

Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the years ended December 31, 2020 and 2019

GOLDEN LEAF HOLDINGS LTD.

Consolidated Financial Statements
(Expressed in U.S. Dollars)
For the years ended December 31, 2020 and 2019

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Golden Leaf Holdings Ltd.

Opinion

We have audited the consolidated financial statements of Golden Leaf Holdings Ltd. (the Company), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements")

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which indicates that the Company has an accumulated deficit as at December 31, 2020 of \$150,683,854 and has not generated revenue in excess of expenses. As stated in Note 2, these events or conditions, along with other matters set forth in Note 2, indicate that the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Otto Ehinger.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC
April 21, 2021

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GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Financial Position
As at December 31, 2020 and December 31, 2019
(Expressed in U.S. dollars)

		December 31, 2020	December 31, 2019
ASSETS			
CURRENT			
Cash		\$ 905,149	\$ 3,531,202
Accounts receivable	Note 8	108,308	167,178
Other receivables	Note 8	737,185	-
Notes receivable	Note 7	919,488	-
Income tax recoverable		-	74,034
Sales tax recoverable		89,033	271,866
Biological assets	Note 9	455,045	88,078
Inventory	Note 9	2,304,501	2,965,304
Prepaid expenses and deposits		555,597	325,329
Total current assets		6,074,306	7,422,991
Property, plant and equipment	Note 10	2,361,357	3,723,489
Notes receivable	Note 7	-	919,488
Other receivables	Note 8	656,718	447,901
Right-of-use assets, net	Note 11	4,132,035	4,333,064
Intangible assets	Note 12	10,737,423	10,737,423
Goodwill	Note 12	4,056,172	4,056,172
Total assets		\$ 28,018,011	\$ 31,640,528
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 3,404,425	\$ 1,564,982
Interest payable		28,100	125,900
Income taxes payable	Note 24	1,003,604	-
Deferred income tax payable	Note 24	55,039	248,852
Sales tax payable		217,789	187,520
Current portion of long-term debt	Note 14	22,171	82,404
Notes payable	Note 13	119,533	-
Convertible debentures carried at fair value	Note 13	5,575,273	-
Lease liability	Note 14	949,496	843,238
Total current liabilities		11,375,430	3,052,896
Long-term debt	Note 14	134,675	29,952
Long-term lease liability	Note 14	4,372,395	4,090,806
Convertible debentures carried at fair value	Note 13	-	4,706,141
Consideration payable - cash portion	Note 14	1,824,533	4,218,866
Consideration payable - equity portion	Note 14	4,838,780	4,940,667
Total liabilities		22,545,813	21,039,328
SHAREHOLDERS' EQUITY			
Share capital	Note 15	149,754,502	147,763,499
Warrant reserve	Note 16	1,079	1,980,217
Share option reserve	Note 17	4,070,474	4,181,350
Contributed surplus		2,329,997	59,940
Deficit		(150,683,854)	(143,383,806)
Total shareholders' equity		5,472,198	10,601,200
Total liabilities and shareholders' equity		\$ 28,018,011	\$ 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.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2020 and 2019

(Expressed in U.S. dollars)

		For the years ended December 31,	
		2020	2019
Revenues			
Product sales	Note 23	\$ 20,611,519	\$ 15,649,539
Royalty and other revenue	Note 23	1,297,637	105,068
Total Revenue		21,909,156	15,754,607
Inventory expensed to cost of sales	Note 9, 23	14,895,074	11,457,854
Gross margin, excluding fair value items		7,014,082	4,296,753
Fair value changes in biological assets included in inventory sold	Note 9, 23	(96,689)	-
Loss (gain) on changes in fair value of biological assets	Note 9, 23	353,059	(20,715)
Gross profit		6,757,712	4,317,468
Expenses:			
General and administration		8,751,850	11,235,148
Share based compensation	Note 17	637,669	1,014,915
Sales and marketing		1,942,066	2,039,744
Depreciation and amortization	Note 10,11	1,011,315	2,287,023
Total expenses		12,342,900	16,576,830
Loss before items noted below		(5,585,188)	(12,259,362)
Interest expense	Note 13,14	2,282,335	2,712,092
Transaction costs		61,164	279,402
Loss on disposal of assets	Note 10	293,171	73,218
Other (income) loss		(70,784)	74,246
Impairment loss	Note 12	-	18,735,818
Gain on debt modification or extinguishment	Note 13, 14	-	(2,290,163)
Gain on change in fair value of warrant liabilities		-	(605,481)
Loss on change in fair value of convertible debentures	Note 13	922,137	565,580
Loss before income taxes		(9,073,211)	(31,804,074)
Current income tax expense	Note 24	1,053,502	678,953
Deferred income tax expense (income)	Note 24	(97,903)	133,508
Net loss from continuing operations		(10,028,810)	(32,616,535)
Loss from discontinued operations	Note 7	-	(13,764,706)
Net loss		(10,028,810)	(46,381,241)
Other comprehensive loss			
Items that will be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		-	125,930
Comprehensive loss		\$ (10,028,810)	\$ (46,255,311)
Basic and diluted loss per share from continuing operations		\$ (0.01)	\$ (0.05)
Basic and diluted loss per share from discontinued operations		\$ -	\$ (0.02)
Weighted average number of common shares outstanding		873,783,951	671,893,137

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 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
Issuance of common shares (Note 15)	996,362	-	-	-	-	-	996,362
Share-based compensation (Note 17)	-	-	1,014,915	-	-	-	1,014,915
Conversion of debentures for common shares (Note 15)	8,256,098	-	-	-	-	-	8,256,098
Expiry of warrants and stock options (Note 16, 17)	-	(2,071,947)	(1,611,494)	-	-	3,683,441	-
Net loss and comprehensive loss for the year	-	-	-	-	125,930	(46,381,241)	(46,255,311)
Balance at December 31, 2019	\$ 147,763,499	\$ 1,980,217	\$ 4,181,350	\$ 59,940	\$ -	\$ (143,383,806)	\$ 10,601,200

	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 (Note 15)	1,991,003	-	-	-	-	-	1,991,003
Consideration payable restructuring (Note 14)	-	-	-	2,270,057	-	-	2,270,057
Share-based compensation (Note 17)	-	-	637,669	-	-	-	637,669
Issuance of warrants (Note 16)	-	1,079	-	-	-	-	1,079
Expiry of warrants and stock options (Note 16, 17)	-	(1,980,217)	(748,545)	-	-	2,728,762	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(10,028,810)	(10,028,810)
Balance at December 31, 2020	\$ 149,754,502	\$ 1,079	\$ 4,070,474	\$ 2,329,997	\$ -	\$ (150,683,854)	\$ 5,472,198

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(Expressed in U.S. dollars)

	For the years ended December 31,	
	2020	2019
Cash (used in) provided by:		
OPERATING ACTIVITIES		
Net loss	\$ (10,028,810)	\$ (46,381,241)
Depreciation of property, plant and equipment	Note 10 1,251,262	1,818,715
Lease amortization	Note 11 766,542	684,129
Loss from discontinued operations	Note 7 -	13,764,706
Loss on disposal of assets	Note 10 293,171	73,217
Interest expense	2,282,335	2,702,963
Bad debt expense	84,864	183,879
Share-based compensation	Note 17 637,669	1,014,915
Gain on debt modification or extinguishment	-	(2,290,163)
Gain on fair value adjustment to warrants liability	-	(605,481)
Loss on fair value adjustment to debt	922,137	565,580
Transaction costs	61,164	-
Loss (gain) on fair value of biological assets	Note 9 256,370	(20,715)
Reserve for obsolete inventory	Note 9 (112,157)	276,504
Impairment of intangible assets and goodwill	-	18,735,818
Other non-cash transactions	174,753	257,853
Changes in working capital items:		
Accounts receivable	Note 8 (25,994)	134,439
Other receivables	Note 8 (737,185)	(150,164)
Income tax payable	883,825	754,610
Sales tax recoverable	182,833	389,453
Accounts payable and accrued liabilities	1,812,982	(841,660)
Sales tax payable	30,269	(44,155)
Biological assets	Note 9 (623,337)	6,785
Inventory	Note 9 660,803	(296,774)
Prepaid expenses and deposits	(230,267)	1,245,615
Cash used in operating activities	(1,456,771)	(8,021,172)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	Note 10 (168,750)	(1,044,484)
Proceeds from disposal of subsidiary	-	1,398,299
Purchase of brands	Note 12 -	(60,000)
Cash (used) provided in investment activities	(168,750)	293,815
FINANCING ACTIVITIES		
Repayment of long-term debt	Note 14 (116,464)	-
Payment of lease liabilities	Note 14 (764,068)	(936,813)
Interest paid	Note 14 (120,000)	(80,000)
Cash used in financing activities	(1,000,532)	(1,016,813)
Decrease in cash during the period	(2,626,053)	(8,744,170)
Cash, beginning of period	3,531,202	12,275,372
Cash, end of period	\$ 905,149	\$ 3,531,202

See accompanying notes to these consolidated financial statements

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2020 and 2019

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, California and Washington 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, California and Washington adult-use regulated markets, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC.

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. As at December 31, 2020, the Company had an accumulated deficit of \$150,683,854 (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 at December 31, 2020, the Company's cash balances were \$905,149. However, subsequent to the balance sheet date the Company completed two non-brokered private placement unit financings totaling in excess of \$10 million which will be used for investment in additional retail stores and general working capital (Note 25). Additionally, the restructuring of the Company's convertible debentures which were due November 16, 2021 announced on January 21, 2021 results in a reduction of current period obligations of in excess of \$5 million and an increased likelihood of conversion to common shares (Note 13).

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 2020 outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and has impacted 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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2020 and 2019

2. Going concern - continued

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 consolidated financial statements have been 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").

These consolidated financial statements have been approved by the Company's Board of Directors on April 13, 2021.

4. Basis of presentation

Except where specified, the consolidated 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 set out below have been applied consistently to all periods. Certain prior period amounts have been reclassified to be consistent with current period presentation (Note 7).

5. Significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee
- is exposed or has right to variable returns from its involvements with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the three elements of control listed above.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2020 and 2019

5. Significant accounting policies (continued)

The Company consolidates the financial statements of the following entities:

Subsidiary	Place of incorporation	Functional currency	Effective ownership	Principal activity
Greenpoint Oregon, Inc.	Oregon	USD	100%	Cannabis production, distribution, and sales
CFA Retail, LLC	Oregon	USD	100%	Retail Cannabis sales
Greenpoint CBD, LLC	Nevada	USD	100%	Industrial hemp processing
Greenpoint Real Estate, LLC	Oregon	USD	100%	Ownership, administration, and leasing of real estate
GL Management, Inc.	Nevada	USD	100%	Ownership and administration of intellectual property
Greenpoint Equipment Leasing, LLC	Oregon	USD	100%	Ownership and leasing of capital equipment
Greenpoint Nevada, Inc.	Nevada	USD	100%	Cannabis production, distribution, and sales
Greenpoint Workforce, Inc.	Oregon	USD	100%	Employee leasing to operating subsidiaries in the U.S.
CF Greenpoint CA, Inc.	California	USD	100%	Management of non-retail operations in California
CF US Franchising, Inc.	Oregon	USD	100%	Management of franchising activities in the U.S.
Golden Leaf Holdings Ltd.	Canada	USD	100%	Parent holding company
Greenpoint Holdings Delaware, Inc.	Oregon	USD	100%	Holding company in the U.S.

The following subsidiaries were disposed of on December 31, 2019 and 2020 and accordingly have not been consolidated as at December 31, 2019. The operating results of these subsidiaries are included in discontinued operations in the Consolidated Statement of Operations up until the date of disposal.

Medical Marijuana Group Corporation	Ontario	CAD	100%	Cannabis production and distribution
Medical Marijuana Group Consulting, Ltd.	Ontario	CAD	100%	Medical marijuana patient consulting

All intercompany transactions and balances with subsidiaries have been eliminated upon consolidation. All entities in the group have the same reporting period.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2020 and 2019

5. Significant accounting policies (continued)

Foreign currency

Functional currency is the currency of the primary economic environment in which the reporting entity operates and is normally the currency in which the entity substantially generates and expends cash. The Company has determined that the functional currency of the consolidated group is U.S. dollars.

Transactions

Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All differences are recorded in the consolidated statements of operations and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of operations and comprehensive loss.

Expenditures to replace a component of an item of property, plant or equipment that is accounted for separately is capitalized and the existing carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in the statement of operations and comprehensive loss as incurred.

Depreciation is charged to the income statement based on the cost, less estimated residual value, of the asset on a straight-line basis over the estimated useful life. Depreciation commences when the assets are available for use. The estimated useful lives are as follows:

Production equipment	5 - 7 years
Furniture and fixtures	4 - 6 years
Vehicles	5 years
Computer equipment	3 - 5 years
Computer software	3 years
Leasehold improvements	3 - 10 years

Assets for which a management decision has been made to advertise for sale on the open market and are expected to be sold in a twelve-month period are adjusted to fair value less costs to sell and reclassified to current assets.

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. For indefinite life intangible assets, impairment testing is required to be performed at least annually or more frequently when there are indicators of impairment. The recoverable amount is the greater of value-in-use and fair value less costs of disposal. Determining the

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2020 and 2019

5. Significant accounting policies (continued)

value-in-use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). For the years ending December 31, 2020 and 2019, the Company recorded impairment of goodwill and intangibles of \$nil and \$18,735,818, respectively. Refer to Note 12.

Leases

The Company adopted the requirements of IFRS 16 – *Leases* beginning January 1, 2019. The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. The right-of-use asset is subsequently measured at this cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The Company excludes common area maintenance (CAM) and sales-based rent from the lease components as these are considered variable costs under IFRS 16, and accordingly, are expensed as incurred.

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are reflected in the consolidated statements of income (loss) and comprehensive income (loss) in the period which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2020 and 2019

5. Significant accounting policies (continued)

remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of operations and comprehensive loss in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of operations and comprehensive loss when the asset is derecognized.

The Company's intangible assets consist of brands and cannabis licenses. The useful life of the brands and cannabis licenses is indefinite. Refer to Note 12.

Inventories

Inventories for resale and supplies and consumables are measured at the lower of cost and net realizable value with cost determined on an average basis. Net realizable value is the estimated selling price in the normal course of business, less any costs to complete and sell the goods. The cost of inventory includes expenditures incurred in acquiring raw materials, production and conversion costs, depreciation and other costs incurred in bringing them to their existing location and condition. Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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5. Significant accounting policies (continued)

Biological assets

The Company's biological assets consist of cannabis plants in various stages of growth. 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 consolidated statement of operations. See Note 9 for additional information on biological assets.

Revenue recognition

The Company has 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 IFRS 15 model contains the following five-step contract-based analysis of transactions guiding revenue recognition:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue comprises the fair value of consideration received or receivable from the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

For product sales of cannabis and cannabis derivative products, the Company transfers control and satisfies its performance obligation when collection has taken place, compliant documentation has been signed and the product was accepted by the buyer.

The Company provides revenue data by its operating and geographical segments: Oregon, Nevada wholesale, and Other, which includes Corporate revenues and revenues from certain agreements. Refer to Note 23 for segment information disclosures.

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5. Significant accounting policies (continued)

Income taxes

The Company follows the deferred tax method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Offsetting of deferred tax assets and liabilities occurs when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Company's subsidiaries, Greenpoint Oregon Inc., Greenpoint Nevada Inc., and CFA Retail LLC are subject to U.S. Internal Revenue Code Section 280E. This section disallows deductions and credits attributable to a trade or business trafficking in controlled substances. Under U.S. tax, marijuana is a Schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to Section 280E, as cost of goods sold are specifically excluded from 280E.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Accounts receivable

Accounts receivable are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its allowance based on several factors, including length of time an account is past due, the customer's previous loss history, and the ability of the customer to pay its obligation to the Company. The Company writes off receivables when they become uncollectible.

Financial instruments

The following is the Company's 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.

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5. Significant accounting policies (continued)

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. Other equity instruments are classified 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.

(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. Amortized cost is determined using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating interest expense over the relevant period. The Company's accounts receivable, notes receivable, accounts payable and accrued liabilities, long-term debt, and notes payable are classified at amortized cost. Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 operations. 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 operations in the period in which they arise. The Company's convertible debentures, derivative liabilities, and warrants not classified as equity are classified as financial liabilities at FVTPL.

(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

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5. Significant accounting policies (continued)

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 operations, 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 operations.

Convertible debentures

Convertible debentures were initially recorded at amortized cost and accounted for as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the principal of the debt to arrive at the net principal to be accreted to face value over the life of the note. The derivative liability is measured at fair value each period subsequent to initial recognition (Note 13).

Basic and diluted loss per common share

Basic loss per share ("EPS") is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury method of calculating the weighted average number of common shares outstanding, except that the if-converted method is used in assessing the dilution impact of convertible notes. The treasury method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. The if-converted method assumes that all convertible notes have been converted in determining diluted EPS if they are in-the-money except where such conversion would be anti-dilutive (Note 18).

Warrants

Warrants issued that fall within the scope of IFRS 9 are equity only to the extent they meet the fixed for fixed criteria which requires the exercise price be denominated in the same functional currency as that of the issuing entity. If warrants are issued in a currency other than the entity's functional currency, they are classified as a financial liability and must be measured at FVTPL.

The Company is required to make certain estimates when determining the fair value of warrants. The Company uses the Black-Scholes pricing model to determine the fair value. The Black-Scholes option pricing model requires the input of subjective assumptions, such as stock price volatility (Note 16).

Share-based payments

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the fair value of the goods and services received

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5. Significant accounting policies (continued)

except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. Consideration paid by employees or nonemployees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital (Note 17).

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustment against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant policy. Changes in the fair value of contingent consideration classified as equity are not recognized.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. For the purposes of impairment testing, goodwill is allocated to each of the Company's Cash-Generating Units ("CGUs") (or groups of CGUs) that are expected to benefit from the combination.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Deferred tax

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that does not affect either taxable income or net income before taxes. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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5. Significant accounting policies (continued)

Current and deferred tax for the period

Current and deferred tax are recognized in the statement of operations, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their initial cost).

Subsequent to initial recognition, intangible assets acquired in business combinations are reported at cost less accumulated amortization if applicable and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment testing – goodwill and indefinite-lived intangible assets

The Company performs annual impairment tests for impairment of goodwill and intangible assets with indefinite lives in the third quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, indicate an impairment loss is present. Key assumptions in the impairment assessment include underlying recoverable amounts of respective CGUs, the discount rates applied, future growth rates and forecast cash flows. Refer to Note 12.

6. Critical judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

Key Sources of Estimation Uncertainty

Allowance for doubtful accounts

The Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, the Company establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected (Note 8).

Useful lives of equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by

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6. Critical judgments and key sources of estimation uncertainty (continued)

changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these facts and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets. In addition, the assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets. Refer to Note 10.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. Refer to Notes 16 and 17.

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as convertible debentures held at fair value. Refer to Note 22 for information on methodology and key assumptions.

Fair value and useful lives of intangible assets

Determining the fair value of intangible assets acquired in business combinations and asset purchases requires management to make assumptions and estimates about future events, future cash flows, underlying recoverable value of equity, weighted average cost of capital and other inputs.

The Company uses judgment to determine the useful life of licenses and brands and has determined that an indefinite life is most appropriate for its licenses and brands. The useful lives of these licenses and brands are reviewed periodically for changes in the estimated useful lives. Refer to Note 12.

Impairment of non-financial assets

Non-financial assets include property, plant, equipment, and intangible assets and goodwill. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate. Refer to Note 12.

Biological assets

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value. Refer to Note 9.

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6. Critical judgments and key sources of estimation uncertainty(continued)

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. The factors considered by management are disclosed in Note 2.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. Refer to Note 24.

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 composed of C\$1,800,000 in cash (received in January 2020), C\$200,000 in an unsecured loan, and C\$1,000,000 in a secured vendor take-back loan. As at December 31, 2020 the carrying value of the notes receivable was \$919,488 (2019 - \$919,488) and has a maturity date of December 31, 2021.

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\$1,000,000 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 met the criteria of a discontinued operation under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

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7. Discontinued operations (continued)

Results of discontinued operations:

	2020	2019
Net sales	\$ -	\$ 964,898
Cost of goods sold	-	223,880
Selling and administrative expenses	-	778,999
Depreciation and amortization	-	279,139
Other expense	-	147,783
Net loss from discontinued operations	-	(464,903)
Loss on sale and deconsolidation of discontinued operations	-	(13,299,803)
Total loss from discontinued operations	\$ -	\$ (13,764,706)

Cash used in discontinued operations:

	2020	2019
Net cash used by operating activities	\$ -	\$ (335,374)
Net cash used in investing activities	-	(14,958)
Net cash flows for the year	\$ -	\$ (350,332)

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

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8. Accounts receivable and other receivables

	December 31, 2020	December 31, 2019
Accounts Receivable	\$ 293,805	\$ 545,272
Allowance for doubtful accounts	(185,497)	(378,094)
	\$ 108,308	\$ 167,178
Continuity of allowance for doubtful accounts		
	December 31, 2020	December 31, 2019
Beginning balance	\$ 378,094	\$ 94,215
Increase in provision for doubtful accounts	22,864	367,044
Provision used for write-off of receivables	(215,461)	(83,165)
	\$ 185,497	\$ 378,094

All of the Company's accounts receivable have been reviewed for indicators of impairment. Accounts receivable more than 90 days past due totaled \$165,764 and \$378,094 as at December 31, 2020 and 2019, respectively. Amounts at risk of collection have been provided for in the allowance for doubtful accounts.

Other receivables were \$1,393,903 and \$447,901 at December 31, 2020 and 2019, respectively. Included in this balance were long-term receivables of \$656,718 and \$447,901 as at December 31, 2020 and 2019, respectively, related to funds advanced via short-term secured promissory notes to TozMoz, LLC ("TozMoz"), which the Company is in the final stages of acquiring. These notes carry interest rates ranging from 8-15% and 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. The acquisition of TozMoz has not closed as at December 31, 2020.

In addition, other receivables, net of allowance, include \$554,691 (2019 - \$nil) owed to the Company as a result of contract manufacturer arrangements in California as at December 31, 2020. These receivables represent sales proceeds collected or collectable by the contract manufacturers related to sales of Golden Leaf products to the Company's designated distributor, less amounts owed to the contract manufacturers for costs incurred in the production process. The Company had estimated a reserve of 10% against these receivable balances as at December 31, 2020.

9. 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 and an estimate is made of the yield that the plants will bear.

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, the selling price of dry cannabis, the stage of plant growth relative to the harvest date, 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 136.0 grams and 54.48 grams per plant in the valuation of biological assets as of December 31, 2020 and 2019, respectively. 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 \$2.07 per gram and \$1.46 per gram in the valuation of biological assets as of December 31, 2020 and 2019,

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9. Biological assets and inventory (continued)

respectively. Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest.

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 December 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 15-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.

As at December 31, 2020, on average, the biological assets were 45% complete as to the next expected harvest date.

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

Significant Inputs and Assumptions	December 31, 2020	Effect on Fair Value as at December 31, 2020	
		Decrease 10%	Increase 10%
Selling price per gram	\$ 2.07	\$ 45,286	\$ 45,771
Stage of growth	6 weeks	\$ 56,151	\$ 61,653
Estimated yield per plant	136 grams	\$ 45,505	\$ 45,505
Wastage	1%	\$ 471	\$ 228

Significant Inputs and Assumptions	December 31, 2019	Effect on Fair Value as at December 31, 2019	
		Decrease 10%	Increase 10%
Selling price per gram	\$ 1.46	\$ 8,808	\$ 8,808
Stage of growth	7 weeks	\$ 7,811	\$ 8,536
Estimated yield per plant	54 grams	\$ 8,285	\$ 9,447
Wastage	1%	\$ 114	\$ 114

During the years ended December 31, 2020 and 2019, the Company recognized a loss of \$353,059 and a gain of \$20,715, respectively, on the change in fair market value of biological assets.

This gain or loss 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 (Notes 10 and 11) to the

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9. Biological assets and inventory (continued)

condition and location of sale and include labor, packaging, transportation, depreciation of equipment, and other related costs. During the years ended December 31, 2020 and 2019, \$1,006,488 and \$215,821, respectively of depreciation and lease amortization was allocated to inventory. Any costs incurred to bring inventory to the condition and location of sale are included in the cost of inventory. Inventory expensed to cost of sales for the years ended December 31, 2020 and 2019 was \$14,831,726 and \$11,457,854, respectively.

The Company's inventory as of December 31, 2020 and 2019 consists of:

	Biological assets	Inventory
Raw materials	\$ -	\$ 422,532
Work-in-process	88,078	851,871
Finished goods	-	1,690,901
Balance, December 31, 2019	\$ 88,078	\$ 2,965,304
Raw materials	\$ -	\$ 376,025.00
Work-in-process	455,045	656,459
Finished goods	-	1,272,018
Balance, December 31, 2020	\$ 455,045	\$ 2,304,501

At December 31, 2020 and 2019, the Company also recorded a general reserve for excess and obsolete inventory in the amount of \$164,347 and \$276,504, respectively.

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

Biological Assets	
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 finished goods	(74,148)
Balance, December 31, 2019	\$ 88,078
Loss on fair value of biological assets	(353,059)
Increase in biological assets due to capitalized costs	1,313,270
Transfer to finished goods	(593,244)
Balance, December 31, 2020	\$ 455,045

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10. Property, plant and equipment

	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	54,273	75,093	25,474	10,062	75,518	240,420
Dispositions	(141,755)	(463,454)	-	(6,205)	-	(611,414)
Balance, December 31, 2020	\$ 2,507,279	\$ 4,174,454	\$ 337,053	\$ 995,292	\$ 217,380	\$ 8,231,458
Accumulated Amortization						
Balance, January 1, 2020	\$ (1,503,306)	\$ (2,263,650)	\$ (212,181)	\$ (770,746)	\$ (129,080)	\$ (4,878,963)
Expense	(439,272)	(602,820)	(58,682)	(132,980)	(17,508)	(1,251,262)
Dispositions	89,758	166,365	-	4,001	-	260,124
Balance, December 31, 2020	\$ (1,852,820)	\$ (2,700,105)	\$ (270,863)	\$ (899,725)	\$ (146,588)	\$ (5,870,101)
Carrying amount						
At December 31, 2020	\$ 654,459	\$ 1,474,349	\$ 66,190	\$ 95,567	\$ 70,792	\$ 2,361,357
Cost						
Balance, January 1, 2019	\$ 2,256,281	\$ 4,653,026	\$ 405,992	\$ 997,947	\$ 258,112	\$ 9,888,646
Additions	561,636	73,853	35,309	16,741	-	1,044,484
Dispositions	(223,156)	(164,064)	(129,722)	(23,253)	(116,250)	(2,330,678)
Balance, December 31, 2019	\$ 2,594,761	\$ 4,562,815	\$ 311,579	\$ 991,435	\$ 141,862	\$ 8,602,452
Accumulated Amortization						
Balance, January 1, 2019	\$ (1,036,415)	\$ (1,560,685)	\$ (169,113)	\$ (581,736)	\$ (157,509)	\$ (3,699,811)
Expense	(542,871)	(779,648)	(78,739)	(194,456)	(9,144)	(1,818,715)
Dispositions	75,979	76,683	35,671	5,446	37,573	639,563
Balance, December 31, 2019	\$ (1,503,306)	\$ (2,263,650)	\$ (212,181)	\$ (770,746)	\$ (129,080)	\$ (4,878,963)
Carrying amount						
At December 31, 2019	\$ 1,091,455	\$ 2,299,165	\$ 99,398	\$ 220,689	\$ 12,782	\$ 3,723,489

Total depreciation expense for the years ending December 31, 2020 and 2019 was \$1,251,262 and \$1,818,715, respectively (Note 9).

11. Right-of-use assets

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

The following table reflects the continuity of right-of-use for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Right-of-use asset, beginning balance	\$ 4,333,064	\$ 4,278,904
Additions	773,420	738,289
Disposals	(132,843)	-
Lease modifications	(75,064)	-
Amortization	(766,542)	(684,129)
Right-of-use asset, ending balance	\$ 4,132,035	\$ 4,333,064

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12. Intangible assets and goodwill

At December 31, 2020 and 2019, intangible assets consisted of licenses and brands acquired through business combinations in 2017 and through a brand purchase in 2019.

During 2020 and 2019, the Company tested each group of the Company's Cash-Generating Units ("CGUs") for impairment, and estimated the recoverable amount of the Oregon Retail and Oregon Wholesale CGUs. If the recoverable amount was deemed to be lower than the segment's carrying value, an impairment was recorded. The recoverable amount was estimated based on its value in use, which was determined using a pre-tax discount rate of 15% (2019: 14%) and a terminal value growth rate of 10% from 2024 and 5% thereafter (2019: 3% from 2025).

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 acquisition, impairment loss of \$5,541,547 of goodwill and \$860,000 for intangibles of the Oregon Wholesale segment related to the Chalice acquisition, impairment losses and \$1,323,900 and \$210,371 for goodwill and intangibles, respectively of the Nevada Wholesale segment.

Goodwill

	Chalice	
Cost		
Balance, January 1, 2019	\$	20,397,719
Impairments		(16,341,547)
Balance, December 31, 2019 and 2020	\$	4,056,172

The following tables reflect the continuity of intangible assets for the years ended December 31, 2020 and 2019:

	License		Customer relationships		Brands		Total	
Cost								
Balance, January 1, 2019	\$	10,966,911	\$	1,512,896	\$	9,581,746	\$	22,061,553
Additions		-		-		60,000		60,000
Disposal of subsidiary (Note 7)		(7,687,334)		(1,512,896)		-		(9,200,230)
Impairments		(1,323,900)		-		(860,000)		(2,183,900)
Balance, December 31, 2019 and 2020	\$	1,955,677	\$	-	\$	8,781,746	\$	10,737,423
Accumulated Amortization								
Balance, January 1, 2019	\$	-	\$	(278,604)	\$	-	\$	(278,604)
Additions		-		(288,099)		-		(288,099)
Disposal of subsidiary (Note 7)		-		566,703		-		566,703
Balance, December 31, 2019 and 2020	\$	-	\$	-	\$	-	\$	-
Carrying amount								
Balance, December 31, 2019 and 2020	\$	1,955,677	\$	-	\$	8,781,746	\$	10,737,423

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13. Convertible debt and notes payable

	December 31, 2020	December 31, 2019
Notes payable	\$ 119,533	\$ -
Convertible debentures carried at fair value	5,575,273	4,706,141
Carrying amount of convertible notes at end of period	\$ 5,694,806	\$ 4,706,141

In connection with its pending acquisition of the assets of Tozmoz, LLC, the Company assumed a short-term secured promissory note, and has concurrently executed a note receivable from Tozmoz, LLC in the same amount, which will be deducted from cash consideration due on the final acquisition closing. The note payable balance was \$119,533 as at December 31, 2020 and bears interest at 15% per annum. The note matures May 1, 2021 and is secured by inventory at the Company's retail locations.

The Company has issued unsecured convertible debentures with a fair value of \$5,575,273 and \$4,706,141 as at December 31, 2020 and December 31, 2019, respectively and principal of \$8,039,000 and \$8,139,000 respectively bearing interest of 10% and convert to common shares at C\$.30. As at December 31, 2020 these were classified as a current liability with a maturity date of November 2021 (2019 – classified as long term). Interest expense was \$616,998 and \$1,056,205 for the years ended December 31, 2020 and 2019, respectively. Interest for the year ended December 31, 2019 also included interest on the third tranche of convertible debentures that were converted in August 2019 into share capital. Accrued interest of \$611,326 was settled through the issuance of 36,042,298 shares (Note 15).

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 loss of \$922,137 and \$565,580 was recorded through a change in fair value of liabilities on the statement of operations for the years ended December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, 333,333 debentures were converted for a total value of \$53,006 (Note 15).

The following table reflects the continuity of its convertible debentures for the years ended December 31, 2020 and 2019:

	2020	2019
Beginning balance	\$ 4,706,141	\$ 13,885,757
Conversion to common shares	(53,006)	(10,592,116)
Loss on change in fair value of convertible debentures	922,137	(565,580)
Gain on debt modification or extinguishment	-	1,978,080
Total	\$ 5,575,272	\$ 4,706,141

In January 2021, the Company received unanimous approval to amend certain terms of the convertible debentures. The amendments included extending the maturity date from November 16, 2021 to November 16, 2022 and the conversion price of the principal changed from C\$0.30 to US\$0.06 per common share. The debentureholders also received a one-time restructuring fee of 2% of the principal amount to be paid in common shares equal to US\$0.06 per share (Note 25).

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13. Convertible debt and notes payable - continued

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 (Note 15). 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.

14. Long-term debt and consideration payable

	December 31, 2020	December 31, 2019
Long-term debt - vehicle loans	\$ 156,846	\$ 112,356
Consideration payable	6,663,313	9,159,533
Lease liability	5,321,891	4,934,044
Less: current portion	(971,667)	(925,642)
Carrying amount of long-term debt	\$ 11,170,383	\$ 13,280,291

Consideration payable was \$6,663,313 and \$9,159,533 as at December 31, 2020 and December 31, 2019, respectively. The Company recognized \$1,100,234 and \$520,043 in interest and accretion expense for the years ended December 31, 2020 and 2019, respectively.

Consideration payable represents earn-out payments to three former owners of Chalice, LLC ("Chalice"), as part of the consideration in the July 2017 acquisition of the assets of CFA Products, LLC and the membership interest of CFA Retail, LLC. In August 2019, the Company reached an agreement to extend the due date for the \$9,527,350 earn-out payment, which was comprised of \$5,000,000 principal payable in cash and \$4,527,350 principal payable in the Company's common shares. The debt carried a 6% annual interest rate. The agreement required monthly cash payments of \$20,000 and an additional payment of accrued interest to be made in the form of GLH common stock on December 31st of each calendar year. This debt modification resulted in a gain of \$312,083 for the year ended December 31, 2019. Accrued interest of \$542,328 was settled through the issuance of 29,065,798 common shares.

In November 2020, the Company reached an agreement with the former Chalice owners to restructure the consideration payable. Under the new terms, \$2,500,000 of the cash consideration was immediately converted into 41,666,667 shares of GLH common stock (Note 15). The remaining \$2,500,000 of the cash obligation will be paid on an installment plan carrying 6% interest to be paid over 60 months in equal installments of \$48,332 per month commencing May 2, 2022. The existing equity component remains unchanged and is due on the original maturity on May 2, 2022. Shares will be calculated based on a 30-day trailing VWAP and held in escrow to be released over 60 months commencing May 2, 2022. As a condition of the restructuring, the Company agrees to either attain positive cash flow or raise US\$5,000,000 within 12 months from the execution of the agreement. If the Company fails to meet either the cashflow requirement or the minimum equity raise of \$5,000,000, within 12 months of the agreement, it is required to issue a further 62,500,000 shares. In March 2021, the Company closed a second non-brokered private placement, raising C\$10,400,000 (Note 25), which is in excess of the requirement to raise \$5,000,000 under the terms of the restructuring agreement related to the consideration payable.

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14. Long-term debt and consideration payable – continued

The Company applied the guidance under IFRS 9 Financial Instruments and made the determination that the November 2020 modification was a substantial change. As such, the carrying value of the old debt was derecognized and the present value of the new cash flows was recognized. The Company also noted that the three former Chalice owners involved in this debt restructuring are all existing equity holders, and transactions with equity holder lenders that benefit the borrower may be deemed capital transactions. As such, the Company determined that the extinguishment gain of \$2,270,057 should be reflected as a contribution of capital in equity rather than a gain to consolidated statement of operations.

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, grow facilities, and vehicles. Lease liabilities were \$5,321,891 and \$4,934,044 as at December 31, 2020 and 2019, respectively. These balances include \$949,496 and \$843,238 of short-term lease liabilities as at December 31, 2020 and 2019, respectively. The Company's lease liabilities as at December 31, 2020 are as follows:

2021	\$	1,240,293
2022		1,231,094
2023		1,221,800
2024		1,177,916
2025		1,015,735
Thereafter		1,308,711
Total undiscounted lease obligations	\$	7,195,549
Impact of discounting		(1,873,658)
Total lease obligations	\$	5,321,891
Less: current portion of long-term leases		949,496
	\$	4,372,395

Other long-term liabilities include vehicle loans of \$156,846 and \$112,356 as at December 31, 2020 and 2019, respectively. Included in these balances were short-term liabilities of \$22,171 and \$82,404 as at December 31, 2020 and 2019, respectively.

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15. 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 for the years ended December 31, 2020 and 2019:

	Number of Shares	Amount
Balance, January 1, 2019	589,140,903	\$ 138,511,038
Shares issued - debenture conversion (v)	219,069,556	8,256,098
Shares issued - interest paid-in-kind (i)	46,174,179	996,362
Balance, December 31, 2019	854,384,638	\$ 147,763,499
Shares issued - interest paid-in-kind (i)	65,108,096	1,153,654
Shares issued - debenture conversion (ii)	333,333	53,006
Shares issued - legal settlement (iii)	250,000	11,417
Shares issued - debt restructuring (iv)	41,666,667	783,100
Share issuance costs	-	(10,174)
Balance, December 31, 2020	961,742,734	\$ 149,754,502

- (i) During fiscal 2020, 65,108,096 shares were issued (2019 – 46,174,179) for interest paid-in-kind on its convertible debentures (Note 13) and consideration payable (Note 14).
- (ii) The Company issued 333,333 shares in the second quarter of fiscal 2020 related to the conversion of debentures (Note 13).
- (iii) The Company issued 250,000 shares in the fourth quarter of fiscal 2020 for the settlement of a legal matter.
- (iv) The Company issued 41,666,667 in the fourth quarter of fiscal 2020 related to the restructuring of its consideration payable (Note 14).
- (v) In August 2019, the Company issued 219,069,556 common shares to repay the convertible debt principal (216,016,664 shares) and accrued interest (3,052,892 shares) (Note 13)

As at December 31, 2020, 63,575,413 shares were held in escrow.

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16. Warrant reserve

The following table reflects the continuity of the warrant reserve for the years ended December 31, 2020 and 2019:

	Number of warrants issued	Amount
Balance, January 1, 2019	20,924,916	\$ 4,052,164
Warrants expired	(16,313,249)	(2,071,947)
Balance, December 31, 2019	4,611,667	\$ 1,980,217
Warrants issued	250,000	1,079
Warrants expired	(4,611,667)	(1,980,217)
Balance, December 31, 2020	250,000	\$ 1,079

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. The Company issued 250,000 warrants to purchase common shares exercisable at USD \$0.04 per unit in conjunction with the Tozmoz note payable assumed (Note 13). These warrants outstanding have an expiry date of June 2022.

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17. 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 not be 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 and have an expiry period of no more than 10 years from the grant date. The remaining life of options outstanding ranges from 1.9 years to 9.7 years.

Total number of options at January 1, 2019	49,528,066
Options granted at \$0.06 Canadian dollars	33,190,000
Options granted at \$0.075 Canadian dollars	1,700,000
Options granted at \$0.115 Canadian dollars	3,500,000
Options granted at \$0.14 Canadian dollars	6,800,000
Options expired	(28,491,653)
Total number of options at December 31, 2019	66,226,413
Options granted at \$0.06 Canadian dollars	17,950,000
Options granted at \$0.03 Canadian dollars	2,700,000
Options expired	(16,172,225)
Total number of options at December 31, 2020	70,704,188
Number of exercisable options issued in Canadian dollars	45,706,826
Number of exercisable options issued in U.S. dollars	10,000
Number of exercisable options	45,716,826

Weighted average exercise price of options at December 31, 2020 in Canadian dollars \$0.12 (2019 - \$0.14)

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

	2020	2019
Expected life	3 years	3 - 5 years
Risk-free interest rate	0.25%	1.39% - 1.78%
Dividend yield	0.00%	0.00%
Expected volatility	83.1%	82% - 89%
Expected forfeiture rate	0.00%	0.00%

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17. Stock option plan (continued)

Options outstanding					Options exercisable		
Exercise price	Number outstanding at December 31, 2020	Weighted average remaining contractual life (years)	Weighted average fair value per share	Weighted average exercise price	Number exercisable at December 31, 2020	Weighted average fair value per share	Weighted average exercise price
USD \$	#		\$	\$	#	\$	\$
0.27	10,000	6.67	0.13	0.27	10,000	0.13	0.27
CDN \$	#		\$	\$	#	\$	\$
0.03	2,300,000	9.69	0.01	0.03	2,119,490	0.01	0.03
0.06	41,473,348	8.01	0.01	0.06	19,035,890	0.01	0.06
0.075	1,700,000	8.47	0.04	0.075	1,369,444	0.04	0.075
0.115	3,500,000	3.36	0.06	0.115	2,000,000	0.06	0.115
0.14	1,120,840	8.09	0.08	0.14	951,446	0.08	0.14
0.21	6,500,000	1.87	0.10	0.21	6,500,000	0.10	0.21
0.22	7,250,000	2.49	0.12	0.22	7,250,000	0.12	0.22
0.26	2,250,000	2.31	0.14	0.26	2,250,000	0.14	0.26
0.29	1,900,000	8.66	0.15	0.29	1,530,556	0.15	0.29
0.30	200,000	5.98	0.17	0.30	200,000	0.17	0.30
0.39	2,500,000	7.07	0.22	0.39	2,500,000	0.22	0.39

During the year ended December 31, 2020 and 2019, \$637,669 and \$1,014,915, respectively, was included in share-based compensation expense in the consolidated statement of operations.

In September 2020, the Company issued 2,700,000 stock options to employees with an exercise of C\$0.03 per share and 17,950,000 stock options to employees with an exercise price of C\$0.06 per share.

18. Loss per share

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

Diluted net loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

For all the years presented, diluted net loss per share equals basic loss per share due to the antidilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follows:

	2020	2019
Warrants	250,000	4,611,667
Stock options	45,716,826	30,822,005
Restricted common shares	53,723,244	53,723,244
Convertible debt	26,796,433	27,129,767
Total	126,486,503	116,286,683

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19. 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 years ended December 31, 2020 and 2019 includes the following expenses:

	For the years ended December 31,	
	2020	2019
Salaries, commissions, bonuses and benefits	\$ 640,975	\$ 1,816,284
Consulting fees	468,320	1,167,157
Termination benefits	60,000	144,814
Stock compensation, including warrants and shares	575,838	1,642,357
	\$ 1,745,133	\$ 4,770,612

In addition, the Company issued the following stock options to executive management and directors in fiscal 2020:

Date	Title	Shares	Exercise Price (C\$)
September 2020	CFO	4,000,000	\$ 0.06
September 2020	Directors	2,000,000	\$ 0.06

In addition to the amounts above, the Company compensated certain directors and officers in conjunction with a non-brokered private placement offering in January 2021 (Note 25). The directors and officers were issued units comprised of one common share and one common share purchase warrant at a deemed issue price of C\$0.05 in satisfaction of unpaid fiscal 2020 compensation totaling C\$404,528. These amounts were accounted for in equity reserves as at December 31, 2020.

Consideration payable with face value of \$9,527,350, related to the Chalice acquisition, is owed to the former owners. 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 year ended December 31, 2019 the Company paid total rents of \$263,470 for these properties.

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, 2020, these shares have not been issued. These shares may be issued in the future upon receipt of the loan payments. The arrangement is 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, nor have the shares been issued from treasury.

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20. Capital management

The Company defines capital that it manages as its shareholders' equity and long-term debt. 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.

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21. Legal matters

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. Mr. Saladino filed an Answer to the Company's Complaint on May 29, 2020. Mr. Saladino neither admits or denies each allegation in the Complaint individually. He asserts several affirmative defenses. The Answer does not include any counterclaims against the Company.

The Company filed an Amended Complaint against Mr. Saladino on June 18, 2020 adding claims for approximately \$9.3 million, including fraud and deceptive trade practices. On July 27, 2020, Saladino filed a Motion to Dismiss the Company's fraud and deceptive trade practices claims. The Company filed a response to Saladino's Motion to dismiss on August 21, 2020, asking the Court to deny the Motion. The parties are presently waiting to hear if the Magistrate wants oral argument on the Motion, or will issue an order without oral argument.

The parties met for a settlement conference on October 27, 2020. As a result of the settlement meeting, the parties wanted more time to exchange discovery documentation and attempt to settle the case. Pursuant to a stipulated request by the parties, on November 9, 2020, an order staying the case for 45 days was entered by the Magistrate.

Further stays were granted by the Magistrate to provide the parties with an opportunity to settle the case and on April 6, 2021, an Order of Dismissal was entered by the Court. However, although the parties notified the Court that they had agreed to a settlement in principle and the Order of Dismissal was subsequently entered, with prejudice and without an award of costs to either party, the Order provides that in the event that settlement is not perfected, any party may move to reopen the case within 60 days of the date the Order of Dismissal was entered.

Sparks, Nevada

On August 11, 2020, the Company received a demand letter from the attorneys for the landlord of the premises that the Company had been leasing in Sparks, Nevada (the "Premises").

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21. Legal matters - continued

On October 6, 2020, the Landlord filed a Summons and Complaint in the Second Judicial District Court for Nevada, Washoe County, alleging breach of contract, breach of covenant of good faith and fair dealing and unjust enrichment. The Landlord seeks damages in excess of \$15,000 in an amount to be proved at trial and attorneys' fees. On April 8, 2021, a Discovery Planning Dispute Conference was filed with the Court. The Company and its Nevada counsel continue to attempt to settle this case.

22. 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 statement of financial position 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.

December 31, 2019	Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets					
Biological assets	FVTPL	-	-	88,078	88,078
Financial Liabilities					
Convertible debentures	FVTPL	-	-	4,706,141	4,706,141

December 31, 2020	Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets					
Biological assets	FVTPL	-	-	455,045	455,045
Financial Liabilities					
Convertible debentures	FVTPL	-	-	5,575,273	5,575,273

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22. Financial instruments and risk management (continued)

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.

Biological assets are carried at fair value based on assumptions disclosed in Note 9.

The convertible debentures were valued using a binomial option pricing model to estimate the value of the combined convertible instrument. This resulted in a fair value of 88.3% and 75.1% of par value as at December 31, 2020 and December 31, 2019, respectively. The most significant assumption used in the discounted cash flow is the interest rate of 24.3% and 26.3% for December 31, 2020 and December 31, 2019, respectively, which takes into account the coupon rate in the bond plus a default credit risk spread. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) 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 December 31, 2020 and 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.

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 \$185,497 and \$378,094 as at December 31, 2020 and 2019, respectively (Note 8).

(b) Interest rate risk

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

(c) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue common shares and debt in the future. The following table summarizes the Company's contractual cash flow 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 December 31, 2020						
Trade and other payables	\$ 4,653,918	\$ 4,653,918	\$ 4,653,918	\$ -	\$ -	\$ -
Lease liabilities	5,321,891	7,195,549	1,240,293	2,452,893	2,193,651	1,308,711
Other loans and borrowings	276,379	276,379	276,379	-	-	-
Convertible debt	5,575,273	6,875,000	6,875,000	-	-	-
Consideration payable	1,824,533	2,610,752	-	-	-	2,610,752
Total	\$ 17,651,994	\$ 21,611,597	\$ 13,045,590	\$ 2,452,893	\$ 2,193,651	\$ 3,919,463

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22. Financial instruments and risk management (continued)

The convertible debt had a maturity date of November 2021 as at December 31, 2020 and is thus classified as a current liability, contractually due within one year. In January 2021, subsequent to year-end, this debt was modified and the maturity date was extended to November 2022 (Note 25).

(d) 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 as at December 31, 2020:

	December 31, 2020
Cash	\$ 22,149
Notes receivable	919,488
Total assets	\$ 941,637
Trade and other payables	\$ 630,671
Convertible debt	5,575,273
Total liabilities	\$ 6,205,944

23. Segment Information

Through fiscal 2020 and 2019 the Company has defined its major operating segments as Oregon, Nevada wholesale, and Other operations, which includes Corporate and contract manufacturing arrangements in California and Washington. 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.

Throughout 2020 the Nevada wholesale operations were geographically and jurisdictionally distinct and were historically reviewed based on gross margin performance. However, upwards of 75% of Nevada's cannabis revenue derives from tourism, especially in Las Vegas. The COVID-19 crisis has had a significant impact on this segment's operating performance. Before COVID-19 the Company was already planning to transition its Nevada operations to a third-party manufacturing partner in the Reno area. This crisis expedited the Company's plans to lay off much of its Nevada workforce and pause production until the Nevada market conditions improve for its wholesale business. During fiscal 2020, the Company experienced non-cash losses included in cost of goods sold related to expiring product which cannot be retested, driven by operating obstacles including licensing issues in addition to the impact of COVID-19. The Company will continue to assess the health of this geographic market and evaluate the potential success of operating in the Nevada market. However, due to the factors described above, the Company's operations in Nevada are paused indefinitely and will cease to be an operating segment in fiscal 2021.

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23. Segment Information (continued)

2020	Nevada			Consolidated
	Oregon	Wholesale	Other	
Product sales	\$ 19,110,751	\$ 531,596	\$ 969,172	\$ 20,611,519
Royalty and other revenue	1,075,279	-	222,358	1,297,637
Total Revenue	20,186,030	531,596	1,191,530	21,909,156
Inventory expensed to cost of sales	12,667,252	1,098,804	1,129,018	14,895,074
Gross margin, excluding fair value items	7,518,778	(567,208)	62,512	7,014,082
Fair value changes in biological assets included in inventory sold	(96,689)	-	-	(96,689)
Loss on changes in fair value of biological assets	353,059	-	-	353,059
Gross profit (loss)	\$ 7,262,408	\$ (567,208)	\$ 62,512	\$ 6,757,712
Net income (loss) before taxes	1,015,722	(1,220,283)	(8,868,649)	(9,073,211)
Assets	\$ 10,415,841	\$ 17,788	\$ 17,584,382	\$ 28,018,011
Liabilities	\$ 6,361,156	\$ 33,916	\$ 16,150,741	\$ 22,545,813

2019	Nevada			Consolidated
	Oregon	Wholesale	Other	
Product sales	\$ 14,249,408	\$ 1,205,943	\$ 194,188	\$ 15,649,539
Royalty and other revenue	105,068	-	-	105,068
Total Revenue	14,354,476	1,205,943	194,188	15,754,607
Inventory expensed to cost of sales	9,653,637	1,804,217	-	11,457,854
Gross margin, excluding fair value items	4,700,839	(598,274)	194,188	4,296,753
Gain on changes in fair value of biological assets	(20,715)	-	-	(20,715)
Gross profit (loss)	\$ 4,721,554	\$ (598,274)	\$ 194,188	\$ 4,317,468
Net loss before taxes	\$ (5,466,344)	\$ (1,710,321)	\$ (24,627,409)	\$ (31,804,074)
Assets	\$ 10,076,418	\$ 1,387,665	\$ 20,176,445	\$ 31,640,528
Liabilities	\$ 4,668,464	\$ 197,057	\$ 16,173,808	\$ 21,039,328

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24. Taxation

The Company's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to income (loss) before income taxes as a result of the following:

	December 31,	
	2020	2019
Loss before income taxes	\$ (9,073,211)	\$ (31,804,074)
Statutory tax rates	26.50%	26.50%
Estimated income taxes (recovery) computed at the statutory rates	(2,404,401)	(8,428,080)
Expenses not deductible in U.S.	357,490	5,171,086
Expenses not deductible in Canada	323,635	112,445
Change in benefit of future tax assets not recognized in Canada	461,697	739,503
Change in benefit of future tax assets not recognized in US	193,813	(137,685)
Losses not deductible under IRC S 280E in the U.S.	2,325,985	3,790,713
Effect of foreign tax rates	(37,470)	(314,378)
Adjustments for prior years	(294,033)	(102,274)
Other	28,882	(18,869)
Income tax expense	\$ 955,599	\$ 812,461

The enacted tax rate in Canada of 26.5% (2019 - 26.5%) and in the United States 27.1% (2019 - 26.3%) where the Company operates is applied in the tax provision calculation.

Provision for income taxes consists of the following:

	December 31,	
	2020	2019
Current income tax	\$ 1,053,502	\$ 678,953
Deferred income tax	(97,903)	133,508
Net tax provision expense	\$ 955,599	\$ 812,461

The following tax assets (liabilities) arising from temporary differences and non-capital losses have not been recognized in the consolidated financial statements:

	December 31,	
	2020	2019
Non-capital losses carried forward	\$ 12,665,239	\$ 10,699,239
Capital losses carried forward	1,417,405	1,497,616.00
Convertible debentures	(195,766)	(413,495)
Financing fees	563,287	1,314,937
Reserves	61,392	-
Stock based compensation	9,075.00	-
Property, plant and equipment	(114,910)	(174,149)
Unrealized FMV gain on biological assets	82,205	(19,512)
Valuation allowance	(14,542,966)	(13,153,488)
Net deferred tax (liability) asset:	\$ (55,039)	\$ (248,852)

The combined tax rate in the State of Oregon, its municipal governing bodies, and California is 6.1%. In aggregate, the estimated total U.S. federal, state, and local tax rate is approximately 27.1%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its U.S. tax on the basis of gross receipts less cost of goods sold.

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24. Taxation (continued)

Although other expenses have been incurred to generate the sales revenue, Code Section 280E denies deductions and credits attributable to a trade or business of trafficking in controlled substances.

Internal Revenue Code (“IRC”) Code 280E – Expenditures in connection with the illegal sale of drugs which states:

“No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.”

Although the production and sale of marijuana and related products for medical purposes is legal in the State of Oregon and California, it is still considered to be illegal from the perspective of Federal law. ORS 317.763 allows Oregon taxpayers filing a corporate excise or income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by ORS 475B.010 to 475B.395. California R&T Code §17209 allows for California taxpayers filing a corporate income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by California B&P Code Division 10, commencing with tax years beginning January 1, 2020.

As of December 31, 2020, the Company has estimated Canadian non-capital losses of \$28,195,601. These non-capital losses are available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expire between 2034 and 2039. The deferred tax benefit of these tax losses has not been set up as an asset. The Company has estimated U.S. state and local net operating losses of \$87,096,191. These non-capital losses are available to be carried forward, to be applied against taxable income in the U.S. over the next 15 years and expire between 2032 and 2035. The deferred tax benefit of these tax losses has not been set up as an asset.

25. Subsequent events

In January 2021, the Company received unanimous approval to amend certain terms of the convertible debentures. The amendments included extending the maturity date from November 16, 2021 to November 16, 2022, and the conversion price of the principal changed from C\$0.30 to US\$0.06 per common share. The debentureholders also received a one-time restructuring fee of 2% of the principal amount to be paid in common shares equal to US\$0.06 per share (Note 13).

In February 2021, the Company issued common shares related to various conversions of its outstanding debentures. The debentures were converted at US\$0.06 per common share, pursuant to the January 2021 amendment. Currently the outstanding principal balance of convertible debentures is C\$4,365,000 (Note 13).

In January 2021, the Company closed on a non-brokered private placement financing and issued 109.0 million units priced at C\$0.03 per unit for gross proceeds of C\$3.3 million. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share at an exercise price of C\$0.06 per warrant share for a period of 24 months from the closing. The units will have a hold period of four months and one day from the date of issuance. Finder's fees of 5% cash and 5% finder's warrants, each such warrant entitling the holder to acquire one common share for C\$0.06 for a period of 24 months, were paid on certain subscriptions. In connection with the private placement, the Company also issued 8.1 million units at C\$0.05 per share in lieu of unpaid compensation to certain officers and directors, for a total of C\$404,528.

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25. Subsequent events (continued)

In March 2021, the Company closed on a second non-brokered private placement financing and issued 159.9 million units priced at C\$0.065 per unit for aggregate gross proceeds of C\$10.4 million. Each unit is comprised of one common share of the Company and one full common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of C\$0.10 for a period of 24 months from the date of issuance thereof. In connection with the non-brokered placement the Company also issued 3.3 million finders warrants to eligible finders. These warrants are exercisable at C\$0.10 per common share at any time up to 24 months following closing.

As announced in February 2021, the Company signed a non-binding letter of intent to acquire a multi store chain in the Northwest. The Company currently anticipates that the consideration for the acquisition will consist of a mix of cash, common shares and a promissory note.

In April the Company released its Management Information Circular ("MIC") in relation to its Annual and Special Meeting ("AGM"), on May 10, 2021. Items seeking approval by the Company include 1) a share consolidation with the goal to bring the common shares outstanding to approximately 65 million post the consolidation; 2) a change of its corporate name to Chalice Brands Ltd.; and 3) approval of a new 2021 Stock Incentive Plan.

On April 8, 2021 the Company announced its acquisition of an 80% interest in Fifth & Root Inc. a CBD skincare line for total consideration of \$1,687,500 consisting of \$250,000 in cash and up to 30,666,666 common shares of GLH common shares.