

Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the three and six month periods ended June 30, 2016 (Unaudited)

GOLDEN LEAF HOLDINGS LTD.

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

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Notice of No Auditor Review of Condensed Interim Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying condensed interim financial statements of Golden Leaf Holdings Ltd. as of June 30, 2016 and the notes to condensed interim financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

As at June 30, 2016 and December 31, 2015

(Expressed in U.S. dollars)

	Period Ended		
	June 30, 2016	December 31, 2015	
ASSETS			
CURRENT			
Cash	\$ 230,579	\$ 263,695	
Accounts receivable	Note 6 1,155,447	726,625	
Income tax recoverable	Note 20 85,927	-	
Foreign sales tax recoverable	192,612	94,002	
Biological assets	Note 7 268,085	56,915	
Inventory	Note 7 979,911	1,239,427	
Prepaid expenses and deposits	392,205	472,034	
Total current assets	\$ 3,304,766	\$ 2,852,698	
Property, plant and equipment	Note 8 6,330,546	6,179,710	
Intangible assets	Note 9 14,829,417	145,833	
Total assets	\$ 24,464,729	\$ 9,178,241	
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	\$ 2,595,912	\$ 1,761,580	
Income taxes payable	Note 20 -	455,136	
Subscriptions payable	51,085	123,526	
Current portion of long-term debt	Note 11 32,457	31,848	
Convertible notes and notes payable	Note 10 1,875,663	500,000	
Total current liabilities	\$ 4,555,117	\$ 2,872,090	
Long term debt	Note 11 1,627,352	1,603,456	
Convertible notes payable	Note 10 7,362,353	1,690,000	
Warrants liability	Note 12 990,800	4,841,706	
Derivative liability	108,894	-	
Total liabilities	\$ 14,644,516	\$ 11,007,252	
SHAREHOLDERS' EQUITY			
Share capital	Note 13 \$ 28,455,463	\$ 15,481,051	
Warrant reserve	Note 14 2,923,828	2,968,655	
Share option reserve	Note 15 609,128	319,091	
Contributed surplus	59,940	59,940	
Deficit	(22,228,146)	(20,657,748)	
Total shareholders' equity	\$ 9,820,213	\$ (1,829,011)	
Total liabilities and shareholders' equity	\$ 24,464,729	\$ 9,178,241	

Going Concern (note 2)
Commitments (note 16)
Subsequent Events (note 21)

/s/ Don Robinson, Director

See accompanying notes to consolidated financial statements.

/s/ Sam Pillersdorf, Director

GOLDEN LEAF HOLDINGS LTD.

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

For the three and six month periods ended June 30, 2016 and June 30, 2015

(Expressed in U.S. dollars)

	For the three month period ended June 30		For the six month period ended June 30	
	2016	2015	2016	2015
Sales	\$ 2,608,303	\$ 2,957,670	\$ 5,084,991	\$ 4,276,871
Gain on changes in fair value of biological assets	(246,012)	-	(274,220)	-
Inventory expensed to cost of sales	2,247,494	2,411,331	3,798,304	3,371,642
Production costs	239,521	-	531,154	-
Cost of sales expense	\$ 2,241,003	\$ 2,411,331	\$ 4,055,238	\$ 3,371,642
Gross profit	\$ 367,300	\$ 546,339	\$ 1,029,753	\$ 905,229
Expenses				
General and administration	\$ 2,068,361	\$ 2,042,055	\$ 4,228,125	\$ 2,866,362
Professional fees paid with equity instruments	Note 14	70,315	1,416,453	599,116
Sales and marketing	306,903	333,810	609,774	570,088
Research and development	30,000	112,869	152,072	188,656
Depreciation and amortization	Note 8	102,873	35,158	133,179
Total expenses	\$ 2,578,452	\$ 3,940,345	\$ 5,722,266	\$ 5,411,706
Loss before undernoted items	\$ (2,211,152)	\$ (3,394,006)	\$ (4,692,513)	\$ (4,506,477)
Interest expense	652,820	20,840	782,345	28,349
Other loss	16,685	(26,905)	27,208	(22,479)
(Gain)/loss on change in fair value of warrant liability	Note 12	(1,608,647)	(178,129)	(4,346,605)
Gain/(loss) before income taxes	\$ (1,272,010)	\$ (3,209,812)	\$ (1,155,461)	\$ (13,171,683)
Incomes taxes	Note 20	160,555	209,248	414,937
Net Loss and comprehensive loss	\$ (1,432,565)	\$ (3,419,060)	\$ (1,570,398)	\$ (13,518,386)
Basic and diluted loss per share	\$ (0.02)	\$ (0.06)	\$ (0.02)	\$ (0.26)
Weighted average number of common shares outstanding	95,248,704	52,881,276	82,112,479	51,328,851

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the six months ended June 30, 2016

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2015	\$ 4,747,153	\$ 260,366	\$ -	\$ -	\$ (3,202,053)	\$ 1,805,466
Issuance of common shares (note 12)	10,492,046	-	-	-	-	10,492,046
Share issuance costs (note 12)	(51,811)	-	-	-	-	(51,811)
Issuance of warrants (note 11, 13)	-	2,823,480	-	-	-	2,823,480
Exercise of warrants and options for common shares	353,603	(115,191)	-	-	-	238,412
Issuance of share-based compensation (note 14)	-	-	319,091	-	-	319,091
Shares cancellation and misc. contributed surplus	(59,940)	-	-	59,940	-	-
Net loss and comprehensive loss for the period	-	-	-	-	(17,455,695)	(17,455,695)
Balance at December 31, 2015	\$ 15,481,051	\$ 2,968,655	\$ 319,091	\$ 59,940	\$ (20,657,748)	\$ (1,829,011)

	Share Capital	Warrant Reserve	Stock options reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2016	\$ 15,481,051	\$ 2,968,655	\$ 319,091	\$ 59,940	\$ (20,657,748)	\$ (1,829,011)
Issuance of common shares (note 12)	12,385,992	-	-	-	-	12,385,992
Share issuance costs (note 12)	-	-	-	-	-	-
Issuance of warrants (note 11, 13)	-	231,051	-	-	-	231,051
Exercise of warrants and options for common shares	588,420	(227,784)	-	-	-	360,636
Issuance of share-based compensation (note 14)	-	-	290,037	-	-	290,037
Shares cancellation and misc. contributed surplus	-	(48,094)	-	-	-	(48,094)
Net loss and comprehensive loss for the period	-	-	-	-	(1,570,398)	(1,570,398)
Balance at June 30, 2016	\$ 28,455,463	\$ 2,923,828	\$ 609,128	\$ 59,940	\$ (22,228,146)	\$ 9,820,213

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS INC.

Consolidated Statement of Cash Flows

For the six month periods ending June 30, 2016 and June 30, 2015 (Expressed in U.S. dollars)

		Six months ended June 30, 2016	Six months ended June 30, 2015
Cash provide by (used in):			
Operating activities:			
Net Loss		\$ (1,570,398)	\$ (13,518,388)
Depreciation of property, plant and equipment	Note 8	387,940	41,402
Amortization of intangible assets	Note 9	22,750	6,398
Loss on disposal of assets		-	-
Interest expense		782,345	28,349
Income taxes paid		(956,000)	-
Income tax expense	Note 20	414,937	-
Bad debt expense	Note 6	161,174	418,263
Share based compensation	Note 16	638,713	120,739
Professional fees paid with equity instruments	Note 14	599,116	1,748,855
Loss on fair value adjustment to warrants liability		(4,346,605)	8,664,362
Gain on fair value of biological assets	Note 7	274,220	-
Other non-cash transactions		595,841	(84,130)
Changes in working capital items			
Accounts receivable	Note 6	(589,996)	(691,235)
Sales tax recoverable		(98,610)	(19,754)
Accounts payable and accrued liabilities		52,596	339,995
Income taxes payable		-	(37,199)
Biological assets	Note 7	(485,390)	(175,054)
Inventory	Note 7	259,516	(501,220)
Prepaid expenses and deposits		79,829	(229,965)
Cash used in operating activities		\$ (3,778,022)	\$ (3,888,582)
INVESTING ACTIVITIES			
Deposits on property, plant and equipment		-	\$ (894,200)
Purchase of property, plant and equipment		\$ (538,776)	(787,710)
Disposition of property, plant and equipment		-	-
Purchases of intangible assets	Note 9	(1,590,000)	-
Cash used in investment activities		\$ (2,128,776)	\$ (1,681,910)
FINANCING ACTIVITIES			
Issuance of common shares	Note 13	\$ (90,647)	\$ 7,159,444
Payment of share issuance costs		-	-
Issuance of convertible notes payable	Note 11	5,964,330	500,000
Proceeds from long-term debt	Note 12	-	-
Repayment of long-term debt		-	(1,730)
Proceeds from related party loan	Note 17	90,000	305,000
Repayment of related party loan	Note 17	(90,000)	(305,000)
Cash provided by financing activities		\$ 5,873,683	\$ 7,657,714
Increase/(Decrease) in cash during the period		\$ (33,115)	\$ 2,087,222
Cash, beginning of period		263,695	600,078
Cash, end of period		\$ 230,579	\$ 2,687,300
Interest paid during the period		\$ 239,651	\$ 1,439

GOLDEN LEAF HOLDINGS LTD.

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

1. Incorporation and operations

Golden Leaf Holdings Inc. ("Golden Leaf" or the "Company") was incorporated under the laws of the Canada Business Corporations Act on April 8, 2014 and began operations on July 1, 2014. Golden Leaf Holdings Ltd. is now traded on the Canadian Stock Exchange under the ticker CNSX:GLH. The Company carries on the business of growing, processing and distributing medical cannabis products in the State of Oregon in the United States of America ("USA"). The Company's corporate office is at 36 Toronto St. Suite 1000, Toronto, Ontario Canada M5C 2C5 and its principal place of business is at 517 SW 4th Ave. Suite 400, Portland, Oregon USA 97204.

On October 6, 2015, the Company executed a reverse takeover ("RTO") merger agreement with Longacre Resources Inc. ("Longacre"). Longacre had no significant assets other than cash with no commercial operations at the time. Longacre acquired all of the issued and outstanding shares of the Company pursuant to a three-cornered amalgamation, whereby (i) Longacre incorporated a new Ontario subsidiary ("Subco") which amalgamated with the Company, to form an amalgamated subsidiary of Longacre, and (ii) Longacre issued common shares to the shareholders of the Company on a one-for-one basis. There were 775,000 common shares of Longacre issued and outstanding pre-closing. On closing, including completion of a private placement financing, there was 60,448,736 shares outstanding in the Company. As a result of the amalgamation, there was 61,223,736 issued and outstanding common shares on an undiluted basis.

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

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

GOLDEN LEAF HOLDINGS LTD.

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

1. Incorporation and operations (continued)

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

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

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

2. Going concern

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

As of June 30, 2016 the Company's cash balances were \$230,579. Despite raising additional funds in Q3 2016, the Company's burn rate, including unanticipated regulatory delays and disruption to the Company's core business, has largely exhausted those funds as of the issuance of this report. As of June 2, 2016 the Company is now operating in the legal recreational oils and edibles market in Oregon as an extension of its existing medical oils and edibles business. The Company is extremely encouraged by the realization of this long-awaited development.

GOLDEN LEAF HOLDINGS LTD.

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

2. Going concern (continued)

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

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

3. Statement of compliance

These interim condensed consolidated financial statements for the three and six month periods ended June 30, 2016 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' and in accordance with the accounting policies adopted in the Company's most recent annual financial statements for the year ended December 31, 2015. The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2015 financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

4. Basis of presentation

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

5. Significant accounting policies

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

6. Accounts receivable

	June 30, 2016	December 31, 2015
Trade accounts receivable	\$ 1,186,556	\$ 1,186,118
Allowance for doubtful accounts	(501,109)	(459,493)
	\$ 685,447	\$ 726,625

Bad debt expense for both the three and six month periods ended June 30, 2016 is \$161,174. The amount is included in general and administrative expenses. Other receivables of \$470,000 related to the licensing and equipment leasing arrangement with BMF Washington are included in total accounts receivable.

GOLDEN LEAF HOLDINGS LTD.

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

7. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The Company measures its biological assets at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Any production costs incurred during the growth cycle of the plants is expensed as incurred. During the current quarter, the Company expensed \$239,521 of production costs.

Inventory consists of harvested cannabis flower and concentrated products such as oils and edibles.

Any costs incurred to bring inventory to the condition and location of sale are included in cost. The following provides a summary of the various costs incurred in key stages of production:

	Biological assets	Inventory
Raw materials	-	-
Work-in-process	\$ 56,915	\$ 534,471
Finished goods	-	704,956
Balance, December 31, 2015	\$ 56,915	\$ 1,239,427
Raw materials	-	\$ 152,000
Work-in-process	\$ 268,085	602,442
Finished goods	-	225,469
Balance, June 30, 2016	\$ 268,085	\$ 979,911

8. Property, plant and equipment

	Buildings	Land	Building improvements	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost									
Balance, Dec 31, 2015	\$ 1,490,000	\$ 1,800,000	\$ 548,634	\$ 2,050,300	\$ 260,456	\$ 147,772	\$ 110,077	\$ 188,546	\$ 6,595,785
Additions	-	-	45,836	428,178	41,445	(7,732)	25,203	-	532,930
Dispositions	-	-	-	-	-	-	-	-	-
Balance, June 30, 2016	\$ 1,490,000	\$ 1,800,000	\$ 594,470	\$ 2,478,478	\$ 301,901	\$ 140,040	\$ 135,280	\$ 188,546	\$ 7,128,715
Accumulated Amortization									
Balance, Dec 31, 2015	\$ (39,980)	\$ -	\$ -	\$ (258,796)	\$ (39,068)	\$ (37,380)	\$ (16,788)	\$ (24,063)	\$ (416,075)
Expense	-	-	(83,568)	(222,223)	(35,537)	(19,105)	(12,188)	(15,319)	(387,940)
Dispositions	5,846	-	-	-	-	-	-	-	5,846
Balance, June 30, 2016	\$ (34,134)	\$ -	\$ (83,568)	\$ (481,019)	\$ (74,605)	\$ (56,485)	\$ (28,976)	\$ (39,382)	\$ (798,169)
Carrying amount									
Balance, Dec 31, 2015	\$ 1,450,020	\$ 1,800,000	\$ 548,634	\$ 1,791,504	\$ 221,388	\$ 110,392	\$ 93,289	\$ 164,483	\$ 6,179,710
Balance, June 30, 2016	\$ 1,455,866	\$ 1,800,000	\$ 510,902	\$ 1,997,459	\$ 227,296	\$ 83,555	\$ 106,304	\$ 149,164	\$ 6,330,546

Total depreciation expense for the six months ended June 30, 2016 and June 30, 2015 was \$387,940 and \$112,802, respectively. Of the total expense, \$222,222 and \$61,038 was allocated to inventory during the six months ended June 30, 2016 and June 30, 2015, respectively.

GOLDEN LEAF HOLDINGS LTD.

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

9. Intangible assets

	Balance at March 31, 2016	Additions	Disposals / adjustments	Balance June 30, 2016
Cost				
Dispensary license	\$ 40,000	-	-	\$ 40,000
Licensing agreement	125,000	-	-	125,000
BMF Acquisition	14,706,333	-	-	14,706,333
Total	\$ 14,871,333	-	-	\$ 14,871,333
Accumulated Amortization				
Dispensary license	\$ (17,500)	\$ (7,750)	-	\$ (25,250)
Licensing agreement	(10,417)	(6,250)	-	(16,667)
Total	\$ (27,917)	\$ (14,000)	-	\$ (41,917)
Net book value	\$ 14,843,416	\$ (14,000)	-	\$ 14,829,416

10. Notes payable

	June 30, 2016	December 31, 2015
Issuance of convertible notes (i)	\$ 375,663	\$ 500,000
Issuance of convertible notes (ii)	1,690,000	1,690,000
Issuance of convertible notes (iii)	4,172,353	-
Note Payable to Peter Saladino (BMF) as part of asset purchase (iv)	1,500,000	-
Carrying amount of convertible note at end of period	\$ 7,738,016	\$ 2,190,000

- i. During the first quarter of 2015, the Company issued two convertible notes. The principal amounts are \$250,000 each, with a rate of 8% per annum. The maturity dates of the notes are March 9, 2016 and March 11, 2016 respectively. Prepayment is allowed without penalty. The convertible notes also provide for a conversion option, in whole or in part, within the loan term at \$1 U.S. dollar per share. The notes payable also provided for 25,000 warrants to each of the holders at inception, at \$1.00 U.S dollar per common share. Interest payments due September 9 and 21, 2015 were paid during the fourth quarter. Of this total, \$100,000 was repaid in March 2016. The Company will continue to accrue and pay interest as per the note until full repayment is made.

Per IAS 32, the Company assessed the fair value of this debt at inception. Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

GOLDEN LEAF HOLDINGS LTD.

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

10. Notes payable (continued)

- ii. In connection with the property acquisition in September 2015, the Company issued \$1.7 million of convertible debentures to a syndicate of investors for the purposes of financing the acquisition. All notes within the syndicate carry annual interest rates of 12% for a term of 24 months with all outstanding principal and interest due on September 17, 2017. The debentures are convertible to common shares at \$1.00 U.S. dollar and include 100,000 warrants which are allocated amongst the individual note holders.

Per IAS 32, the Company assessed the fair value of this debt at inception. Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

- iii. The Company completed a convertible senior unsecured debt financing in Q1 and Q2 2016. The offering allowed for up to C\$10 million of debentures at 10% interest paid semi-annually with a term to September 11, 2017 and convertible to Common Shares at C\$0.67, through a syndicate of agents led by Dundee Securities Inc. and including Liberty North Capital as an advisor to the Company. The Company raised a gross total of C\$8,275,000 in four tranches, the first of C\$5,863,000 closing March 14, 2016, the second of C\$1,675,000 closing April 4, the third of C\$318,000 closing June 14, and the fourth of C\$419,000 closing June 22, 2016.

The debentures resulted in proceeds of C\$7,803,809 (less C\$471,191 of fees and expenses), and also resulted in 455,582 compensation options issued, each exercisable for one Common Share and one half of one warrant at an exercise price of C\$0.67. Each whole underlying warrant is exercisable for one Common Share at an exercise price of C\$0.85. In addition, the first tranche resulted in shares issued of 853,164 to members of the syndicate. Due to anti-dilution provisions, there was also a "make whole" addition to the debentures payable of C\$798,000 for the tranches for the lead institutions that participated in the financing.

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

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

GOLDEN LEAF HOLDINGS LTD.

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

11. Long-term debt

	June 30, 2016	December 31, 2015
Long term debt	\$ 1,659,809	\$ 1,635,304
Less: current portion	(32,457)	(16,214)
Carrying amount of long-term debt	\$ 1,627,352	\$ 1,619,090

Long term debt consists of vehicle loans and a note payable secured by real property. Vehicle loans of \$160,001 are secured by the Company's vehicles, mature in June 2021, and are repayable in monthly blended installments of \$3,184.

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

Per IAS 32, the Company assessed the fair value of this debt at inception. Since the fair value of the debts were nearly equivalent to the face value of the notes payable, the amount available to allocate to the equity components, the conversion option and the warrants, was nominal and not recognized separately.

12. Warrants liability

During 2014, the Company issued 13,722,250 warrants in conjunction with private placements. The warrants have an expiry period of 3 years from date of issuance and an exercise price of \$0.50 Canadian dollars per common share. During the six months ended June 30, 2016, 55,000 of these warrants were exercised, and to-date 375,000 have been exercised.

The warrants were valued at \$990,800 at June 30, 2016 and \$4,841,706 at December 31, 2015. Per IAS 39, the warrants issued under these placements meet the definition of a derivative and must be measured at fair value at each reporting date. For the six month period ended June 30, 2016, a gain of \$3,850,906 was recorded in the statement of operations due to significant changes in the market price of the common shares. For the six months ended June 30, 2015, a loss of \$8,664,362 was recorded in the statement of operations due to significant changes in the private placement round undertaken in the period. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	June 30, 2016	June 30, 2015
Expected life	1.1 to 1.4 years	2.3 to 2.4 years
Risk-free interest rate	0.53%	0.80%
Dividend yield	0%	0%
Foreign exchange rate	\$0.7671	\$0.8092
Expected volatility	70%	70%

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the options granted are expected to be outstanding. The risk free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

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13. Share capital

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

The following table reflects the continuity of share capital from December 31, 2015 to June 30, 2016:

	Number of Shares	Amount
Balance, December 31, 2015	62,324,236	\$ 15,481,051
Shares issued – BMF Acquisition (i)	30,769,777	\$ 11,946,284
Shares issued in conjunction with debt financing (ii)	853,164	439,708
Shares issued - warrant exercises (iii)	1,060,718	391,651
Shares issued - option exercises (iv)	15,278	2,139
Shares issued - executive stock compensation (v)	333,333	194,630
Balance, June 30, 2016	95,356,506	\$ 28,455,463

- (i) In March 2016, the Company issued 30,769,777 common shares to the owner of BMF Washington, LLC in conjunction with the asset purchase agreement. The shares reflected a value of \$12,000,000 based on the trading price of C\$0.54/\$0.39. \$53,715 was recorded to warrant reserve to account for the 300,000 warrants also issued at the same conversion price, with the residual held in share capital.
- (ii) In conjunction with the completion of the first tranche of a convertible senior unsecured debt financing, the Company issued 853,164 to members of the syndicate facilitating the efforts.
- (iii) During the first two quarters in 2016, the Company issued 1,060,718 shares upon exercise of warrants and recorded proceeds of \$391,651 related to these issuances.
- (iv) The Company issued 15,278 shares upon exercise of employee stock options and recorded proceeds of \$2,139 related to these issuances.
- (v) The Company issued 333,333 shares as stock compensation for an executive.

14. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2015	17,231,669		\$2,968,655
Warrants issued (i)	300,000	USD \$0.39	\$ 53,715
Warrants issued - consulting (ii)	522,745	CDN \$0.67	132,000
Warrants issued - consulting (iii)	261,373	CDN \$0.85	45,336
Warrants exercised (iv)	(1,005,718)	CDN \$0.20	(227,784)
Warrants cancelled (v)	(688,889)	USD \$1.00	(48,094)
Balance, June 30, 2016	16,621,180		\$2,923,828

- (i) Warrants issued in conjunction with purchase of BMF Washington assets (see note 13 above).
- (ii) The Company issued 522,745 warrants to advisors for services in conjunction with convertible debt financing at CDN \$0.67 Warrants. The amount of \$132,000 has been expensed.
- (iii) The Company issued 261,373 warrants to advisors for services in conjunction with convertible debt financing at CDN \$0.85 Warrants. The amount of \$45,336 has been expensed.
- (iv) 1,005,718 warrants were exercised through June 30, 2016.
- (v) 688,889 warrants were cancelled through June 30, 2016 related to expiry provisions.

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14. Warrant reserve (continued)

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

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

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the options granted are expected to be outstanding. The risk free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

15. Stock option plan

On January 1, 2015, the Company's Board of Directors approved a Directors, Management, Employees and Consultants Stock Option Plan to provide an incentive to its directors, executives and employees. In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the Ordinary Shares. The total number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares. The options vest evenly over 3 years and have an expiry period of no more than 10 years from the grant date.

Of the total options, 2,281,668 stock options were issued with an exercise price of \$0.20 Canadian dollars and 3,222,499 stock options were issued at an exercise price of \$1.00 U.S. dollars.

Total number of options at December 31, 2015	5,367,222
Options granted in January 2016	700,000
Options exercised in January 2016	(15,278)
Options cancelled during Q1 2016	(148,889)
Options cancelled during Q2 2016	(398,888)
Total number of options at June 30, 2016	5,504,167
Number of exercisable options issued in Canadian dollars	\$ 1,211,393
Number of exercisable options issued in U.S. dollars	\$ 1,146,785
Weighted average exercise price of options at June 30, 2015 in USD	\$ 0.62

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15. Stock option plan (continued)

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

Expected life	3 years
Risk-free interest rate	Various between 0.57% to 0.80%
Dividend yield	0%
Expected volatility	70%

During the three and six month periods ended June 30, 2016, \$215,662 and \$415,389, respectively, was included in stock compensation expense in the consolidated statement of operations.

16. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensary and corporate office. Future lease payments amount to \$49,179:

2016	\$	29,710
2017		19,469
	\$	49,179

During June and subsequent to the balance sheet date, the Company has entered into two fixed rate supply agreements for minimum quantities of trim and flower. A total obligation of \$8,350,000 due in monthly installments of 10% each for a 10 month period are expected to commence during October 2016, contingent on the delivery of 50% of minimum quantities of trim and flower meeting the Company's quality standards.

17. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the three and six months ended June 30 includes the following expenses:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Salaries, commissions, bonuses and benefits	\$ 191,250	\$ 205,465	\$ 382,500	\$ 439,715
Consulting fees paid to officers of the Company	53,750	97,782	107,500	127,782
Stock Compensation, including warrants and shares	75,183	-	146,286	-
	\$ 320,183	\$ 303,247	\$ 636,286	\$ 567,497

These transactions occurred in the normal course of operations of the Company and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

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

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17. Related party transactions (continued)

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

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

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

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

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

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

18. Capital management

The Company defines capital that it manages as its shareholders' equity, long-term debt, convertible notes payable, and warrant liability. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As of June 30, 2016 total managed capital was \$19,909,612. Total managed capital at December 31, 2015 was \$6,306,151.

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

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

19. Financial instruments and risk management

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

Fair value

Cash, accounts receivable, sales taxes recoverable, accounts payable and accrued liabilities, and subscriptions payable approximate their fair values because of the short-term maturities of these financial instruments.

The carrying value of long-term debt approximates fair value upon initial recognition. At June 30, 2016, its carrying value approximates fair value based on current market rates for similar instruments.

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19. Financial instruments and risk management (continued)

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

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

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

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

The Company recognizes the warrants associated with the initial private placements during the year as financial liabilities designated as FVTPL where changes to fair value based on changes to the inputs are recognized in profit or loss. The estimated fair value of the warrants is categorized within Level 2 of the fair value hierarchy. Refer to note 12 and 14 for information regarding the valuation technique and inputs used to determine fair value.

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

(a) Credit risk

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at June 30, 2016.

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

The Company does not have significant exposure to any individual customer and has estimated bad debts of \$501,109 and \$459,493 at June 30, 2016 and December 31, 2015, respectively.

(b) Interest rate risk

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

(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.

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20. Taxation

The Company reconciles the expected income tax recovery (expense) at the combined USA and Canadian statutory income tax rate of 28.4% (USA-38%, Canada-26.3%) to the amounts recognized in the consolidated statement of operations.

The Company has estimated an income tax liability for the six months ended June 30, as follows:

	June 30, 2016	June 30, 2015
Loss before income taxes	\$ (1,570,398)	\$ (13,521,238)
Estimated tax recovery at combined rate of 38.4%	(603,033)	(5,192,155)
Expenses not deductible in Canada (Permanent items)	(1,015,237)	2,683,155
Losses - benefit not realized in Canada	1,053,454	(2,669,960)
Losses not deductible under IRC S 280E in the U.S.	986,016	5,482,261
Income tax expense	\$ 421,200	\$ 303,300

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

The Company had taxable income in the USA and has apportioned all of its US income to the State of Oregon. It had tax losses in Canada in 2014 and for the year ended December 31, 2015.

The tax rate in the State of Oregon is 6.6% which is deductible for US federal tax purposes. In aggregate, the estimated total US federal and state tax rate is approximately 38%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its US tax on the basis of gross receipts less cost of goods sold. Although other expenses have been incurred to generate the sales revenue, Code Section 280E denies deductions and credits attributable to a trade or business of trafficking in controlled substances.

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

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

Although the production and sale of marijuana and related products for medical purposes is legal in the State of Oregon, it is still considered to be illegal from the perspective of Federal law.

The production and sale of marijuana and related products appears to fall into this IRC Code 280E. Case law shows that Cost of Goods Sold has been permitted as deduction in determining taxable income. The tax provision for 2016 has been prepared based on the assumption Cost of Sales is a valid expense for income tax purposes.

As of June 30, 2016, the Company has estimated Canadian non-capital losses of \$2,300,000. This non-capital loss is available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expires between 2034 and 2035. The deferred tax benefit of these tax losses has not been set up as an asset.

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21. Subsequent events

The Company completed the fifth tranche of its convertible senior unsecured debt financing in the third quarter of 2016. The offering allowed for up to CDN \$10 million of debentures at 10% interest paid semi-annually with a term to Sept 11, 2017 and a convertible provision to a common share at CDN \$0.67, through a syndicate of agents led by Dundee Securities Inc. and including Liberty North Capital as an advisor to the company. The fifth tranche raised a gross total of \$500,000 CAD closing July 15, 2016. The fifth tranche resulted in proceeds of C\$450,000 (less C\$50,000 of professional fees holdback).

The Company completed the sixth tranche of its convertible senior unsecured debt financing in the third quarter of 2016. The offering allowed for up to CDN \$10 million of debentures at 10% interest paid semi-annually with a term to Sept 11, 2017 and a convertible provision to a common share at CDN \$0.67, through a syndicate of agents led by Dundee Securities Inc. and including Liberty North Capital as an advisor to the company. The sixth tranche raised a gross total of \$129,000 CAD closing August 8, 2016. The sixth tranche resulted in proceeds of C\$44,000 (less C\$85,000 of professional fees holdback).

In July 2016, the Company executed a 36 month lease agreement for a building in Portland, Oregon to serve as processing facility for recreational cannabis. The lease carries monthly rent of \$9,000, beginning August 2016.

During August 2016, the Company's Chief Financial Officer resigned.