

Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the three and six month periods ended June 30, 2017 (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, 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 June 30, 2017 and the notes to condensed interim financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)
As at June 30, 2017 and December 31, 2016
(Expressed in U.S. dollars)

		June 30, 2017	December 31, 2016
ASSETS			
CURRENT			
Cash		\$ 96,309	\$ 3,940,463
Accounts receivable	Note 6	35,581	97,538
Current portion of financing lease receivable		31,562	44,328
Other receivables		-	369,937
Income tax receivable		375,000	575,000
Sales tax recoverable		296,874	192,112
Goodwill		134,015	-
Biological assets	Note 7	77,667	-
Inventory	Note 7	1,769,942	942,450
Prepaid expenses and deposits		30,378	402,451
Assets held for sale		2,156,000	2,156,000
Total current assets		\$ 5,003,328	\$ 8,720,279
Financing lease receivable		346,150	388,228
Available for sale purchase option		4,670,000	4,670,000
Property, plant and equipment	Note 8	2,273,627	1,713,285
Intangible assets	Note 9	10,743,900	9,350,000
Total assets		\$ 23,037,005	\$ 24,841,792
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 3,010,384	\$ 1,626,443
Interest payable		476,308	188,200
Current portion of long-term debt	Note 11	1,494,770	1,489,172
Current portion of convertible debentures carried at fair value	Note 10	10,331,436	10,315,555
Related party note payable	Note 10, 17	1,000,000	1,500,000
Warrant liability	Note 12	178,035	416,414
Total current liabilities		\$ 16,490,933	\$ 15,535,784
Long term debt	Note 11	85,197	109,905
Convertible debentures carried at fair value	Note 10	-	12,132,000
Total liabilities		\$ 16,576,130	\$ 27,777,689
SHAREHOLDERS' EQUITY			
Share capital	Note 13	\$ 47,428,491	\$ 34,282,314
Warrant reserve	Note 14	3,441,958	3,501,409
Share option reserve	Note 15	1,265,758	993,211
Shares to be issued		309,917	267,701
Contributed surplus		59,940	59,940
Accumulated other comprehensive loss		(530,000)	(530,000)
Deficit		(45,515,189)	(41,510,472)
Total shareholders' equity		6,460,875	(2,935,897)
Total liabilities and shareholders' equity		\$ 23,037,005	\$ 24,841,792

Going Concern (note 2)

Commitments (note 16)

Subsequent Events (notes 22)

Alex Winch, Director

Michael Cohl, Director

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

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

For the three and six month periods ended June 30, 2017 and June 30, 2016 (as restated)

(Expressed in U.S. dollars)

	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016 (as restated)	June 30, 2017	June 30, 2016 (as restated)
Revenues				
Product sales	\$ 2,089,393	\$ 2,298,303	\$ 4,348,487	\$ 4,614,991
Royalties	-	160,000	-	160,000
Total Revenue	\$ 2,089,393	\$ 2,458,303	\$ 4,348,487	\$ 4,774,991
Inventory expensed to cost of sales	1,530,212	2,247,494	3,368,899	3,798,304
Production costs	157,057	239,521	339,065	531,155
Gain on changes in fair value of biological assets	-	(246,012)	-	(274,220)
Cost of sales expense	\$ 1,687,269	\$ 2,241,003	\$ 3,707,964	\$ 4,055,239
Gross profit	\$ 402,124	\$ 217,300	\$ 640,523	\$ 719,752
Expenses				
General and administration	2,058,257	1,980,128	3,656,530	5,155,956
Share based compensation	Note 15 215,221	215,662	376,569	415,389
Professional fees paid with equity instruments	113,071	-	167,491	-
Sales and marketing	287,289	307,535	566,212	610,405
Depreciation and amortization	Note 8 71,128	72,661	133,303	92,613
Loss on disposal of assets	Note 8 294,200	-	294,200	-
Total expenses	\$ 3,039,166	\$ 2,534,466	\$ 5,194,305	\$ 6,274,363
Loss before undernoted items	\$ (2,637,042)	\$ (2,317,166)	\$ (4,553,782)	\$ (5,322,675)
Interest expense	312,411	698,109	857,432	868,722
Impairment of financing lease receivable	27,422	81,060	54,844	81,060
Other (income) loss	161,903	(3,187)	162,828	(13,676)
Gain on change in fair value of warrant liability	Note 12 (82,694)	(2,014,719)	(238,379)	(4,829,165)
Gain on change in fair value of liabilities	(1,541,097)	-	(1,585,790)	-
Loss before income taxes	\$ (1,514,987)	\$ (1,078,429)	\$ (3,804,717)	\$ (1,429,616)
Current income tax expense	200,000	6,374	200,000	27,357
Net Loss	\$ (1,714,987)	\$ (1,084,803)	\$ (4,004,717)	\$ (1,456,973)
Comprehensive Loss	\$ (1,714,987)	\$ (1,084,803)	\$ (4,004,717)	\$ (1,456,973)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Weighted average number of common shares outstanding	143,604,908	95,248,704	131,045,274	82,112,479

See accompanying notes consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
 For the six months ended June 30, 2017 and the year ended December 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)	17,326,699	-	-	-	-	-	-	17,326,699
Issuance of warrants and broker units (note 14)	-	1,245,753	-	-	-	-	-	1,245,753
Exercise of warrants and options for common shares (notes 14, 15)	1,279,934	(330,218)	(5,342)	-	-	-	-	944,374
Issuance of share-based compensation (note 15)	194,630	-	773,774	-	-	-	-	968,404
Shares cancellation and misc. contributed surplus	-	(382,781)	(94,312)	-	-	-	477,093	-
Net loss and comprehensive loss for the period	-	-	-	-	-	(530,000)	(21,329,817)	(21,859,817)
Shares to be issued	-	-	-	144,175	-	-	-	144,175
Balance at December 31, 2016	\$ 34,282,314	\$ 3,501,409	\$ 993,211	\$ 267,701	\$ 59,940	\$ (530,000)	\$(41,510,472)	\$ (2,935,897)

	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)	12,874,132	-	-	(1,232,609)	-	-	-	11,641,523
Issuance of warrants and broker units (note 14)	-	82,489	-	-	-	-	-	82,489
Exercise of warrants and options for common shares (notes 14, 15)	212,928	(141,940)	(20,600)	-	-	-	-	50,388
Issuance of share-based compensation (note 15)	59,117	-	293,147	-	-	-	-	352,264
Expiry of warrants and stock options	-	-	-	-	-	-	-	-
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(4,004,717)	(4,004,717)
Shares to be issued	-	-	-	1,274,825	-	-	-	1,274,825
Balance at June 30, 2017	\$ 47,428,491	\$ 3,441,958	\$ 1,265,758	\$ 309,917	\$ 59,940	\$ (530,000)	\$(45,515,189)	\$ 6,460,875

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Consolidated Statement of Cash Flows (Unaudited)

For the six month periods ending June 30, 2017 and June 30, 2016 (as restated)

(Expressed in U.S. dollars)

		2017	2016
Cash provide by (used in):			
Operating activities:			
Net Loss		(4,004,717)	(1,084,807)
Depreciation of property, plant and equipment	Note 8	133,303	387,940
Amortization of intangible assets		-	-
Loss on disposal of assets		294,200	-
Interest expense		857,432	553,710
Income taxes paid		-	(956,000)
Income tax expense		200,000	-
Bad debt expense		275,699	161,174
Share based compensation	Note 15	376,569	638,713
Professional fees paid with equity instruments	Note 14	167,491	599,116.00
(Gain)/loss on fair value adjustment to warrants liability	Note 12	(238,379)	(4,346,605)
Transaction cost		-	-
Gain on fair value of biological assets	Note 7	-	274,220
Impairment of finance lease receivable		54,844	81,060
Other non-cash transactions		(860,979)	966,985
Changes in working capital items			
Accounts receivable	Note 6	6,195	(589,996)
Other receivables		150,000	(160,000)
Sales tax recoverable		(104,762)	(98,610)
Accounts payable and accrued liabilities		1,383,941	52,596
Biological assets	Note 7	-	(485,390)
Inventory	Note 7	(1,209,444)	259,516
Prepaid expenses and deposits		-	79,828
Cash used in operating activities		(2,518,607)	(3,666,550)
INVESTING ACTIVITIES			
Deposits on property, plant and equipment	Note 8	(10,000)	-
Purchase of property, plant and equipment	Note 8	(1,076,245)	(538,776)
Payment of deposits and retainers		(49,527)	-
Purchases of intangible assets		(1,527,915)	(1,590,000)
Cash used in investment activities		(2,663,687)	(2,128,776)
FINANCING ACTIVITIES			
Issuance of common shares	Note 13	1,857,250	(90,647)
Issuance of convertible notes payable		-	5,852,856
Repayment of long-term debt		(19,110)	-
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		1,338,140	5,762,209
Increase/(Decrease) in cash during the period		(3,844,154)	(33,117)
Cash, beginning of period		3,940,463	263,695
Cash, end of period		96,309	230,578
Interest paid during the period		-	868,722
Taxes paid during the period		-	956,000

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, 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.

On June 7, 2017, the Company completed the previously announced acquisition of NevWa, LLC. The assets of this operation now exist as Greenpoint Nevada, Inc. a wholly owned subsidiary of Greenpoint Holdings Delaware, Inc. See note 8 for further details regarding this transaction.

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.

As of June 30, 2017 the Company's cash balances were \$96,303, however shortly after the balance sheet date the Company received \$3,423,286 of excess proceeds of the recent subscription receipts over the costs of previously committed acquisitions. As of the date of this report the Company has depleted much of this balance due to payment of outstanding accounts payable, inventory purchasing, and regular corporate burn.

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 activities include but are not limited to the recent announcement of the planned C\$2M bridge loan and C\$10M secured convertible debenture placement. 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 and six month periods ended June 30, 2017

3. Statement of compliance

These interim condensed consolidated financial statements for the six months ended June 30, 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

	June 30, 2017	December 31, 2016
Accounts Receivable	\$ 77,578	\$ 468,563
Allowance for doubtful accounts	(41,997)	(371,025)
	\$ 35,581	\$ 97,538

During the three months ended June 30, 2017, the Company wrote off \$345,538 of previously reserved trade accounts receivable and reserved an additional \$41,997.

During the three months ended June 30, 2017, the Company wrote off \$219,937 of receivables which were recorded in Other receivables related to its licensing arrangement with BMF Washington, LLC. These amounts were used as consideration for the recognition of revenues of the licensing arrangement with BMF during 2016 and the costs had been expected to reduce the purchase price of the acquisition of NevWa, LLC (note 18), however this benefit was sacrificed due to the extended timeline of the acquisition process and its impact on the seller's cashflows.

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, 2017

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:

	Biological assets	Inventory
Raw materials	\$ -	\$ 245,557
Work-in-process	-	240,822
Finished goods	-	456,071
Balance, December 31, 2016	\$ -	\$ 942,450
Raw materials	-	1,033,931
Work-in-process	77,667	513,910
Finished goods	-	222,102
Balance, June 30, 2017	\$ 77,667	\$ 1,769,942

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	607,719	686,804	6,870	4,626	-	1,306,019
Dispositions	-	(294,200)	-	(34,543)	-	(328,743)
Balance, June 30, 2017	\$ 2,306,573	\$ 847,504	\$ 147,222	\$ 110,472	\$ 188,546	\$ 3,600,317
Accumulated Amortization						
Balance, Dec 31, 2016	\$ (631,466)	\$ (104,493)	\$ (76,528)	\$ (39,032)	\$ (58,237)	\$ (909,756)
Expense	(211,555)	(146,746)	(27,156)	(12,622)	(18,855)	(416,934)
Dispositions	-	-	-	-	-	-
Balance, June 30, 2017	\$ (843,021)	\$ (251,239)	\$ (103,684)	\$ (51,654)	\$ (77,092)	\$ (1,326,690)
Carrying amount						
Balance, Dec 31, 2016	\$ 1,067,388	\$ 350,407	\$ 63,824	\$ 101,357	\$ 130,309	\$ 1,713,285
Balance, June 30, 2017	\$ 1,463,552	\$ 596,265	\$ 43,538	\$ 58,818	\$ 111,454	\$ 2,273,627

Total depreciation expense for the six months ended June 30, 2017 and 2016, was \$174,018 and \$387,940, respectively. Of the total expense, \$102,890 and \$222,222 was allocated to inventory during the six months ended June 30, 2017 and 2016, respectively.

The Company recorded a loss on disposal of \$294,200 related to the abandonment of improvements made to its Eugene facility after the decision was made to consolidate operations in Portland.

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, 2017

9. Intangible Assets

	Brands	Nevada licenses	Total
Cost			
Balance, December 31, 2016	\$ 9,350,000	\$ -	\$ 9,350,000
Additions	-	1,393,900	1,393,900
Disposals/adjustments	-	-	-
Balance at June 30, 2017	\$ 9,350,000	\$ 1,393,900	\$ 10,743,900
Accumulated Amortization			
Balance, December 31, 2016	\$ -	\$ -	\$ -
Expense	-	-	-
Dispositions	-	-	-
Balance at June 30, 2017	\$ -	\$ -	\$ -
Net book value, June 30, 2017	\$ 9,350,000	\$ 1,393,900	\$ 10,743,900

The Company completed its acquisition of assets of NevWa, LLC during the quarter, of which \$1,393,900 was added as the value of the acquired cannabis license.

10. Convertible debt and notes payable

	June 30, 2017	December 31, 2016
Current portion of convertible debentures carried at fair value	\$ 10,331,436	\$ 10,315,555
Convertible debentures carried at fair value	-	12,132,000
Related party note payable	1,000,000	1,500,000
Carrying amount of convertible notes at end of period	\$ 11,331,436	\$ 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 June 30, 2017, \$10 million debentures have been converted.

11. Long-term debt

	June 30, 2017	December 31, 2016
Long term debt	\$ 1,579,967	\$ 1,599,077
Less: current portion	(1,494,770)	(1,489,172)
Carrying amount of long-term debt	\$ 85,197	\$ 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.

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, 2017

12. Warrants liability

	Amount
Balance, December 31, 2016	\$ 416,414
Warrants issued	-
Change in fair market value	(238,379)
Balance, June 30, 2017	\$ 178,035

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 \$178,035 at June 30, 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 six months ended June 30, 2017, a gain of \$238,379 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, 2016, a gain of \$4,829,165 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, 2017	June 30, 2016
Expected life	0.2 to 0.4 years	1.2 to 1.4 years
Risk-free interest rate	0.62%	0.62%
Dividend yield	0%	0%
Foreign exchange rate	0.7702	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.

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, 2017

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 June 30, 2017:

	Number of Shares	Amount
Balance, December 31, 2016	109,349,415	\$ 34,282,314
Shares issued - conversion of debentures (i)	33,629,808	10,530,106
Shares issued - debenture interest (ii)	2,316,790	428,002
Shares issued - services rendered (iii)	783,906	218,919
Shares issued - warrant exercises (iv)	1,253,000	212,928
Shares issued - option exercises (v)	257,500	59,117
Shares issued - legal settlement (vi)	745,104	164,600
Shares issued - private placement (vii)	8,928,571	1,532,505
Balance, June 30, 2017	157,264,094	\$ 47,428,491

- (i) During the first two quarters of 2017, 33,629,808 shares were issued in respect of conversion of convertible debentures.
- (ii) During the first two quarters in 2017, 2,316,790 shares were issued to settle debenture interest.
- (iii) During the first and second quarters of 2017, the Company issued 783,906 shares in lieu of amounts owed to organizations for services rendered. The shares reflected a value of \$218,919.
- (iv) The Company issued 1,253,000 shares upon exercise of warrants.
- (v) The Company issued 257,500 shares upon exercise of employee stock options.
- (vi) The Company issued 745,104 shares to settle a legal dispute.
- (vii) The Company issued 8,928,571 shares as part of a private placement.

14. Warrant reserve

	Number of warrants issued	Exercise price	Amount
Balance, December 31, 2016	17,341,904		\$3,501,409
Warrants issued - consulting (i)	504,318	USD \$0.30	80,435
Warrants issued - interest (ii)	20,000	CDN \$0.42	2,054
Warrants exercised (iii)	(853,000)	CDN \$0.02	(141,940)
Balance, June 30, 2017	17,013,222		\$3,441,958

- (i) The Company issued 504,318 warrants to advisors for services at \$0.30.
- (ii) The Company issued 20,000 warrants to a Director in lieu of interest at C\$0.42.
- (iii) During the first and second quarters of 2017, 853,000 warrants were exercised at C\$0.02.

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, 2017

14. Warrant reserve (continued)

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

	June 30, 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)
Options expired in Q2 2017	(150,000)
Total number of options at June 30, 2017	7,025,278
Number of exercisable options issued in Canadian dollars	2,378,056
Number of exercisable options issued in U.S. dollars	1,862,500
Weighted average exercise price of options at June 30, 2017 in USD	\$ 0.69

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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:

	June 30, 2017	December 31, 2016
Expected life	3 years	3 years
Risk-free interest rate	0.57% to 1.06%	0.57% to 1.06%
Dividend yield	0%	0%
Expected volatility	70%	70%

During the six months ended June 30, 2017 and 2016, \$376,570 and \$415,389, 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 and wholesale distribution center. Future payments for all leases amount to \$1,287,330:

2017	\$	171,360
2018		344,534
2019		301,796
2020		61,148
2021		63,593
Thereafter		344,898
	\$	1,287,330

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 six months ended June 30, 2017 includes the following expenses:

	2017	2016
Salaries, commissions, bonuses and benefits	\$ 315,747	\$ 191,250
Consulting fees paid to officers of the Company	-	53,750
Stock Compensation, including w arrants and shares, for officers and directors	91,088	71,103
	\$ 406,835	\$ 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 (former) 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. At the balance sheet date, the Company has accrued interest of \$287,152 on this note. In addition, Peter Saladino advanced \$100,000 towards the purchase of NevWa, LLC, an obligation which is recorded in accounts payable and accrued liabilities.

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

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18. Acquisition of NevWa, LLC

On June 7, 2017, the Company acquired the operations of NevWa, LLC (“NevWa”) through the acquisition of certain operating assets and liabilities, pursuant to an asset purchase agreement, for cash consideration of \$2,237,062. NevWa operated a small scale medical marijuana operation located in Sparks, Nevada. The acquisition is being accounted for using the acquisition method, in accordance with IFRS 3 – Business combinations, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values of the net assets acquired is recorded as goodwill. The purchase price and the preliminary allocation of the purchase price is as follows:

Inventory	\$ 304,286
Biological assets	77,667
Property, plant and equipment	420,804
Intangible assets	1,323,900
Goodwill	134,015
Accounts payable and accrued liabilities	(23,610)
Net assets acquired	\$ 2,237,062
<hr/>	
Consideration paid or payable - Cash	\$ 2,237,062

The pro forma and actual results of operations for this acquisition have not been presented because they are not material.

Goodwill arose on the acquisition of NevWa’s assets because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development in the state of Nevada which recently legalized marijuana for recreational purposes. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The Company currently owes the seller \$200,000 of penalty fees resulting from the delay in the closing of the acquisition, which have been held back until it’s license was transferred.

19. 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 June 30, 2017, total managed capital was \$7,040,271. 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.

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20. Financial instruments and risk management

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

(a) Fair value

The carrying amounts of cash, accounts receivable, 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 June 30, 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

June 30, 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		-	-	178,035	178,035
Convertible debentures	FVTPL		-	-	10,331,436	10,331,436
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 June 30, 2017.

The Company's principal financial assets are cash held at a highly rated financial institution.

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20. Financial instruments and risk management (continued)

The Company does not have significant exposure to any individual customer and has estimated bad debts of \$41,997 and \$501,109 at June 30, 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.

21. 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 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.

22. Subsequent events

Subsequent to the balance sheet date, \$300,000 of debentures have been converted into 941,730 shares.

The Company's CEO, Don Robinson, resigned on July 19, 2017. William Simpson, the Company's president, was appointed as CEO.

On July 10, 2017, the Company announced the closing of the acquisition of Chalice LLC ("Chalice Farms") pursuant to the terms of an arrangement agreement dated July 7, 2017. In connection with the Acquisition, the vendors will receive consideration comprised of, (i) US\$19.25 million in cash and (ii) 83,418,687 common shares of the Company ("Common Shares"). In addition, Chalice Farms will also receive an amount equal to 1.25 times the revenues of the businesses being acquired for the year-ended December 31, 2017 payable in cash or Common Shares, subject to an obligation to pay in cash in certain circumstances. Following completion of the Acquisition, the former owners of Chalice Farms will collectively own approximately 28% of the outstanding Common Shares of the Company.

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22. Subsequent events (continued)

Due to the recent closing of the acquisition, the fair value determination and the initial purchase price accounting for the business combination have not been completed, and certain disclosures have not been provided. The final allocation of the purchase price will be determined after completing a comprehensive evaluation of the fair value of assets (including intangibles) and liabilities acquired at the acquisition date.

On July 12, 2017 along with the settlement of the remaining subscription receipts from its recent private placement, the Company completed its previously disclosed acquisition of Chalice Farms and placed a demand loan with MMG Corp to fund the build out its cultivation facility.

On August 22, 2017 the Company announced a C\$2M bridge loan and a C\$10M secured convertible debenture placement were underway in order to fund working capital and corporate build out. The Company also announced that it has received cannabis cultivation and production licenses in the State of Nevada.