 – $1.46 per gram) in valuation of biological assets at March 31, 2020. Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest.

For the three months ended March 31, 2020 and 2019, costs to sell were $nil as the biological assets were not sold to wholesale customers.

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

- Selling price per gram – calculated as the weighted average selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices. As at March 31, 2020 and December 31, 2019, these prices represented the ultimate selling prices to wholesale buyers.

- Stage of growth – represents the weighted average number of weeks out of the 16-week growing cycle that biological assets have reached as of the measurement date.

- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.

- Wastage – represents the weighted average percentage of biological assets which are expected to be destroyed due to failure to mature into cannabis plants that can be harvested.

During the three months ended March 31, 2020 and 2019, the Company recognized $20,714 and $nil, 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.

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

8. Biological assets and inventory (continued)

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 three months ended March 31, 2020 and 2019, $262,885 and $114,970 of depreciation was allocated to inventory. 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 three months ended March 31, 2020 and 2019 was $2,964,192 and $2,364,969, respectively.

The Company's inventory at March 31, 2020 and December 31, 2019 consisted of:

	Biological assets	Inventory
Raw materials	$ -	$ 251,393
Work-in-process	88,078	961,408
Finished goods	-	1,752,503
Balance, December 31, 2019	$ 88,078	$ 2,965,304
Raw materials	-	729,904
Work-in-process	-	1,007,062
Finished goods	-	2,152,731
Balance, March 31, 2020	$ -	$ 3,889,697

At March 31, 2020 and December 31, 2019, the Company also recorded a general reserve for excess and obsolete inventory in the amount of $238,867 and $276,504, respectively.

The Company's biological assets as at March 31, 2020 and December 31, 2019 are comprised of:

Balance, January 1, 2019	$ 74,148
Gain on fair value of biological assets	20,715
Increase in biological assets due to capitalized costs	67,363
Transfer to work-in-process	(74,148)
Balance, December 31, 2019	$ 88,078
Balance, January 1, 2020	$ 88,078
Gain on fair value of biological assets	20,714
Increase in biological assets due to capitalized costs	251,290
Transfer to work-in-process	(360,082)
Balance, March 31, 2020	$ -

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

9. Property, plant and equipment

The following table reflects the continuity of property, plant and equipment from January 1, 2020 to March 31, 2020:

	Production equipment	Leasehold improvements	Computer Equipment and Software	Furniture and Fixtures	Vehicles	Total
Cost						
Balance, January 1, 2020	$ 2,594,761	$ 4,562,815	$ 311,579	$ 991,435	$ 141,862	$ 8,602,452
Additions	12,502	23,771	24,591	5,500	-	66,364
Dispositions	(19,555)	-	-	-	-	(19,555)
Balance, March 31, 2020	$ 2,587,708	$ 4,586,586	$ 336,170	$ 996,935	$ 141,862	$ 8,649,261
Accumulated Amortization						
Balance, January 1, 2020	$ (1,503,306)	$ (2,263,650)	$ (212,181)	$ (770,746)	$ (129,080)	$ (4,878,963)
Expense	(127,711)	(173,438)	(15,046)	(46,071)	(7,094)	(369,360)
Dispositions	11,733	-	-	-	-	11,733
Balance, March 31, 2020	$ (1,619,284)	$ (2,437,088)	$ (227,227)	$ (816,817)	$ (136,174)	$ (5,236,590)
Carrying amount						
At December 31, 2019	$ 1,091,455	$ 2,299,165	$ 99,398	$ 220,689	$ 12,782	$ 3,723,489
At March 31, 2020	$ 968,424	$ 2,149,498	$ 108,943	$ 180,118	$ 5,688	$ 3,412,671

Total depreciation expense for the three months ended March 31, 2020 and 2019 was $568,345 and $630,849, respectively. Of the total expense, $262,885 and $114,970 was allocated to inventory during the three months ended March 31, 2020 and 2019, respectively.

10. Leases

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, grow facilities, and vehicles.

A continuity of the right-of-use asset for the three months ended March 31, 2020 is as follows:

	March 31, 2020	December 31, 2019
Right-of-use asset, beginning balance	$ 4,333,064	$ 4,278,904
Additions	266,215	738,289
Amortization	(198,985)	(684,129)
Right-of-use asset, ending balance	$ 4,400,294	$ 4,333,064

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

11. Intangible assets and goodwill

The following table reflects the continuity of intangible assets from January 1, 2020 to March 31, 2020:

	License	Brands	Total
Cost			
Balance, January 1, 2020	$ 1,955,677	$ 8,781,746	$ 10,737,423
Additions	-	-	-
Balance, March 31, 2020	$ 1,955,677	$ 8,781,746	$ 10,737,423
Carrying amount			
At December 31, 2019	$ 1,955,677	$ 8,781,746	$ 10,737,423
At March 31, 2020	$ 1,955,677	$ 8,781,746	$ 10,737,423

Goodwill was $4,056,172 as at March 31, 2020 and December 31, 2019. For the year ended December 31, 2019 the Company recognized goodwill impairment losses of $10,800,000 for the Oregon Retail segment related to the Chalice Farms acquisition, $5,541,547 of goodwill and $860,000 of intangibles for the Oregon Wholesale segment related to the Chalice Farms acquisition, and $1,323,900 and $210,371 of goodwill and intangibles, respectively for the Nevada Wholesale segment.

12. Convertible debt

The Company has issued convertible debentures with a carrying amount of $4,706,141 as at March 31, 2020 and December 31, 2019. These are classified as long-term debt with a maturity date of November 2021.

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 those convertible debentures noted. A gain of $nil and $36,169 was recorded through change in fair value of liabilities on the statement of operations for the three months ended March 31, 2020 and 2019, respectively. For the three months ended March 31, 2020, no debentures were converted.

In August 2019, debenture holders approved the repayment of the principal amount of the third tranche of convertible debentures of C$12,961,000 and accrued interest of C$190,815, via an early conversion on August 23, 2019 at C$0.06 per share. The Company issued 216,016,664 common shares to repay the convertible debt principal and 3,052,892 common shares to pay the accrued interest. The original maturity date of these debentures was November 2, 2019. As of the effective date of the conversion, the Company derecognized the convertible debt liability at its carrying value, recorded share capital issued of $8,256,098, and recorded a gain of $1,978,080.

13. Long-term debt and consideration payable

	March 31, 2020	December 31, 2019
Long-term debt	$ 106,125	$ 112,356
Consideration payable	9,184,485	9,159,533
Lease liability	5,106,797	4,934,044
Less: current portion	(997,050)	(925,642)
Carrying amount of long-term debt	$ 13,400,357	$ 13,280,291

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

13. Long-term debt and consideration payable (continued)

Long-term debt consists of consideration payable, leases and vehicle loans.

Consideration payable was at $9,184,485 and $9,159,533 as at March 31, 2020 and December 31, 2019, respectively. The Company recognized $104,952 and $166,844 in accretion expense for the three months ended March 31, 2020 and 2019, respectively. Interest expense of $142,519 and $nil was recognized for the three months ended March 31, 2020 and 2019, respectively.

Consideration payable represents earn-out payments to three former owners of Chalice Farms, as part of the consideration in the July 2017 acquisition. In August 2019, the Company reached an agreement to extend the due date for the $9,527,350, principal amount, consideration payable due to former Chalice Farms owners. This agreement was conditional on early settlement of the convertible debentures (Note 12).

This modified the term of earn-out payments to be paid in full on May 2, 2022 and changed the annual interest rate from 0% to 6%. The agreement calls for monthly cash interest payments of $20,000 which are first credited toward accrued interest, then Minimum Cash Payment, then to the Stock Earn-out Payment, until paid in full. An additional payment of accrued interest will be made in Golden Leaf stock on December 31 of each calendar year in the amount of any unpaid accrued interest on the outstanding balance of the Earn-out Payments. The number of shares issued will be calculated based on the 30-day volume weighted average price ending on December 31 of each year for which a stock payment of accrued interest is payable. The effect of this modification at restructuration date was less than 10% of the carrying value of the debt prior to the modification. Due to this fact, the Company accounted for the restructuration of debt as a debt modification in accordance with IFRS 9 *Financial Instruments* and recognized a gain on debt modification of $312,083 for the year ending December 31, 2019.

Lease liabilities were $5,106,797 and $4,934,044 as at March 31, 2020 and December 31, 2019. These balances include $920,877 and $843,238 of short-term lease liabilities, respectively.

Other long-term liabilities include vehicle loans of $106,125 and $112,356 as at March 31, 2020 and December 31, 2019, respectively. Included in these balances were short-term liabilities of $76,173 and $25,492 as at March 31, 2020 and 2019, respectively.

14. Share capital

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

The following table reflects the continuity of share capital from January 1, 2020 to March 31, 2020:

	Number of Shares	Amount
Balance, January 1, 2020	854,384,638	$ 147,763,499
Shares issued	7,157,052	109,503
Balance, March 31, 2020	861,541,690	$ 147,873,002

14. Share capital (continued)

The Company issued 7,157,052 shares in the first quarter of fiscal 2020 related to payment of interest on its consideration payable (Note 13).

As at March 31, 2020 and December 31, 2019, there were 25,025,608 common shares held in escrow.

15. Warrant reserve

	Number of warrants issued		Amount
Balance, January 1, 2020	4,611,667	$	1,980,217
Warrants expired	(2,338,800)		(426,367)
Balance, March 31, 2020	2,272,867	$	1,553,850

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. There were no new warrants issued during the three months ended March 31, 2020.

16. 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, employees, and consultants.

In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the Ordinary Shares. The maximum aggregate number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares at the time of the grant. Most options vest evenly over 3 years with a 1-year cliff vesting and have an expiry period of no more than 10 years from the grant date.

Total number of options at January 1, 2020		66,226,413
Options expired		(5,401,400)
Total number of options at March 31, 2020		60,825,013
Number of exercisable options issued in Canadian dollars		32,308,731
Number of exercisable options issued in U.S. dollars		10,000
Weighted average exercise price of options at March 31, 2020 in U.S. dollars	$	0.13

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

16. Stock option plan (continued)

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

	December, 31 2019
Expected life	3 - 5 years
Risk-free interest rate	1.39% - 1.78%
Dividend yield	0.00%
Expected volatility	82% - 89%
Expected forfeiture rate	0.00%

During the three months ended March 31, 2020 and 2019, $129,579 and $411,926 was included in share-based compensation expense in the statement of operations. There were no stock options issued during the three months ended March 31, 2020.

In September 2019, as part of their new roles, two executives each subscribed to 26,861,622 restricted common shares at C$0.06 per share, on a non-brokered basis, for a total of 53,723,244 common shares. The issuance of these shares will be assisted through an interest-bearing, five-year loan to the executives, which includes a limited recourse pledge of such shares to secure the loans. Of the total shares, half were immediately vested and the other half vest based on meeting certain Company performance targets. As of December 31, 2019, these shares have not been issued. These shares may be issued in the future upon receipt of the loan payments. The arrangement will be accounted for as stock-based compensation in accordance with IFRS 2 - *Share-based Payments*, but are not included as stock options issued and outstanding in the tables above, nor have the shares been issued from treasury.

17. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the three months ended March 31, 2020 and 2019 includes the following expenses:

	March 31, 2020	March 31, 2019
Salaries, commissions, bonuses and benefits	$ 270,911	$ 422,430
Consulting fees	183,517	-
Termination benefits	30,779	-
Stock Compensation, including w arrants and shares	124,184	154,402
	$ 609,391	$ 576,832

Consideration payable with face value of $9,527,350, related to the Chalice Farms acquisition, is owed to the former CEO, former COO, and former Director (Note 13).

The Company leases both its corporate headquarters in Portland and its grow facility outside of Portland from CPPOR LLC ("CPP"), of which the former Director is the sole member. During the three months ended March 31, 2020 and 2019, the Company paid total rents of $86,970 and $188,867, respectively, for these properties. Beginning in April 2019, in an effort to support the Company, CPP entered into a rent abatement agreement for twelve months for additional rent on the Company's corporate headquarters and warehouse facilities in Portland.

18. Capital management

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

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

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets are approved by the Company's Board of Directors.

19. Legal matters

Internal Revenue Service

The Internal Revenue Service ("IRS") audited the 2016 and 2017 federal income tax returns of the Company's wholly-owned subsidiary, Greenpoint Holdings Delaware, Inc. ("GPHD"). The IRS focused on two issues that needed to be resolved:

1) The first issue involved the reporting of royalty income on the Company's Canadian tax return instead of on the U.S. federal return of GPHD, which files a consolidated return for the Company's U.S. operations. The assets which were the subject of the royalty payments were owned by a U.S. subsidiary of the Company (GL Management, Inc., a Nevada corporation) and the entity using those assets and paying the royalty fees was also a U.S. entity (BMF Washington, LLC, an unrelated entity). The Company is in the process of filing amended returns in Canada and the U.S. to correct the mistake.

2) The second issue related to an IRS Form 8594 filing with respect to a series of 2017 business transactions. The Form 8594 listed the incorrect EIN of one of the parties to the transaction. Because a similar error had occurred with respect to a Form 8594 filed in a prior year, the IRS is proposing to assess a penalty under Internal Revenue Code Section 6271(e) for "intentional disregard" of an information reporting requirement. This penalty is the greater of $500 or 10% of the aggregate amount of items required to be reported correctly, which amounts to a proposed penalty in excess of $4.6 million. The Company maintains that the error was inadvertent and resulted from confusion among multiple business entities having similar names. The Company sent a response letter to the IRS in January 2020. The Company's position is that the facts and circumstances of the law: (1) did not support assessment of the intentional disregard penalty under Code Section 6721(e); and (2) supported application of the reasonable cause exception under Code Section 6724(a), such that no Code Section 6721 penalties should be assessed. This matter has not yet been resolved and the Company has not received any communication from the IRS since sending the response letter. The Company continues to vigorously contest the IRS's proposed penalty assessment.

19. Legal matters (continued)

BMF Washington, LLC and Peter Saladino

The Company filed a lawsuit against BMF Washington LLC ("BMF") and Peter Saladino ("Saladino") on January 21, 2020, in Multnomah County (Oregon) Circuit Court, Case No. 20CV03528, seeking to recover $6,916,580 in damages. The Company asserted two claims for breach of contract, arising out of the parties' equipment leasing and intellectual property licensing agreements, seeking damages of $676,580 and $2,080,000, respectively, with alternative claims against both BMF and Saladino (collectively, the "Defendants") for unjust enrichment related to their improper use of the Company's equipment and intellectual property. The Company is also asserting claims against the Defendants for misappropriation of trade secrets under Oregon and Washington law, seeking additional damages of $4,160,000. A receiver was appointed to marshal the assets of BMF and liquidate them to pay the creditors of BMF. Consequently, the Company's claims against BMF are in the process of being dismissed without prejudice and a Proof of Claim is being sent to the receiver, in an attempt to obtain payment of the damages related to the claims alleged against BMF by the Company. The claims against Mr. Saladino were removed to the Federal Court for the Western District of Washington and a Magistrate has been appointed to manage and hear the case.

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

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.

(a) Fair value

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

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

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

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

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

March 31, 2020	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Liabilities					
Convertible debentures	FVTPL	-	-	4,706,141	4,706,141

December 31, 2019	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Liabilities					
Convertible debentures	FVTPL	-	-	4,706,141	4,706,141

The Company's finance team performs valuations of financial items for financial reporting, including Level 3 fair values, in consultation with third-party valuation specialists for complex valuations.

Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

The convertible debentures were valued using a binominal option pricing model to estimate the value of the combined convertible instrument. The most significant assumption used in this valuation was the expected volatility of the Company's shares which was estimated at 75% weighted average at March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 2019.

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

20. Financial instruments and risk management (continued)

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

The Company does not have significant exposure to any individual customer and has estimated bad debts of $378,094 as at March 31, 2020 and December 31, 2019.

(c) Interest rate risk

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

(d) Liquidity risk

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

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at March 31, 2020						
Trade and other payables	$ 2,440,254	$ 2,440,254	$ 2,440,254	$ -	$ -	$ -
Lease liabilities	5,106,797	7,508,178	1,170,260	2,341,574	2,186,483	1,809,861
Other loans and borrowings	106,125	106,125	76,173	29,952	-	-
Convertible debt	4,706,141	7,531,967	-	7,531,967	-	-
Consideration payable	9,184,485	10,982,166	-	10,982,166	-	-
Total	$ 21,543,802	$ 28,568,690	$ 3,686,687	$ 20,885,659	$ 2,186,483	$ 1,809,861

(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 March 31, 2020:

	March 31, 2020
Cash	$ 554,670
Notes receivable	919,488
Total assets	$ -
Trade and other payables	272,221
Convertible debt	4,706,141
Total liabilities	$ 4,978,362

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

21. Segment Information

The Company defines its major operating segments as Oregon, Nevada wholesale, and Other operations, which includes California and Corporate. Due to the jurisdictional cannabis compliance issues ever-present in the industry, each operation is by nature an operational segment. The Oregon segment is comprised of wholesale and retail operations which share supply chain components and cannot be discretely separated. The Nevada wholesale operations are geographically and jurisdictionally distinct and are reviewed based on gross margin performance.

For the three months ended March 31, 2020	**Oregon**	**Nevada Wholesale**	**Other**	**Consolidated**
Product sales	$ 3,940,110	$ 299,472	$ -	$ 4,239,582
Consulting revenue	430,722	-	-	430,722
Total Revenue	$ 4,370,832	$ 299,472	$ -	$ 4,670,304
Inventory expensed to cost of sales	2,404,977	293,251	265,964	2,964,192
Gross margin, excluding fair value items	$ 1,965,855	$ 6,221	$ (265,964)	$ 1,706,112
(Gain) Loss on changes in fair value of biological assets	(20,714)	-	-	(20,714)
Gross profit (loss)	$ 1,986,569	$ 6,221	$ (265,964)	$ 1,726,826
As at March 31, 2020				
Assets	$ 10,746,330	$ 1,326,926	$ 18,445,585	30,518,841
Liabilities	$ 5,197,884	$ 206,417	$ 16,714,424	22,118,725

For the three months ended March 31, 2019	**Oregon**	**Nevada Wholesale**	**Other**	**Consolidated**
Product sales	$ 3,472,793	$ 256,165	-	$ 3,728,959
Consulting revenue	7,883	-	194,188	202,071
Total Revenue	$ 3,480,676	$ 256,165	$ 194,188	$ 3,931,029
Inventory expensed to cost of sales	2,148,936	216,033	-	2,364,968
Production costs	128,577	-	-	128,577
Gross profit	$ 1,203,163	$ 40,133	$ 194,188	$ 1,437,484
As at December 31, 2019				
Assets	$ 10,746,330	$ 1,326,926	$ 19,567,272	$ 31,640,528
Liabilities	$ 5,197,884	$ 206,417	$ 15,635,027	$ 21,039,328

22. Subsequent Events

Effective April 30, 2020, the Company vacated its property in Nevada and terminated the associated lease. Inventory and operations have been moved to a production manufacturing partner in Reno, Nevada.