

Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the three months ended March 31, 2017 (Unaudited)

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. Dollars)
For the three months ended March 31, 2017

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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 March 31, 2017 and the notes to condensed interim financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

As at March 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

		March 31, 2017	December 31, 2016
ASSETS			
CURRENT			
Cash		\$ 456,415	\$ 3,940,463
Accounts receivable	Note 6	89,986	97,538
Current portion of financing lease receivable		29,426	44,328
Other receivables		369,937	369,937
Income tax receivable		575,000	575,000
Sales tax recoverable		238,525	192,112
Inventory	Note 7	1,830,779	942,450
Prepaid expenses and deposits		396,137	402,451
Assets held for sale		2,156,000	2,156,000
Total current assets		\$ 6,142,205	\$ 8,720,279
Financing lease receivable		375,709	388,228
Available for sale purchase option		4,670,000	4,670,000
Property, plant and equipment	Note 8	2,009,221	1,713,285
Intangible assets	Note 9	9,350,000	9,350,000
Total assets		\$ 22,547,135	\$ 24,841,792
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 1,533,137	\$ 1,626,443
Interest payable		588,503	188,200
Current portion of long-term debt	Note 11	1,494,314	1,489,172
Current portion of convertible debentures carried at fair value	Note 10	6,397,811	10,315,555
Related party note payable	Note 10, 17	1,000,000	1,500,000
Warrant liability	Note 12	260,729	416,414
Total current liabilities		\$ 11,274,494	\$ 15,535,784
Long term debt	Note 11	95,208	109,905
Convertible debentures carried at fair value	Note 10	8,588,251	12,132,000
Total liabilities		\$ 19,957,953	\$ 27,777,689
SHAREHOLDERS' EQUITY			
Share capital	Note 13	\$ 40,970,021	\$ 34,282,314
Warrant reserve	Note 14	3,413,889	3,501,409
Share option reserve	Note 15	1,089,524	993,211
Shares to be issued		1,386,010	267,701
Contributed surplus		59,940	59,940
Accumulated other comprehensive loss		(530,000)	(530,000)
Deficit		(43,800,202)	(41,510,472)
Total shareholders' equity		2,589,182	(2,935,897)
Total liabilities and shareholders' equity		\$ 22,547,135	\$ 24,841,792

Going Concern (note 2)

Commitments (note 16)

Subsequent Events (notes 21)

See accompanying notes to consolidated financial statements.

/s/ Donald Robinson, Director
/s/ Alex Winch, Director

GOLDEN LEAF HOLDINGS LTD.

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

For the three months ended March 31, 2017 and March 31, 2016 (as restated)

(Expressed in U.S. dollars)

	For the three months ended	
	March 31, 2017	March 31, 2016 (as restated)
Revenues		
Product sales	\$ 2,259,094	\$ 2,316,688
Total Revenue	\$ 2,259,094	\$ 2,316,688
Inventory expensed to cost of sales	1,838,687	1,550,810
Production costs	182,008	291,634
Gain on changes in fair value of biological assets	-	(28,208)
Cost of sales expense	\$ 2,020,695	\$ 1,814,236
Gross profit	\$ 238,399	\$ 502,452
Expenses		
General and administration	1,598,273	1,692,900
Share based compensation	161,348	199,727
Professional fees paid with equity instruments	54,420	528,801
Sales and marketing	278,923	302,871
Research and development	-	124,492
Depreciation and amortization	62,175	19,952
Total expenses	\$ 2,155,139	\$ 2,868,743
Loss before undernoted items	\$ (1,916,740)	\$ (2,366,291)
Interest expense	545,021	129,525
Transaction costs	-	639,218
Accretion interest expense	-	41,088
Impairment of financing lease receivable	27,422	-
Other loss	925	10,489
Gain on change in fair value of warrant liability	(155,685)	(2,737,958)
Gain on change in fair value of liabilities	(44,693)	(76,488)
Loss before income taxes	\$ (2,289,730)	\$ (372,165)
Comprehensive Loss	\$ (2,289,730)	\$ (372,165)
Basic and diluted loss per share	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding	118,346,097	68,976,253

See accompanying notes consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the three months ended March 31, 2017 and March 31, 2016 (as restated)

(Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2016	\$ 15,481,051	\$ 2,968,655	\$ 319,091	\$ 123,526	\$ 59,940	\$ -	\$ (20,657,748)	\$ (1,705,485)
Issuance of common shares (note 13)	12,120,482	-	-	-	-	-	-	12,120,482
Issuance of warrants and broker units (note 14)	-	56,585	-	-	-	-	-	56,585
Exercise of warrants and options for common shares (notes 14, 15)	295,199	(223,014)	-	-	-	-	-	72,185
Issuance of share-based compensation (note 15)	-	-	151,088	-	-	-	-	151,088
Expiry of warrants and stock options	-	(473,787)	-	-	-	-	473,787	-
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(372,165)	(372,165)
Shares to be issued	-	-	-	71,104	-	-	-	71,104
Balance at March 31, 2016	\$ 27,896,732	\$ 2,328,439	\$ 470,179	\$ 194,630	\$ 59,940	\$ -	\$ (20,556,126)	\$ 10,393,794

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2017	\$ 34,282,314	\$ 3,501,409	\$ 993,211	\$ 267,701	\$ 59,940	\$ (530,000)	\$ (41,510,472)	\$ (2,935,897)
Issuance of common shares (note 13)	6,473,862	-	-	(113,917)	-	-	-	6,359,945
Issuance of warrants and broker units (note 14)	-	54,420	-	-	-	-	-	54,420
Exercise of warrants and options for common shares (notes 14, 15)	154,728	(141,940)	(20,600)	-	-	-	-	(7,812)
Issuance of share-based compensation (note 15)	59,117	-	116,913	-	-	-	-	176,030
Expiry of warrants and stock options	-	-	-	-	-	-	-	-
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(2,289,730)	(2,289,730)
Shares to be issued	-	-	-	1,232,226	-	-	-	1,232,226
Balance at March, 31, 2017	\$ 40,970,021	\$ 3,413,889	\$ 1,089,524	\$ 1,386,010	\$ 59,940	\$ (530,000)	\$ (43,800,202)	\$ 2,589,182

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Consolidated Statement of Cash Flows (Unaudited)

For the three month periods ending March 31, 2017 and March 31, 2016 (as restated)

(Expressed in U.S. dollars)

		March 31, 2017	March 31, 2016 (as restated)
Cash provide by (used in):			
Operating activities:			
Net Loss		\$ (2,289,730)	\$ (372,166)
Depreciation of property, plant and equipment	Note 8	35,664	141,635
Interest expense		442,139	127,969
Income taxes paid		-	(800,000)
Income tax expense		-	344,864
Share based compensation	Note 15	161,348	(69,229)
Professional fees paid with equity instruments	Note 14	54,420	528,801
(Gain)/loss on fair value adjustment to warrants liability	Note 12	(155,685)	(2,737,958)
Transaction cost		-	639,218
Gain on fair value of biological assets	Note 7	-	28,708
Impairment of finance lease receivable		27,421	-
Other non-cash transactions		44,407	425,103
Changes in working capital items			
Accounts receivable	Note 6	7,552	(366,121)
Sales tax recoverable		(46,413)	(35,099)
Accounts payable and accrued liabilities		(93,306)	224,791
Biological assets	Note 7	-	(85,623)
Inventory	Note 7	(888,329)	402,210
Prepaid expenses and deposits		-	(144,854)
Cash used in operating activities		\$ (2,700,512)	\$ (1,747,751)
INVESTING ACTIVITIES			
Deposits on property, plant and equipment	Note 8	(10,000)	-
Purchase of property, plant and equipment	Note 8	-	(211,670)
Payment of deposits and retainers		(315,286)	-
Purchases of BMF assets		-	(1,500,000)
Cash used in investment activities		\$ (325,286)	\$ (1,711,670)
FINANCING ACTIVITIES			
Issuance of common shares	Note 13	\$ 51,305	\$ 368,169
Issuance of convertible notes payable		-	3,736,146
Repayment of long-term debt		(9,555)	-
Proceeds from related party loan	Note 17	-	90,000
Repayment of related party loan	Note 17	(500,000)	(90,000)
Cash provided by financing activities		\$ (458,250)	\$ 4,104,315
Increase/(Decrease) in cash during the period		\$ (3,484,048)	\$ 644,894
Cash, beginning of period		3,940,463	263,695
Cash, end of period		\$ 456,415	\$ 908,589
Interest paid during the period		\$ 400,303	\$ 42,750
Taxes paid during the period		\$ -	\$ 800,000

See accompanying notes to these consolidated financial statements

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

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 market. The Company's shares are listed on the CSE, under the trading symbol "GLH."

The Company is in the business of producing and distributing cannabis oil and flower products within Oregon's adult-use regulated market, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc. and Left Coast Connection, Inc.

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 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 other jurisdictions that will fuel market expansion, and continues to make necessary investments.

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, the C\$35M fundraising underway as of the issuance of this report. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to us or the Company will be able to generate sufficient cash flow from operations.

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

3. Statement of compliance

These interim condensed consolidated financial statements for the three month ended March 31, 2017 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, 2016. The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2016 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, 2016.

6. Accounts receivable

	March 31, 2017	December 31, 2016
Accounts Receivable	\$ 451,729	\$ 468,563
Allowance for doubtful accounts	(361,743)	(371,025)
	\$ 89,986	\$ 97,538

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.

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:

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

7. Biological assets and inventory (continued)

	Biological assets	Inventory
Raw materials	\$ -	\$ 245,557
Work-in-process	-	240,822
Finished goods	-	456,071
Balance, December 31, 2016	\$ -	\$ 942,450
Raw materials	-	765,113
Work-in-process	-	392,926
Finished goods	-	672,740
Balance, March 31, 2017	\$ -	\$ 1,830,779

At March 31, 2017 the Company has zero biological assets. Due to the Marion County opt out, the Company can only cultivate start and vegetative plants and as such, any activity at the Company's Aurora property will not be producing any value from the flowering cycle. Some plants may be sold to third parties, some will be relocated but the final allocation amongst these uses is undetermined. As such, no reliable estimate for the fair value of can be produced at the balance sheet date and therefore no value has been recorded.

8. Property, plant and equipment

	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost						
Balance, Dec 31, 2016	\$ 1,698,854	\$ 454,900	\$ 140,352	\$ 140,389	\$ 188,546	\$ 2,623,041
Additions	361,050	75,028	6,870	-	-	442,948
Dispositions	-	-	-	(34,543)	-	(34,543)
Balance, March 31, 2017	\$ 2,059,904	\$ 529,928	\$ 147,222	\$ 105,846	\$ 188,546	\$ 3,031,446
Accumulated Amortization						
Balance, Dec 31, 2016	\$ (631,466)	\$ (104,493)	\$ (76,528)	\$ (39,032)	\$ (58,237)	\$ (909,756)
Expense	(50,294)	(31,329)	(15,655)	(5,764)	(9,427)	(112,469)
Dispositions	-	-	-	-	-	-
Balance, March 31, 2017	\$ (681,760)	\$ (135,822)	\$ (92,183)	\$ (44,796)	\$ (67,664)	\$ (1,022,225)
Carrying amount						
Balance, Dec 31, 2016	\$ 1,067,388	\$ 350,407	\$ 63,824	\$ 101,357	\$ 130,309	\$ 1,713,285
Balance, Mach 31, 2017	\$ 1,378,144	\$ 394,106	\$ 55,039	\$ 61,050	\$ 120,882	\$ 2,009,221

Total depreciation expense for the three months ended March 31, 2017 and 2016, was \$147,012 and \$122,292, respectively. Of the total expense, \$87,837 and \$102,430 was allocated to inventory during the three months ended March 31, 2017 and 2016, respectively.

9. Intangible Assets

Intangible assets at December 31, 2016 and March 31, 2017 consisted of indefinite-lived intangible assets consisting of primarily brands and trade names from BMF Washington, LLC, with a carrying value of \$9,350,000.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

10. Convertible debt and notes payable

	March 31, 2017	December 31, 2016
Current portion of convertible debentures carried at fair value	\$ 6,397,811	\$ 10,315,555
Convertible debentures carried at fair value	8,588,251	12,132,000
Related party note payable	1,000,000	1,500,000
Carrying amount of convertible notes at end of period	\$ 15,986,062	\$ 23,947,555

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.

For the year ended December 31, 2016, 1.92 million debentures were converted. For the period ended March 31, 2017, 6.74 million debentures have been converted.

11. Long-term debt

	March 31, 2017	December 31, 2016
Long term debt	\$ 1,589,522	\$ 1,599,077
Less: current portion	(1,494,314)	(1,489,172)
Carrying amount of long-term debt	\$ 95,208	\$ 109,905

Long term debt consists of vehicle loans and a note payable secured by the real property listed in assets held for sale. Vehicle loans of \$180,304 are secured by the Company's vehicles, due in June 2021 and repayable in monthly blended installments of \$3,184.

12. Warrants liability

	Amount
Balance, December 31, 2016	\$ 416,414
Warrants issued	-
Change in fair market value	(155,685)
Balance, March 31, 2017	\$ 260,729

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. 1,545,000 have been exercised to date.

The warrants were valued at \$260,729 at March 31, 2017 and \$416,414 at December 31, 2016. 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 three months ended March 31, 2017, a gain of \$155,685 was recorded in the statement of operations due to significant changes in the market price of the common shares. For the three months ended March 31, 2016, a gain of \$2,737,598 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:

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

12. Warrants liability (continued)

	March 31, 2017	March 31, 2016
Expected life	0.5 to 0.7 years	1.5 to 1.7 years
Risk-free interest rate	0.62%	0.62%
Dividend yield	0%	0%
Foreign exchange rate	0.7401	0.7212
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.

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, 2016 to March 31, 2017:

	Number of Shares	Amount
Balance, December 31, 2016	109,349,415	\$ 34,282,314
Shares issued - conversion of debentures (i)	19,563,144	6,298,109
Shares issued - debenture interest (ii)	116,956	41,836
Shares issued - services rendered (iii)	375,269	133,917
Shares issued - warrant exercises (iv)	853,000	154,728
Shares issued - option exercises (v)	257,500	59,117
Balance, March 31, 2017	130,515,284	\$ 40,970,021

During the first quarter 2017, 19,563,144 shares were issued in respect of conversion of convertible debentures.

- (i) During the first quarter 2017, 116,956 shares were issued to settle debenture interest.
- (ii) During the first quarter 2017, the Company issued 375,269 shares in lieu of amounts owed to organizations for services rendered. The shares reflected a value of \$133,917.
- (iii) The Company issued 853,000 shares upon exercise of warrants.
- (iv) The Company issued 257,500 shares upon exercise of employee stock options.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
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For the three month ended March 31, 2017

14. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2016	17,341,904		\$3,501,409
Warrants issued - consulting (i)	300,000	USD \$0.30	52,366
Warrants issued - interest (ii)	20,000	CDN \$0.42	2,054
Warrants exercised (iii)	(853,000)	CDN \$0.02	(141,940)
Balance, March 31, 2017	16,808,904		\$3,413,889

- (i) The Company issued 300,000 warrants to advisors for services at \$0.30.
- (ii) The Company issued 20,000 warrants to advisors in lieu of interest at C\$0.42.
- (iii) During the first quarter 2017, 853,000 warrants were exercised at C\$0.02.

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

	March 31, 2017	December 31, 2016
Expected life	3-5 years	3-5 years
Risk-free interest rate	0.57% - 1.44%	0.57% - 1.44%
Dividend yield	0%	0%
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.

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.

Total number of options at December 31, 2016	7,432,778
Options exercised in Q1 2017	(257,500)
Total number of options at March 31, 2017	7,175,278
Number of exercisable options issued in Canadian dollars	2,328,056
Number of exercisable options issued in U.S. dollars	1,640,000
Weighted average exercise price of options at March 31, 2017 in USD	\$ 0.68

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

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:

	March 31, 2017	December 31, 2016
Expected life	3 years	3 years
Risk-free interest rate	0.57% - 1.06%	0.57% to 1.06%
Dividend yield	0%	0%
Expected volatility	70%	70%

During the three months ended March 31, 2017 and 2016, \$161,348 and \$199,727, was included in stock compensation expense in the consolidated statement of operations, respectively.

16. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensary, wholesale distribution center, and extraction facility. Future lease payments amount to \$4,411,226:

2017	\$	353,025
2018		479,689
2019		446,405
2020		395,495
2021		407,972
Thereafter		2,328,639
	\$	4,411,226

17. Related party transactions

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

	2017	2016
Salaries, commissions, bonuses and benefits	\$ 157,627	\$ 191,250
Consulting fees paid to officers of the Company	-	53,750
Stock Compensation, including warrants and shares, for officers and directors	45,738	71,103
	\$ 203,365	\$ 316,103

The Company is engaged in a licensing and leasing arrangement with BMF Washington, LLC ("BMF") in connection with the assets purchased in January 2016. BMF is 100% owned by Peter Saladino, Director.

Don Robinson, CEO provided a personal guarantee of the US \$1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director. During January 2017, a payment of \$500,000 was paid on the note.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the three month ended March 31, 2017

17. Related party transactions (continued)

During March 2017, the Company advanced \$100,000 to NevWa, LLC (“NevWa”), one of their proposed acquisition targets. NevWa is owned 18.75% by Peter Saladino, Director.

The proposed acquisition target JJ 206 (“JuJu Co”), is owned 50.01% by Peter Saladino, Director.

18. Capital management

The Company defines capital that it manages as its shareholders’ equity, long-term debt and warrant liability. The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As of March 31, 2017 total managed capital was \$10,927,641. Total managed capital at December 31, 2016 was \$9,306,008.

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.

(a) Fair value

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

The carrying value of long-term debt approximates fair value upon initial recognition. At March 31, 2017, its carrying value approximates fair value based on current market rates for similar instruments.

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

Level 1 – 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

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19. Financial instruments and risk management (continued)

March 31, 2017		Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets						
Available for sale purchase option	FVTPL		-	-	\$ 4,670,000	\$ 4,670,000
Financial Liabilities						
Warrant liability	FVTPL		-	-	260,729	260,729
Convertible debentures	FVTPL		-	-	14,986,062	14,986,062
December 31, 2016		Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets						
Available for sale purchase option	FVTPL		-	-	\$ 4,670,000	\$ 4,670,000
Financial Liabilities						
Warrant liability	FVTPL		-	-	416,414	416,414
Convertible debentures	FVTPL		-	-	22,447,555	22,447,555

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

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

(b) Credit risk

The carrying amounts of cash and accounts receivable on the interim consolidated state of financial position represent the Company's maximum credit exposure at March 31, 2017.

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 receivables. The amounts disclosed in the interim 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 \$361,743 and \$459,493 at March 31, 2017 and, 2016, respectively.

(c) Interest rate risk

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

(d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue common shares and debt in the future.

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20. Proposed transactions

The Company has proposed transactions as disclosed below, which have been approved by the Board of Directors. All other transactions are fully disclosed in the audited financial statements for the twelve months ended December 31, 2016.

On March 14, 2017, the Company announced the signing of a binding letter of intent to acquire Canadian based Medical Marijuana Group Corporation ("MMGC"). Pursuant to the Transaction, and subject to adjustment in certain circumstances, shareholders of MMGC will receive an aggregate of C\$10 million of common shares of GLH on the closing date of the Transaction and contingent consideration of C\$5 million of common shares of GLH in the event that certain gross sales targets of GLH branded products in the Canadian medical cannabis market are met within 18 months of marketing efforts commencing in Canada.

On March 16, 2017, the Company announced the signing of a binding letter of intent to acquire the assets and business of JuJu Joints. Pursuant to the Transaction, JJ 206, LLC ("JuJu Co") will receive cash consideration of \$2.25 million and, subject to adjustment in certain circumstances, an aggregate of \$2.25 million of common shares of GLH on the closing date of the Transaction.

On March 22, 2017, the Company announced the signing of a binding letter of agreement to acquire Chalice LLC ("Chalice Farms"). In conjunction with the Transaction, the Company has entered into an engagement agreement with Canaccord Genuity Corp. ("Canaccord" or the "Agent") with respect to a best efforts brokered private placement of subscription receipts (the "Subscription Receipts") for anticipated gross proceeds of up to approximately \$35 million (the "Offering"). The net proceeds from the Offering are to be used to satisfy the cash component of the purchase price for the Chalice Farms Transaction, as well as to fund the Company's recently announced acquisitions and for existing operations. The Subscription Receipts will be priced in the context of the market. Pursuant to the transaction, Chalice Farms will receive from GLH, (i) \$15.05 million in cash; and (ii) common shares of GLH having a value of three times Chalice Farms' annualized Q1 2017 gross sales revenue, less \$6.05 million, of which \$4.2 million of common shares will be sold to a third party for cash consideration to Chalice Farms at closing. In addition, Chalice Farms will also receive an amount equal to 1.25 times its audited gross sales revenue for the year-ended December 31, 2017 payable in cash or common shares of GLH, subject to an obligation to pay in cash in certain circumstances.

On March 27, 2017, the Company announced the signing of a binding letter of agreement to acquire a cultivation license and an extraction license in Nevada from NevWa, LLC ("NevWA") (doing business as Grassroots). Pursuant to the Transaction, NevWa will receive from GLH \$1.925 million. The Transaction is subject to certain conditions, including receipt of all regulatory and stock exchange approvals and all other necessary third party consents and approvals.

21. Subsequent events

Subsequent to the balance sheet date, 1,823,000 of debentures have been converted into 6,076,666 shares.