

Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

For the years ended December 31, 2017 and 2016

GOLDEN LEAF HOLDINGS LTD.

Consolidated Financial Statements
(Expressed in U.S. Dollars)
For the years ended December 31, 2017 and 2016

Consolidated Statements of Financial Position.....	1
Consolidated Statements of Operations and Comprehensive Loss.....	2
Consolidated Statements of Changes in Shareholders' Equity.....	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 41

To the shareholders of Golden Leaf Holdings Ltd.,

We have audited the accompanying consolidated financial statements of Golden Leaf Holdings Ltd. which comprise the statement of consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Golden Leaf Holdings Ltd. as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

- 1) As disclosed in Note 2 of the consolidated financial statements there is an existence of a material uncertainty that may cast significant doubt on the ability of Golden Leaf Holdings Ltd. to continue as a going concern.
- 2) The Company's consolidated financial statements for the year ended December 31, 2016 were audited by another auditor whose report dated May 1, 2017 expressed an unqualified opinion,

Jackson and Company
CHARTERED PROFESSIONAL ACCOUNTANTS

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Financial Position
As at December 31, 2017 and 2016
(Expressed in U.S. dollars)

		2017	2016
ASSETS			
CURRENT			
Cash		\$ 6,009,447	\$ 3,940,463
Accounts receivable	Note 7	377,746	97,538
Current portion of financing lease receivable	Note 8	-	44,328
Other receivables		-	369,937
Income tax recoverable	Note 31	432,000	575,000
Sales tax recoverable		442,832	192,112
Biological assets	Note 9	90,627	-
Inventory	Note 9	3,623,255	942,450
Prepaid expenses and deposits		348,176	402,451
Assets held for sale	Note 10	305,274	2,156,000
Total current assets		\$ 11,629,357	\$ 8,720,279
Financing lease receivable	Note 8	-	388,228
Available for sale purchase option	Note 12	-	4,670,000
Property, plant and equipment	Note 10	5,956,910	1,713,285
Intangible assets	Note 11	26,227,116	9,350,000
Goodwill	Note 11	31,971,398	-
Total assets		\$ 75,784,781	\$ 24,841,792
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 2,867,735	\$ 1,626,443
Interest payable		48,524	188,200
Current portion of long-term debt	Note 13	131,610	1,489,172
Current portion of convertible debentures carried at fair value	Note 12	271,245	10,315,555
Related party notes payable	Note 25	389,916	1,500,000
Derivative liability	Note 12	61,044	-
Total current liabilities		\$ 3,770,074	\$ 15,119,370
Long term debt	Note 13	80,381	109,905
Convertible debentures carried at fair value	Note 12	30,360,225	12,132,000
Consideration payable	Note 21	9,527,350	-
Warrant liability	Note 14	14,300,616	416,414
Total liabilities		\$ 58,038,646	\$ 27,777,689
SHAREHOLDERS' EQUITY			
Share capital	Note 15	\$ 108,552,681	\$ 34,282,314
Warrant reserve	Note 16	5,083,561	3,501,409
Share option reserve	Note 17	1,087,640	993,211
Shares to be issued		-	267,701
Contributed surplus		59,940	59,940
Accumulated other comprehensive loss		9,828	(530,000)
Deficit		(97,047,515)	(41,510,472)
Total shareholders' equity		17,746,135	(2,935,897)
Total liabilities and shareholders' equity		\$ 75,784,781	\$ 24,841,792

Going concern (Note 2)
Commitments (Note 19)
Subsequent events (Note 33)

See accompanying notes to these consolidated financial statements.

/s/ Alex Winch, Director
/s/ Gary Zipfel, Director

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2017 and December 31, 2016
(Expressed in U.S. dollars)

		2017	2016
Revenues			
Product sales		\$ 10,411,232	\$ 7,241,554
Royalties		1,100,066	419,934
Total Revenue		\$ 11,511,298	\$ 7,661,488
Cost of sales			
Inventory expensed to cost of sales	Note 9	9,535,602	6,962,331
Production costs		465,658	909,409
Gain on changes in fair value of biological assets	Note 9	(198,000)	(276,135)
Cost of sales expense		\$ 9,803,260	\$ 7,595,605
Gross profit		\$ 1,708,038	\$ 65,883
Expenses			
General and administration		8,610,318	7,009,610
Share based compensation	Note 17	1,239,670	1,026,504
Professional fees paid with equity instruments	Note 12	80,436	668,615
Sales and marketing		1,114,628	892,436
Research and development		-	185,136
Depreciation and amortization	Note 10	572,695	208,922
Impairment of long-lived assets	Note 10	50,254	1,555,612
Total expenses		\$ 11,668,001	\$ 11,546,835
Loss before undernoted items		\$ (9,959,963)	\$ (11,480,952)
Other items			
Interest expense		1,549,780	1,216,586
Transaction costs	Note 24	8,518,490	4,712,218
Loss on extinguishment		-	11,215,118
Accretion interest expense		-	665,772
Loss on disposal of assets	Note 10	470,071	-
Impairment of financing lease receivable	Note 8	432,557	243,181
Impairment of intangible asset	Note 11	9,350,000	-
Impairment of purchase option		5,200,000	-
Other loss		437,413	256,203
(Gain)Loss on change in fair value of warrant liabilities	Note 14	7,714,578	(4,152,077)
(Gain)Loss on change in fair value of liabilities	Note 12	12,296,260	(4,234,000)
Loss before income taxes		(55,929,112)	(21,403,953)
Current income tax expense	Note 31	143,230	(74,136)
Net Loss		\$ (56,072,342)	\$ (21,329,817)
Other comprehensive loss			
Reversal of unrealized loss on available for sale purchase option, net of tax for impairment		\$ 530,000	\$ -
Items that will be reclassified subsequently to profit or loss:			
Unrealized loss on available for sale purchase option, net of tax		-	(530,000)
Cumulative translation adjustment		9,828	-
Comprehensive Loss		\$ (55,532,514)	\$ (21,859,817)
Basic and diluted loss per share		\$ (0.21)	\$ (0.23)
Weighted average number of common shares outstanding			
		262,011,877	91,207,720

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statement of Changes in Shareholders' Equity
For the years ended December 31, 2017 and 2016

	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 15)	17,326,699	-	-	-	-	-	-	17,326,699
Issuance of warrants and broker units (note 16)	-	1,245,753	-	-	-	-	-	1,245,753
Exercise of warrants and options for common shares	1,279,934	(330,218)	(5,342)	-	-	-	-	944,374
Issuance of share-based compensation (note 17)	194,630	-	773,774	-	-	-	-	968,404
Expiry of warrants and stock options	-	(382,781)	(94,312)	-	-	-	477,093	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(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 16)	72,901,778	-	-	(267,701)	-	-	-	72,634,077
Issuance of warrants and broker units (note 16)	-	2,109,487	-	-	-	-	-	2,109,487
Exercise of warrants and options for common shares	798,781	(302,539)	(264,930)	-	-	-	-	231,312
Issuance of share-based compensation (note 17)	569,808	-	669,862	-	-	-	-	1,239,670
Expiry of warrants and stock options	-	(224,796)	(310,503)	-	-	-	535,299	-
Net loss and comprehensive loss for the year	-	-	-	-	-	539,828	(56,072,342)	(55,532,514)
Balance at December 31, 2017	\$ 108,552,681	\$ 5,083,561	\$ 1,087,640	\$ -	\$ 59,940	\$ 9,828	\$ (97,047,515)	\$ 17,746,135

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Consolidated Statement of Cash Flows

For the years ended December 31, 2017 and 2016 (as restated)

(Expressed in U.S. dollars)

		2017	2016 (as restated)
Cash provide by (used in):			
OPERATING ACTIVITIES			
Net Loss		(56,072,342)	(21,329,817)
Depreciation of property, plant and equipment	Note 10	572,695	208,922
Loss on disposal of assets	Note 10	470,071	-
Interest expense		852,427	1,216,586
Income taxes paid		-	(956,000)
Income tax expense		143,230	500,865
Income tax recovery		-	(575,000)
Bad debt expense	Note 7	-	373,494
Share based compensation	Note 15	1,239,670	1,026,504
Professional fees paid with equity instruments		377,528	668,615
(Gain)/loss on fair value adjustment to warrants liability	Note 14	7,714,578	(4,152,077)
(Gain)/loss on fair value adjustment to debt liability		12,296,260	-
Transaction cost	Note 24	3,554,305	4,363,755
Gain on fair value of biological assets	Note 9	(198,000)	(276,135)
Impairment of finance lease receivable	Note 8	432,556	243,181
Impairment of intangible assets	Note 11	14,550,000	1,537,097
Other non-cash transactions		1,041,230	8,940,275
Changes in working capital items			
Accounts receivable	Note 7	(127,240)	255,593
Other receivables		691,725	(369,937)
Sales tax recoverable		(198,945)	(98,110)
Accounts payable and accrued liabilities		(2,030,245)	(279,312)
Biological assets	Note 9	107,373	333,050
Inventory	Note 9	(1,024,665)	(794,023)
Prepaid expenses and deposits		54,275	69,583
Cash used in operating activities		(15,553,514)	(9,092,891)
INVESTING ACTIVITIES			
Deposits on property, plant and equipment	Note 10	-	-
Purchase of property, plant and equipment	Note 10	(1,791,466)	(494,208)
Proceeds from disposal of property plant and equipment	Note 10	2,304,182	-
Purchase of BMF Assets		-	(1,500,000)
Payment of deposits and retainers		-	-
Purchases of intangible assets		-	-
Net cash outflow on acquisition of subsidiaries	Note 20	(21,487,027)	-
Cash used in investment activities		(20,974,311)	(1,994,208)
FINANCING ACTIVITIES			
Issuance of common shares	Note 15	27,935,000	1,097,594
Payment of share issuance costs		(1,326,209)	-
Issuance of convertible notes payable	Note 12	14,313,056	14,864,969
Repayment of convertible notes		(621,776)	-
Repayment of long-term debt		(1,787,086)	(538,551)
Interest paid during the year		354,953	(660,145)
Proceeds from related party loan	Note 25	-	290,000
Repayment of related party loan	Note 25	(271,129)	(290,000)
Cash provided by financing activities		38,596,809	14,763,867
Increase in cash during the year		2,068,984	3,676,768
Cash, beginning of year		3,940,463	263,695
Cash, end of year		6,009,447	3,940,463
Interest paid during the year		185,813	770,027
Taxes paid during the year		-	956,000

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

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., Left Coast Connection, Inc., and CFA Retail, LLC.

On June 7, 2017 the Company completed the previously announced purchase of NevWa, LLC. The assets of this operation now operate as Greenpoint Nevada, Inc., a wholly owned subsidiary of Greenpoint Holdings Delaware, Inc. Refer to Note 20.

On July 10, 2017, the Company completed the previously announced acquisition of Chalice Farms, comprised of the membership interest purchase of CFA Retail, LLC and the purchase of the assets of CFA Productions, LLC., collectively "Chalice Farms". Refer to Note 21.

On October 31, 2017, the Company completed the previously announced acquisition of Medical Marihuana Group Corporation ("MMGC"), and on December 29, 2017 the Company exercised the contingent right to acquire Medical Marijuana Group Consulting, Ltd ("MMCC"). Refer to Notes 22 and 23.

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 of cannabis in the United States on the cannabis industry. The Company's revenues have not yet risen to levels materially capable of covering the costs related to the infrastructure investment (both capital and operating). As such, the Company has been depleting its 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 December 31, 2017, the Company's cash balances were \$6,009,447 however on January 31, 2017 the Company received net proceeds of \$15,554,050 (Note 33) from a bought deal private placement transaction, in addition to significant warrant exercise activity which has further bolstered the Company's cash position.

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 that 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 Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

3. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements have been approved by the Company’s Board of Directors on April 30, 2018.

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 except for certain financial assets and financial liabilities measured at fair value. The accounting policies set out below have been applied to all accounting periods. Certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications had no effect on the reported results of operations.

5. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporated to the financial statements of the Company and entities controlled by the Company and its subsidiaries, control is achieved when the Company:

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

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

The Company consolidates the financial statements of the following:

Subsidiary	Place of incorporation	Functional currency	Effective ownership	Principal activity
Greenpoint Holdings Delaware Inc.	Delaware	USD	100%	Holding company
Greenpoint Oregon Inc.	Oregon	USD	100%	Cannabis production, distribution, and sales
Left Coast Connections Inc.	Oregon	USD	100%	Retail Cannabis sales
GL Management Inc.	Nevada	USD	100%	Ownership and administration of intellectual property
Greenpoint Science Ltd. (inactive)	Israel	USD	100%	Research and development
Greenpoint Real Estate LLC	Oregon	USD	100%	Ownership, administration, and leasing of real estate
Greenpoint Equipment Leasing LLC	Oregon	USD	100%	Ownership and leasing of capital equipment
Greenpoint Nevada Inc.	Nevada	USD	100%	Cannabis production, distribution, and sales
CFA Retail LLC	Oregon	USD	100%	Retail Cannabis sales
Medical Marijuana Group Corporation	London, ON	CAD	100%	Cannabis production and distribution
Medical Marijuana Group Consulting Ltd.	London, ON	CAD	100%	Medical marijuana patient consulting

All inter-company transactions and balances with subsidiaries have been eliminated. All companies have the same reporting period.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

Foreign currency

Functional currency is the currency of the primary economic environment in which the reporting entity operates and is normally the currency in which the entity generates and expends cash. Each entity in the Company determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The Company has determined that the functional currency of each entity in the consolidated group is U.S. dollars, with the exception of MMGC and MMCC. The functional currency of these entities is Canadian dollars. The Company translates the financial statement accounts using the methodology noted below.

Transactions

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

Translation

The assets and liabilities of foreign operations are translated into U.S. dollars at period-end exchange rates and their revenue and expense items are translated at exchange rates prevailing at the date of the transactions. The resulting exchange differences are recognized in other comprehensive income.

Equipment leases

Equipment leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are carried at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Company less unearned finance income. Unearned finance income is recognized over the life of the lease using the effective interest rate method, which provides a constant rate of return throughout the lease term.

Leases are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. When receivables are considered impaired, their book value is adjusted to their estimated realizable value based on the fair value of any collateral underlying the receivable, net of any costs of realization, by establishing an allowance for credit losses.

Property, plant and equipment

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

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

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

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

Production equipment	5 - 7 years
Furniture and fixtures	5 years
Vehicles	5 years
Computer equipment	3 years
Leasehold improvements	3-5 years
Building improvements	5 years
Building	30 years

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

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. For indefinite life intangible assets, impairment testing is required to be performed at least annually or more frequently when there are indicators of impairment. The recoverable amount is the greater of value-in-use and fair value less costs of disposal. Determining the value-in-use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. As at December 31, 2017, the Company recorded impairment of non-financial assets of \$14.6M (2016 - \$1.5M) Refer to Notes 8 and 11.

Intangible assets other than goodwill

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

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of loss and comprehensive loss in the expense category consistent with the function of the intangible assets.

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

The Company's intangible assets consist of brands, cannabis licenses and customer relationships which have been determined to have indefinite useful lives. The useful life of the brands and cannabis licenses is indefinite, and the customer relationships intangible is amortized on straight line basis over 10 years. Refer to Note 11.

Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of business, less any costs to complete and sell the goods. The cost of inventory includes expenditures incurred in acquiring raw materials, production and conversion costs, depreciation and other costs incurred in bringing them to their existing location and condition.

Biological assets

The Company's biological assets consist of cannabis plants cultivated and harvested in the Company's grow facilities in Sparks, Nevada.

The significant assumptions used in determining the fair value of the biological assets are as follows:

- stage in the overall growth cycle;
- estimated harvest yield by plant; and
- estimated quality of produce, based on grow scenarios.

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield or quality will be reflected in future changes in the gain or loss on biological assets.

Revenue recognition

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

The Company's revenue is derived from three sources: sales of cannabis and cannabis derivative products, royalties from the licensing of brands, and finance income from the leasing of equipment. Product sales of cannabis and cannabis derivative products are recognized when collection has taken place, compliant documentation has been signed evidencing the arrangement and the risks and rewards of ownership has passed to the buyer.

Brand licensing revenues are recognized in accordance with contractual terms, to the extent that collection is reasonably assured.

Equipment leasing finance income is recognized using the effective interest rate method, to the extent that collection is reasonably assured.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

Income taxes

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

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

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

Accounts receivable

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

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: fair value through profit or loss, held-to-maturity, loans and receivables or available-for-sale.

Financial assets classified as held-to-maturity and loans and receivables are measured at amortized cost. The Company's cash, accounts receivable, and finance lease receivable are classified as loans-and-receivables. At December 31, 2017 the Company has not classified any financial assets as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) until the related asset is no longer recognized or impaired, at which time the amounts would be recorded in net income. The Company's option contract to acquire BMF Washington LLC has been classified as available-for-sale (see Note 8).

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the asset, the estimated future cash flows of the asset has been impacted.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception into one of the following two categories: fair value through profit or loss or other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at each subsequent reporting period end with changes in fair value recognized in profit or loss. The Company's convertible debentures, derivative liabilities, and warrants not classified as equity are classified as financial liabilities at fair value through profit or loss.

Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The Company's accounts payable and accrued liabilities, long-term debt, and related party note payable are classified as other financial liabilities. Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Convertible debentures

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

During 2016, convertible debentures accounted for as hybrid instruments were extinguished. After extinguishment, all issuances of convertible debentures were measured at fair value through profit or loss.

Basic and diluted loss per common share

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

Warrants

Warrants issued that fall within the scope of IAS 39 are equity only to the extent they meet the fixed for fixed criteria which requires the exercise price be denominated in the same functional currency as that of the issuing entity. If warrants are issued in a currency other than the entity's functional currency, they are classified as a financial liability and must be measured at FVTPL.

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

Share based payments

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. Consideration paid by employees or nonemployees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Business combinations

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

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

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

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

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

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

Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

Impact of Business combination on other accounting policies:

Deferred tax

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

Current and deferred tax for the period

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

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

Intangible assets acquired in a business combination

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

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

Future accounting pronouncements

The Company has identified new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 Financial instruments

IFRS 9, "Financial Instruments: Classification and Measurement" ("IFRS 9"), as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has substantially completed its assessment of IFRS 9. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

IFRS 15 Revenue

In May 2014, the IASB issued IFRS 15 Revenue from contracts with customers, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures. This standard is effective January 1, 2018 and allows early adoption. The Company did not adopt this standard early and is currently assessing the impact that this standard will have on the consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

5. Significant accounting policies (continued)

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard (IAS 17 Leases) and required the recognition of most leases as finance leases for lessees by removing the classification of leases as either finance or operating leases. Finance lease exemptions exist for short-term leases where the term is twelve months or less and for leases of low value items.

The accounting treatment for lessors remains the same, which provides the choice of classifying a lease as either a finance or operating lease. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

IFRS Interpretation Committee ("IFRIC") Interpretation 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" ("IFRIC 22") was issued in December 2016 and is effective for annual periods beginning on or after January 1, 2018 and may be applied retrospectively or prospectively. IFRIC 22 addresses which foreign exchange rate to use to measure a foreign currency transaction when advance payments are made or received and nonmonetary assets or liabilities are recognized prior to recognition of the underlying transaction. IFRIC 22 does not relate to goods or services accounted for at fair value or at the fair value of consideration paid or received at a date other than the date of initial recognition of the nonmonetary asset or liability, or to income taxes, insurance contracts or reinsurance contracts. The foreign exchange rate on the day of the advance payment is used to measure the foreign currency transaction. If multiple advance payments are made or received, each payment is measured separately. The Company is assessing the impact of this standard. Adoption of IFRIC 22 is not expected to have a significant impact on the Company's consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23"), to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019. The Company is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

6. Critical judgments and key sources of estimation uncertainty

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

Key Sources of Estimation Uncertainty

Allowance for doubtful accounts

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

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

Useful lives of equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

Share-based payment transactions and warrants

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

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as purchase options and convertible debentures held at fair value. Refer to Note 28 for information on methodology and key assumptions.

Fair value of intangible assets

Determining the fair value of intangible assets acquired in asset purchases requires management to make assumptions and estimates about future events. The methodology used to determine the fair value of the intangible assets at date of acquisition is the same as that used to determine fair value less costs of disposal at December 31, 2017 for purposes of annual impairment testing. Refer to Note 11.

Impairment of non-financial assets

Non-financial assets include property, plant, equipment, and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate and royalty rate. Refer to Note 11.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

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

Biological assets

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

Critical Judgment in Applying Accounting Policies

Useful lives of intangibles

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

Taxes

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

7. Accounts receivable

	2017	2016
Accounts Receivable	\$ 377,746	\$ 468,563
Allow ance for doubtful accounts	-	(371,025)
	\$ 377,746	\$ 97,538
Continuity of allow ance for doubtful accounts		
	2017	2016
Beginning balance	\$ 371,025	\$ 459,493
Increase in provision for doubtful accounts	-	625,812
Provision used for write-off of receivables	(371,025)	(714,280)
	\$ -	\$ 371,025

All of the Company's trade and other receivables have been reviewed for indicators of impairment. Accounts receivable more than 90 days past due totaled \$109,411 at December 31, 2017 (2016 - \$468,563).

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

8. Financing leases receivable

Fixed assets purchased from BMF Washington, LLC (“BMF”) on January 20, 2016 in addition to assets provided by the Company, were leased to BMF under a financing lease arrangement for 96 months at a rate of \$14,600 per month beginning February 1, 2016 for an aggregate total of minimum payments due of \$1,399,800. As of the date of issuance of this report, no payments have been made against this lease receivable and no financing income has been recorded on this arrangement due to the collection status. As discussed in Note 11, the royalty agreement which was part of the original transaction to purchase the assets of BMF was deemed terminated as of February 9, 2018 and the Company is currently evaluating its plans for the assets in the future. The Company no longer considers this finance lease arrangement a preferred method of transacting with BMF as a strategic partner and has determined that if it renews the relationship with BMF a financing lease will not be part of the new structure. For 2017, an impairment loss of \$432,557 (2016 - \$243,181) was recognized in the impairment of financing lease receivable on the consolidated statement of operation and comprehensive loss.

Aggregate minimum payments	\$	1,241,000
Unearned income		(565,262)
Impairment of finance lease receivable		(675,738)
Equipment Leases	\$	-

9. Biological assets and inventory

The Company’s biological assets consist of cannabis plants that are cultivated at the Company’s own grow facilities. The 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 years ended December 31, 2017 and 2016, the Company expensed production costs of \$465,658 and \$909,409, respectively.

During the years ended December 31, 2017 and 2016, the Company recognized \$198,000 and \$276,135, respectively, of gain on the change in fair market value of biological assets reflecting the increased value relating to the growth and harvest of the flower from cannabis plants. This gain was calculated using a periodic change in value based on plant count and estimated value of the various products from the plants.

Inventory consists of harvested cannabis flower and concentrated products such as oils and edibles. During the years ended December 31, 2017 and 2016, \$443,763 and \$471,312 of depreciation, respectively, was allocated to inventory and expensed as cost of sales. 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	\$	-	\$	451,767
Work-in-process		90,627		1,274,542
Finished goods		-		1,896,946
Balance, December 31, 2017	\$	90,627	\$	3,623,255

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

9. Biological assets and inventory (continued)

The Company's biological assets at December 31, 2017 and 2016 is comprised of:

Balance, December 31, 2015	\$	56,915
Gain/Loss on fair value of Biological assets		(276,135)
Transfer to Finished goods		219,220
Balance, December 31, 2016	\$	-
Balance, December 31, 2016	\$	-
Acquisition of Biological assets		77,667
Gain/Loss on fair value of Biological assets		(198,000)
Transfer to Finished goods		210,960
Balance, December 31, 2017	\$	90,627

10. Property, plant and equipment

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, December 31, 2015	\$ 2,038,634	\$ 1,800,000	\$ 2,050,300	\$ 260,456	\$ 147,772	\$ 110,077	\$ 188,546	\$ 6,595,785
Additions	75,569	-	191,572	194,444	2,311	30,312	-	494,208
Dispositions	-	-	(543,018)	-	(9,731)	-	-	(552,749)
Transfer to assets held for sale	(2,114,203)	(1,800,000)	-	-	-	-	-	(3,914,203)
Balance, December 31, 2016	\$ -	\$ -	\$ 1,698,854	\$ 454,900	\$ 140,352	\$ 140,389	\$ 188,546	\$ 2,623,041
Accumulated Amortization								
Balance, December 31, 2015	\$ (39,980)	\$ -	\$ (258,796)	\$ (39,068)	\$ (37,380)	\$ (16,788)	\$ (24,063)	\$ (416,075)
Expense	(162,611)	-	(407,213)	(65,425)	(39,148)	(22,244)	(34,174)	(730,815)
Dispositions	-	-	34,543	-	-	-	-	34,543
Impairment	(1,555,612)	-	-	-	-	-	-	(1,555,612)
Transfer to assets held for sale	1,758,203	-	-	-	-	-	-	1,758,203
Balance, December 31, 2016	\$ -	\$ -	\$ (631,466)	\$ (104,493)	\$ (76,528)	\$ (39,032)	\$ (58,237)	\$ (909,756)
Carrying amount								
Balance, December 31, 2016	\$ -	\$ -	\$ 1,067,388	\$ 350,407	\$ 63,824	\$ 101,357	\$ 130,309	\$ 1,713,285
Cost								
Balance, December 31, 2016	\$ -	\$ -	\$ 1,698,854	\$ 454,900	\$ 140,352	\$ 140,389	\$ 188,546	\$ 2,623,041
Additions	191,547	-	605,014	929,477	51,503	13,925	-	1,791,466
Dispositions	-	-	(675,569)	(294,200)	(43,954)	(34,543)	-	(1,048,266)
Assets from acquisition	675,804	290,404	893,997	2,646,433	87,877	818,725	33,566	5,446,806
Transfer to assets held for sale	-	-	(686,433)	-	-	-	-	(686,433)
Balance, December 31, 2017	\$ 867,351	\$ 290,404	\$ 1,835,863	\$ 3,736,610	\$ 235,778	\$ 938,496	\$ 222,112	\$ 8,126,614
Accumulated Amortization								
Balance, December 31, 2016	\$ -	\$ -	\$ (631,466)	\$ (104,493)	\$ (76,528)	\$ (39,032)	\$ (58,237)	\$ (909,756)
Expense	-	-	(476,362)	(379,791)	(55,000)	(65,917)	(39,388)	(1,016,458)
Dispositions	-	-	375,536	12,535	40,470	1,472	-	430,013
Assets from acquisition	-	-	(157,853)	(448,308)	(18,221)	(319,616)	(10,156)	(954,154)
Impairment	-	-	(50,254)	-	-	-	-	(50,254)
Transfer to assets held for sale	-	-	330,905	-	-	-	-	330,905
Balance, December 31, 2017	\$ -	\$ -	\$ (609,494)	\$ (920,057)	\$ (109,279)	\$ (423,093)	\$ (107,781)	\$ (2,169,704)
Carrying amount								
Balance, December 31, 2017	\$ 867,351	\$ 290,404	\$ 1,226,369	\$ 2,816,553	\$ 126,499	\$ 515,403	\$ 114,331	\$ 5,956,910

Certain production assets no longer in use and identified as being available for sale were classified as held for sale, and have been removed from the Company's property, plant, and equipment schedules and are shown as a single line item on the face of the consolidated statement of financial position.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

10. Property, plant and equipment (continued)

As a result of this classification, the carrying value of the equipment was required to be stated at fair market value. Based on market price for similar extractors, the equipment has been valued at \$305,274, which has resulted in a loss on impairment of \$50,254, recognized in the consolidated statement of operations and comprehensive loss. At December 31, 2017 the Company transferred the production equipment to Assets held for sale at the net value of \$305,274.

Other assets no longer in use by the company with a net book value of \$618,253 (2016 - \$518,2016) were sold and disposed of during 2017 for proceeds of \$148,182 resulting in a loss on disposal of \$470,071 recorded in the consolidated statement of operations and comprehensive loss.

Total depreciation expense for the years ending December 31, 2017 and 2016 was \$1,016,458 and \$730,815, respectively. Of the total expense, \$443,763 and \$471,312 was allocated to inventory during the years ending December 31, 2017 and 2016, respectively.

11. Intangible assets and goodwill

Intangible assets during the year ended December 31, 2016 consisted of a two-year dispensary license for Left Coast Connection (the Company's dispensary), and a five-year licensing agreement with Dixie Brands, Inc. During 2016, the Company purchased indefinite-lived intangible assets consisting primarily of brands and trade names from BMF Washington, LLC.

During 2017, the Company evaluated the brands purchased from BMF Washington for impairment and determined that the carrying value was not recoverable, based primarily on the continued credit issues of the royalty arrangement underlying the value of the brands, the cash flows of the BMF operations, as well as the deemed termination of the royalty arrangement subsequent to the balance sheet date.

Cost	Balance at Jan 1, 2016	Additions	Additions from acquisitions	Disposals / adjustments	Impairments	Balance at Dec 31, 2016
Dispensary license	\$ 40,000	\$ -	\$ -	\$ (40,000)	\$ -	\$ -
Licensing agreement	-	125,000	-	(125,000)	-	-
Brands	-	9,350,000	-	-	-	\$ 9,350,000
Total	\$ 40,000	\$ 9,475,000	\$ -	\$ (165,000)	\$ -	\$ 9,350,000
Accumulated Amortization						
Dispensary license	\$ (15,000)	\$ (25,000)	\$ -	\$ 40,000	\$ -	\$ -
Licensing agreement	(4,167)	(16,666)	-	20,833	-	-
Brands	-	-	-	-	-	-
Total	\$ (19,167)	\$ (41,666)	\$ -	\$ 60,833	\$ -	\$ -
Net book value, Dec 31, 2016	\$ 20,833	\$ 9,433,334	\$ -	\$ (104,167)	\$ -	\$ 9,350,000
Cost	Balance at Jan 1, 2017	Additions	Additions from acquisitions	Disposals / adjustments	Impairments	Balance at Dec 31, 2017
License	-	-	11,414,220	-	-	\$ 11,414,220
Customer relationships	-	-	1,512,896	-	-	1,512,896
Brands	9,350,000	-	13,300,000	-	(9,350,000)	13,300,000
Total	\$ 9,350,000	\$ -	\$ 26,227,116	\$ -	\$ (9,350,000)	\$ 26,227,116
Accumulated Amortization						
Dispensary license	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licensing agreement	-	-	-	-	-	-
Brands	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net book value, Dec 31, 2017	\$ 9,350,000	\$ -	\$ 26,227,116	\$ -	\$ (9,350,000)	\$ 26,227,116

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

11. Intangible assets and goodwill (continued)

A continuity of the goodwill for the year ended December 31, 2017 is as follows

Cost	Balance at Jan 1, 2017	Additions from acquisitions	Disposals / adjustments	Impairments	Balance at Dec 31, 2017
Chalice Farms	\$ -	\$ 26,897,718	\$ -	\$ -	\$ 26,897,718
NevWa, LLC	-	210,371	-	-	210,371
Medical Marihuana Group Corporation	-	1,790,186	-	-	1,790,186
Medical Marijuana Consulting Ltd.	-	3,073,123	-	-	3,073,123
Total	\$ -	\$ 31,971,398	\$ -	\$ -	\$ 31,971,398

12. Convertible debt and notes payable

	Balance sheet			Income statement		
	Debt host	Derivative liability	Debentures carried at FVTPL	Accretion expense	Change in FV of debt	Loss on extinguishment
Balance, January 1, 2016	\$ 2,190,000	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of 1st tranche of debentures (iii)	5,465,694	1,461,000	-	-	-	-
Financing fees	(40,718)	-	-	-	-	-
Provision related to licensing condition (iii)	-	-	-	-	-	-
Issuance of debentures in respect of anti-dilution provisions	-	-	-	-	-	-
Accretion expense	665,772	-	-	665,772	-	-
Repayment (i)	(500,000)	-	-	-	-	-
Change in FV of derivative liability	-	1,351,884	-	-	1,351,884	-
Carrying value before extinguishment	\$ 7,780,748	\$ 2,812,884	\$ -	\$665,772	\$ 1,351,884	\$ -
Extinguishment and reissuance of 1st tranche of debentures	\$(7,780,748)	\$(2,812,884)	\$ 21,808,750	\$ -	\$ -	\$ 11,215,118
Deemed re-issuance of 1st tranche of debentures	-	-	-	-	-	-
Issuance of shares in respect of anti-dilution provisions (iii)	-	-	-	-	-	-
Issuance of 2nd tranche of debentures (iv)	-	-	9,000,000	-	-	-
Conversion to common shares	-	-	(2,775,311)	-	-	-
Financing fees	-	-	-	-	-	-
Change in FV of Debt	-	-	(5,585,884)	-	(5,585,884)	-
Balance, December 31, 2016	\$ -	\$ -	\$ 22,447,555	\$665,772	\$ (4,234,000)	\$ 11,215,118
Issuance of 3rd tranche of debentures (v)	\$ -	\$ -	\$ 14,313,056	\$ -	\$ -	\$ -
Repayment (iii)	-	-	(621,776)	-	-	-
Conversion to common shares (ii)	-	-	(18,138,464)	-	-	-
Initial recognition of the derivative	-	395,883	-	-	-	-
Change in FV of Derivative liability	-	(334,839)	-	-	(334,839)	-
Change in FV of Debt	-	-	12,631,099	-	12,631,099	-
Balance, December 31, 2017	\$ -	\$ 61,044	\$ 30,631,470	\$ -	\$ 12,296,260	\$ -
Current portion			\$ 271,245			
Long-term portion			\$ 30,360,225			

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

12. Convertible debt and notes payable (continued)

(i) During the first quarter of 2015, the Company issued two \$250,000 convertible notes, with a rate of 8% per annum payable semi-annually. The loans are secured by the property discussed in (ii). The Company has a prepayment option to prepay all or any portion without penalty with 30 days' notice to the holder. The conversion option is exercisable, in whole or in part, within the loan term at \$1 per share and a mandatory conversion feature at C\$2.75 and may be adjusted in the case of certain dilutive events taken by the Company. In conjunction with issuing the convertible notes, the Company also provided for 25,000 warrants to each of the holders at inception, at \$1.00 per common share. Since the fair value of the debt was 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. The loans matured and were paid during the fourth quarter of 2016.

(ii) In connection with the property acquisition discussed in Note 25, 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 carried annual interest rates of 12% for a term of 24 months with all outstanding principal and interest due on September 17, 2017. Prepayment of all or any portion is allowed without penalty at the option of the issuer with 30 days' notice to the holder. The convertible notes also provide for a conversion option, in whole or in part, within the loan

term at \$1 per share and a mandatory conversion feature at C\$2.75 and include 100,000 warrants which are allocated amongst the individual note holders.

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.

On December 14, 2016, the conversion price on these debentures was repriced to C\$0.30, which resulted in an extinguishment of the original debentures instruments, and the re-issuance of new instruments. Due to a repayment provision allowing the Company to repay these instruments at face value plus interest at any time, the fair value equals face value and no gain or loss was recorded at re-issuance. Due to the aforementioned call feature, no gain or loss on extinguishment has been recorded related to these debentures.

In conjunction with the sale of the Aurora property, the total outstanding principal and interest remaining for these debentures was settled in late September 2017 by payment of \$403,962 cash and issuance of 9,250,054 common shares at a price of C\$0.18 per share.

(iii) During the spring and summer of 2016, the Company completed a private placement of senior unsecured convertible debentures of C\$9.7 million in a series of settlements. The initial tranche of these debentures was completed in connection with the acquisition of certain assets of BMF Washington LLC (Note 8, Note 9). These debentures matured September 11, 2017, and carried an interest rate of 10% payable semi-annually with the first payment on June 30, 2016. The debentures also carried a conversion option, in whole or in part, at C\$0.67 per share and a mandatory conversion feature if the Company's common shares trade at C\$2.00 for twenty consecutive days. At initial recognition, these debentures were carried at amortized cost net of transaction costs and a derivative liability representing the conversion option held by the holder. The derivative liability is recorded separately at initial recognition and is adjusted to fair value each reporting date. The debt instrument, net of derivative liability and transaction costs is then accreted to face value throughout the amortization of the instrument.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

12. Convertible debt and notes payable (continued)

Debentures issued to the two lead subscribers, included both a licensing condition and an anti-dilution provision. The licensing and anti-dilution provisions if triggered, would require the Company to issue to the lead subscribers, either (i) a cash or (ii) additional convertible debentures equal to the amount as determined under the condition/provision.

Under the licensing condition, if the Company did not obtain all necessary recreational cannabis licenses by October 1, 2016, they would be required to pay an amount equal to 10% of the convertible debentures held by the lead subscribers. The licensing condition has not been met, and the Company has recorded an expense to transaction costs in the amount of \$369,000 (C\$492,300).

Under the anti-dilution provision, should the Company issue financing within an 18-month period of time, with an equity pricing that would be lower than 10% of the conversion price, the provisions would be exercised which occurred on two occasions during the year. This first anti-dilution provision exercise occurred on the initial issuance of the debentures and BMF acquisition, which resulted in additional debentures totaling \$598,500 (C\$798,000) being issued and was recorded in transaction costs. The second anti-dilution event occurred upon issuance of the convertible debentures with a conversion price of C\$0.30 as noted at (iv) below. The Company was required to pay \$1,244,463 (C\$1,659,000), which was settled via issuance of 2.1 million common shares and was recorded as part of the transaction costs related to the issuance of the second tranche of debentures.

Upon receipt of the 2.1 million common shares, the lead subscribers waived any and all future obligation of the Company under the anti-dilution provision.

In connection with this placement, the Company issued 522,745 broker units (note 17) with a value of \$97,759 and paid commissions and fees of \$353,393 to advisors for assistance with the private placement. The Company also granted 364,854 common shares for \$159,996 to the lead subscribers as a sweetener on the transaction which was reduced from the proceeds allocated to the debt host. These charges were recorded to the debt and derivative liability on a pro-rata basis, of which the \$137,646 was related to the derivative liability and was expensed to transaction cost immediately upon issuance.

These debentures were fully converted and repaid in early September 2017 prior to the closure the Company's bridge loan financing by payment of cash of C\$356,000 and issuance of 21,468,131 common shares at a price of C\$0.21.

- (iv) On October 21, 2016, the Company resolved to reprice the conversion option on (iii) to C\$0.30 and become subordinated to the C\$12 million senior secured convertible debentures which were issued from October 24, 2016 through November 3, 2016 (second tranche of debentures). The change in conversion price from C\$0.67 to C\$0.30, represented an extinguishment of the first tranche convertible debentures, which resulted in a loss on extinguishment of \$11,215,118.

The C\$12 million senior secured debentures (second tranche), mature 18 months from issuance and carry an interest rate of 10% payable semi-annually. The senior secured debentures also carry a conversion option, in whole or in part, at C\$0.30 per share and a mandatory conversion feature if the Company's common shares trade at C\$1.00 for ten consecutive days.

In connection with the placement of the senior secured convertible debentures, the Company issued 3,200,000 broker units with a value \$1,020,978 (C\$1,495,600) and paid commissions and fees of \$820,186 to advisors for assistance with the private placement. These charges were recorded to transaction cost in profit and loss.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

12. Convertible debt and notes payable (continued)

As of November 2, 2017, in conjunction with the closing of the Company's most recent round of convertible debentures (v), 4,750,000 of these debentures remained outstanding. Of these remaining debentures, 1,790,000 worth rolled to latest round closing on November 2, 2017, and 2,960,000 remained outstanding.

On November 29, 2017, the remaining debentures in this round were modified by a party owning greater than 50% of the outstanding debentures to extend the term of the debentures until June 1, 2018 and allow for retraction by the holder at 90% of the 20-day VWAP ending 10 days prior to the date of retraction. On December 11th, 2017 2,700,000 worth of these debentures were retracted resulting in the issuance of 16,035,808 common shares at a price of C\$0.17.

- (v) On September 5, 2017, the Company secured a C\$2M Bridge Loan in the form of demand promissory notes ("Notes"). The Notes carry an interest rate of 5% upon maturity on January 31, 2018. In conjunction with the issuance of the Notes the Company issued 1,904,000 common share purchase warrants. Each warrant is exercisable for 24 months from the date of issuance at a price of C\$0.21 per common share. On November 2, 2017 in conjunction with the third tranche, all of the holders of the bridge loan opted to roll these notes into the debenture units discussed in (vi) below.
- (vi) On November 2, 2017, the Company completed the placement of its third tranche of convertible debentures, in the form of units. The Company issued units totaling C\$20.4M in exchange for C\$15M gross cash proceeds, C\$3.8M extension of existing debentures from the 2nd tranche and the Bridge Loan, and C\$1.6M as payment of outstanding commissions related to the Company's acquisition activity during the year. The units consist of one senior secured convertible debenture and one half common share purchase warrant, calculated on as converted shares, exercisable for 24 months from the date of issuance at an exercise price of C\$0.28 resulting in total warrants of 48,524,780 issued (Note 14).

The debentures mature 24 months from issuance and carry an interest rate of 10% payable semi-annually. The holders of these debentures are entitled to the full 12 months of interest if the debentures are converted at any time during the first 12 months. The debentures carry a conversion option, in whole or in part, at C\$0.21 per share.

In connection with the units, the Company issued 2,857,143 broker units, exercisable at C\$0.28 per share for a period of two years following the closing of the offering, and paid \$C600,000 of commissions consisting of cash of C\$240,000 and units of \$360,000.

The Company has elected to account for the convertible debentures at fair value through profit and loss on initial recognition for those debentures noted in (iv), (v), and (vi), as of the date of extinguishment for those convertible debentures noted in (i) and (ii).

13. Long-term debt

	2017	2016
Long term debt	\$ 211,991	\$ 1,599,077
Less: current portion	(131,610)	(1,489,172)
Carrying amount of long-term debt at December 31	\$ 80,381	\$ 109,905

Long term debt consists of vehicle loans and a packaging machine. Vehicle loans of \$193,884 are secured by the Company's vehicles, due in June 2021 and repayable in monthly blended installments of \$3,548. The packaging machine loan of \$18,107 is secured by the machine, due in June of 2018, and repayable in monthly installments of \$3,018.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

14. Warrant liability

	Units	Amount
Balance, December 31, 2015	13,402,250	\$ 4,841,706
Warrants exercised	(1,225,000)	(273,214)
Change in fair market value	-	(4,152,078)
Balance, December 31, 2016	12,177,250	\$ 416,414
Warrants issued	117,819,494	\$ 6,216,998
Warrants exercised	(53,550)	(5,530)
Warrants expired recorded as gain on fair market value of warrant liabilities	(12,177,250)	(41,844)
Change in fair market value	-	7,714,578
Balance, December 31, 2017	117,765,944	\$ 14,300,616

During 2014, the Company issued 13,722,250 warrants in conjunction with various private placements. The warrants have an expiry period of 3 years from date of issuance and an exercise price of C\$0.50 per common share. During the year ended December 31, 2017, none of these warrants were exercised (2016 – 1,225,000). At December 31, 2017, all of these warrants were expired.

In conjunction with the Company's private placement unit financing which closed in June and July 2017, the Company issued 67,390,714 warrants exercisable for 24 months from the date of closing at a price of C\$0.37.

In conjunction with the Company's bridge notes placed in September, the Company issued 1,904,000 warrants exercisable for 24 months from the date of issuance at an exercise price of \$C0.21.

In conjunction with the Company's third tranche of convertible debentures in November, the Company issued 48,524,780 warrants exercisable for 24 months from the date of issuance at an exercise price of C\$0.28.

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. At December 31, 2017, a loss of \$7,714,578 (2016 – gain \$4,152,078) was recorded in the statement of operations due to significant changes in the Company's share price. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

	2017	2016
Expected life	1.7 - 1.9 years	0.7 to 0.9 years
Risk-free interest rate	0.84%	0.68%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7701	0.7424
Expected volatility	70.00%	70.00%

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 warrants 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 warrants.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

15. Share capital

Share capital consists of one class of fully paid Ordinary Shares, with no par value. The Company is authorized to issue an unlimited number of Ordinary Shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the Company's shareholders' meetings. The following table reflects the continuity of share capital from December 31, 2015 to December 31, 2017:

	Number of Shares	Amount
Balance at December 31, 2015	62,324,236	\$ 15,481,051
Shares issued – BMF Asset purchase (i)	30,769,777	11,665,284
Shares issued in conjunction with debt financing (ii)	364,854	178,275
Shares issued - warrant exercises (iii)	3,295,843	1,259,100
Shares issued - option exercises (iv)	103,611	20,835
Shares issued - executive stock compensation (v)	333,333	194,630
Shares issued - services rendered (vi)	2,070,000	1,017,020
Shares issued in conjunction with debt financing (vii)	2,100,000	1,244,250
Shares issued - conversion of debentures (viii)	6,399,997	2,775,311
Shares issued - debenture interest (ix)	1,587,764	446,559
Balance, December 31, 2016	109,349,415	\$ 34,282,314
Shares issued - conversion of debentures (x)	83,481,860	\$ 17,894,047
Shares issued - debenture interest (xi)	3,632,073	852,427
Shares issued - option exercises (xii)	275,555	63,169
Shares issued - warrant exercises (xiii)	4,920,880	735,612
Shares issued - private placement financing (xiv)	134,821,428	22,947,895
Shares issued - purchase of Chalice Farms (xv)	83,418,687	17,284,352
Shares issued - payment of commissions (xvi)	408,637	79,011
Shares issued - legal settlement (xvii)	745,104	164,600
Shares issued - severance (xviii)	2,000,000	569,808
Shares issued - to settle aged payables (xix)	375,269	133,917
Shares issued - Acquisition of Medical Marijuana Group Corporation (xx)	35,714,285	8,952,369
Shares issued - Acquisition of Medical Marijuana Group Consulting (xxi)	17,857,143	4,593,160
Balance, December 31, 2017	477,000,336	\$ 108,552,681

- (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.
- (ii) In conjunction with the completion of the first tranche of a convertible senior unsecured debt financing, the Company issued 364,854 common shares as a sweetener to the lead subscribers.
- (iii) During 2016, the Company issued 3,295,843 shares upon exercise of warrants.
- (iv) The Company issued 103,611 shares upon exercise of employee stock options.
- (v) The Company issued 333,333 shares as stock compensation for an executive.
- (vi) The Company issued 2,070,000 shares in lieu of amounts owed to organizations for services rendered. The shares reflected a value of \$1,017,020.
- (vii) During the fourth quarter 2016, the Company issued 2,100,000 in settlement of the anti-dilution provision as noted in Note 13.
- (viii) During the fourth quarter 2016, 6,399,997 shares were issued in respect of conversion of convertible debentures.
- (ix) During December 2016, 1,587,764 shares were issued to settle debentures interest.
- (x) During 2017, 83,481,860 shares were issued in respect of conversion of convertible debentures.
- (xi) During 2017, 3,632,073 shares were issued to settle debenture interest.
- (xii) During 2017, 275,555 shares were issued upon exercise of stock options.
- (xiii) During 2017, 4,920,880 shares were issued upon exercise of warrants.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

15. Share capital (continued)

- (xiv) In June and July 2017, 134,821,428 shares were issued in conjunction with the private placement unit offering resulting in gross proceeds of C\$37,750,000.
- (xv) In July 2017, 83,418,687 shares were issued as consideration for the purchase of Chalice Farms.
- (xvi) In July 2017, 408,637 units were issued to settle commissions owed to an advisor.
- (xvii) In May 2017, 745,104 shares were issued to settle a legal claim.
- (xviii) In August, 2,000,000 shares were issued to pay severance for a former executive.
- (xix) During 2017, 375,269 shares were issued to settle outstanding payables.
- (xx) In October 2017, 35,714,285 shares were issued as consideration for the purchase of Medical Marihuana Group Corporation.
- (xxi) In December 2017, 17,857,143 shares were issued as consideration for the purchase of Medical Marijuana Group Consulting Corporation.

16. 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	56,584
Warrants issued - consulting (ii)	522,745	CDN \$0.67	97,759
Warrants issued - consulting (iii)	1,000,000	CDN \$1.50	58,920
Warrants issued - consulting (iv)	3,200,000	CDN \$0.30	1,020,978
Expensed on staged vesting (v)	-	USD \$1.00	102,518
Warrants exercised (vi)	(2,070,843)	CDN \$0.20	(330,218)
Warrants expired (vii)	(2,841,667)	USD \$1.00	(473,787)
Balance, December 31, 2016	17,341,904		\$ 3,501,409
Warrants issued (viii)	504,318	USD \$0.30	80,435
Warrants issued (ix)	2,812,500	CDN \$0.21	252,756
Warrants issued (x)	937,500	CDN \$0.21	59,012
Warrants issued (xi)	2,857,143	CDN \$0.37	468,019
Warrants issued (xii)	9,437,500	CDN \$0.28	1,233,021
Warrants issued (xiii)	200,000	CDN \$0.20	10,439
Warrants issued (xiv)	100,000	CDN \$0.28	3,751
Warrants issued - interest (xv)	20,000		2,054
Warrants exercised (xvi)	(4,278,000)		(302,539)
Warrants expired (xvii)	(658,334)		(224,796)
Balance, December 31, 2017	29,274,531		\$ 5,083,561

- (i) Warrants issued in conjunction with purchase of BMF Washington assets.
- (ii) The Company issued 522,745 broker units to advisors for services in conjunction with convertible debt financing at C\$0.67.
- (iii) The Company issued 1,000,000 warrants for services in lieu of accounts payable.
- (iv) The Company issued 3,200,000 broker units to advisors for services in conjunction with the convertible debentures discussed in Note 12.
- (v) Employee warrants vesting during the period were expensed in the amount of \$102,518.
- (vi) Through December 31, 2016, 2,070,843 warrants were exercised.
- (vii) Through December 31, 2016, 2,841,667 warrants were cancelled related to expiry provisions.
- (viii) During the first quarter, 504,318 warrants were issued as payment for commissions and consulting costs.
- (ix) In November 2017, 2,812,500 warrants were issued as compensation to a related party as compensation for pledging shares to facilitate a financing transaction.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

16. Warrant reserve (continued)

- (x) In November 2017, 937,500 warrants were issued as compensation to a related party as compensation for pledging shares to facilitate a financing transaction.
- (xi) In November 2017, 2,837,143 broker warrants were issued as commissions for financing efforts.
- (xii) In June and July 2017, 9,437,500 broker warrants were issued as commissions for financing efforts.
- (xiii) In September 2017, 200,000 warrants were issued as an incentive to convert debentures.
- (xiv) In September 2017, 100,000 warrants were issued for a debenture holder as an incentive to convert debentures.
- (xv) Through December 31, 2017 4,278,000 warrants were exercised.
- (xvi) Through December 31, 2017 658,334 warrants expired.

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:

	2017	2016
Expected life	3-5 years	3-5 years
Risk-free interest rate	0.57% - 1.44%	0.57% - 1.44%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7701	0.7424
Expected volatility	70.00%	70.00%

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 warrants 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 warrants.

17. Stock option plan

On January 1, 2015, the Company's Board of Directors approved a Directors, Management, Employees and Consultants Stock Option Plan, to provide an incentive to its directors, executives, 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 maximum aggregate number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares at the time of the grant. The options vest evenly over 3 years and have an expiry period of no more than 10 years from the grant date.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

17. Stock option plan (continued)

Total number of options at December 31, 2015	5,367,222
Options granted at \$0.77 Canadian dollars	700,000
Options granted at \$0.30 Canadian dollars	800,000
Options granted at \$0.51 Canadian dollars	1,000,000
Options granted at \$0.27 U.S. dollars	560,000
Options exercised	(103,611)
Options expired	(890,833)
Total number of options at December 31, 2016	7,432,778
Options granted at \$0.21 Canadian dollars	18,250,000
Options exercised	(275,555)
Options expired	(3,350,000)
Total number of options at December 31, 2017	22,057,223
Number of exercisable options issued in Canadian dollars	6,587,100
Number of exercisable options issued in U.S. dollars	1,069,635
Weighted average exercise price of options at December 31, 2017 in U.S. dollars	\$ 0.29

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

	2017	2016
Expected life	3 years	3 years
Risk-free interest rate	0.00% - 1.59%	0.57% - 1.06%
Dividend yield	0.00%	0.00%
Expected volatility	70.00%	70.00%
Expected forfeiture rate	0.00%	0.00%

Exercise price	Options outstanding				Options exercisable		
	Number outstanding at December 31, 2017	Weighted average remaining contractual life (years)	Weighted average fair value per share	Weighted average exercise price	Number exercisable at December 31, 2017	Weighted average exercise price	Weight average fair value per share
	#		\$	\$	#	\$	\$
USD \$							
1.00	822,223	0.54	0.45	1.00	636,713	1.00	0.46
0.27	610,000	1.67	0.13	0.27	432,922	0.27	0.13
CDN \$							
0.20	75,000	0.00	0.08	0.20	75,000	0.20	0.08
0.30	800,000	1.83	0.13	0.30	400,000	0.30	0.13
0.51	1,000,000	1.92	0.18	0.51	1,000,000	0.51	0.18
0.21	18,750,000	2.92	0.08	0.21	5,112,100	0.21	0.08

During the year ended December 31, 2017, \$1,239,670 (2016 - \$1,026,504), including \$569,808 in severance costs paid in common shares, was included in stock compensation expense in the consolidated statement of operations.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

17. Stock option plan (continued)

On November 3, 2017, the Company repriced 500,000 options issued on June 1, 2015 from \$1.00 to C\$0.21 and issued an additional 500,000 options. The fair value attributable to the change in price and number of options, \$39,748, was estimated using the Black-Scholes option-pricing model assuming an expected life of 3 years, a risk-free interest rate of 1.59% and an expected volatility of 70%.

On November 3, 2017, the Company repriced 1,000,000 options issued to the Company's legal counsel on November 4, 2016 from C\$0.51 to C\$0.21. The fair value attributable to the change in price, \$24,800, was estimated using the Black-Scholes option-pricing model assuming an expected life of 3 years, a risk-free interest rate of 1.590% and an expected volatility of 70%.

18. Loss per share

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

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

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

	2017	2016
Warrants	147,040,475	28,725,887
Stock options (ESOP)	7,656,735	7,432,778
Vesting share awards	-	1,499,444
Convertible debt	98,285,714	58,750,516
Total	252,982,924	96,408,625

19. Commitments

The Company and its subsidiaries have entered into operating lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, and grow facilities. Future lease payments amount to \$5,391,024:

2018	\$	1,226,701
2019		1,179,512
2020		877,162
2021		708,400
2022		347,515
Thereafter		1,051,734
	\$	5,391,024

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

20. 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 \$2,237,027. 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:

Assets acquired	
Inventory	\$ 304,285
Biological assets	77,667
Property, plant and equipment	420,804
Intangible assets	1,323,900
	<u>\$ 2,126,656</u>
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 100,000
	<u>100,000</u>
Fair value of identifiable net assets acquired	<u><u>\$ 2,026,656</u></u>
<u>Goodwill arising on acquisition:</u>	
Total consideration	\$ 2,237,027
Fair value of identifiable net assets acquired	2,026,656
Goodwill arising from transaction	<u><u>\$ 210,371</u></u>

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.

<u>Total consideration:</u>	
Consideration paid in cash	\$ 2,237,027
Consideration paid in shares	-
Total consideration	<u><u>\$ 2,237,027</u></u>

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

21. Acquisition of Chalice Farms

On July 12, 2017, the Company acquired the operations of Chalice Farms, comprised of the assets of CFA Productions, LLC and 100% of the membership interest of CFA Retail, LLC (Collectively, "Chalice Farms") for total consideration of \$46,061,702, paid as \$19,250,000 cash, 17,284,352 in stock of the Company, and \$9,527,350 of contingent consideration. This 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.

Assets acquired	
Cash	\$ (203,854)
Inventory	1,351,855
Deposits	200,770
Property, plant and equipment	2,885,540
Intangible assets	15,700,000
	\$ 19,934,311
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 688,487
Notes payable	81,840
	\$ 770,327
Fair value of identifiable net assets acquired	\$ 19,163,984
<u>Goodwill arising on acquisition:</u>	
Total consideration	\$ 46,061,702
Fair value of identifiable net assets acquired	19,163,984
Goodwill arising from transaction	\$ 26,897,718

Goodwill arose on the acquisition of Chalice Farms 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 Oregon adult-use cannabis market, which is still nascent and growing. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

<u>Total consideration:</u>	
Consideration paid in cash	\$ 19,250,000
Consideration paid in shares	17,284,352
Consideration payable	9,527,350
Total consideration:	\$ 46,061,702

Consideration payable, in the form of \$5M cash and \$4,527,350 of company stock at a VWAP for the thirty trading days ending on the payment date, which is the earlier of November 2, 2019, or a liquidity event of \$25M or greater.

Impact of acquisition on the results of the Company

If this acquisition had been in effect at January 1, 2017, revenues would have been \$3.3M higher and net income materially unchanged.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

22. Acquisition of Medical Marihuana Group Corporation ('MMGC')

On October 31, 2017 the Company acquired the operations of Medical Marihuana Group Corporation ('MMGC'), by purchasing 100% of the outstanding equity interests in the Corporation for total consideration of \$8,952,369 in stock of the Company. This 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.

Assets acquired	
Cash	\$ 195,091
Deposits	12,468
Other receivables	121,018
Property, plant and equipment	1,187,531
Intangible assets	7,690,320
	\$ 9,206,428
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 1,720,661
Related party loans	323,584
	\$ 2,044,245
Fair value of identifiable net assets acquired	\$ 7,162,183
<u>Goodwill/Capital reserve arising on acquisition:</u>	
Total consideration	\$ 8,952,369
Fair value of identifiable net assets acquired	7,162,183
Goodwill arising from transaction	\$ 1,790,186

Goodwill arose on the acquisition of MMGC 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 Canadian adult-use medical and recreational cannabis market, which is still nascent and growing. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

<u>Total consideration:</u>	
Consideration paid in cash	\$ -
Consideration paid in shares	8,952,369
Total consideration:	\$ 8,952,369

If this acquisition had been in effect at January 1, 2017, revenues would have been unchanged and net loss increased by \$0.3M.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

23. Acquisition of Medical Marijuana Group Consulting Ltd. ('MMCC')

On December 29, 2017 the Company acquired the operations of Medical Marijuana Group Consulting Ltd ('MMCC'), by purchasing 100% of the outstanding equity interests in the Corporation for total consideration of \$4,593,160 in stock of the Company. This 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.

Assets acquired	
Cash	\$ 17,649
Accounts receivable	152,962
Other Receivables	51,775
Deposits	2,044
Property, plant and equipment	-
Intangible assets	1,512,896
	\$ 1,737,326
Liabilities assumed	
Related party loans	\$ 58,022
Accounts payable and accrued liabilities	159,267
	\$ 217,289
	\$ 1,520,037
Fair value of identifiable net assets acquired	
<u>Goodwill arising on acquisition:</u>	
Total consideration	\$ 4,593,160
Fair value of identifiable net assets acquired	1,520,037
Goodwill arising from transaction	\$ 3,073,123
<u>Total consideration:</u>	
Consideration paid in cash	\$ -
Consideration paid in shares	4,593,160
Total consideration:	\$ 4,593,160

If this acquisition had been in effect at January 1, 2017, revenues would have been \$0.6M higher and net loss \$0.3M larger.

Goodwill arose on the acquisition of MMCC 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 Canadian adult-use medical and recreational cannabis market, which is still nascent and growing. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

24. Transaction costs

Transaction costs totaled \$8,480,163 and \$4,712,218 for the years ending December 31, 2017 and 2016, respectively. These costs are comprised as follows:

	2017	2016
Issuance of convertible debentures	\$ 1,678,482	\$ 4,712,218
Financing commissions	2,253,915	-
Acquisition of subsidiaries	4,370,093	-
Sale of property	132,000	-
Other	84,000	-
Total	\$ 8,518,490	\$ 4,712,218

25. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the years ended December 31, 2017 and 2016 includes the following expenses:

	2017	2016
Salaries, commissions, bonuses and benefits	\$ 1,249,778	\$ 765,000
Consulting fees paid to officers of the Company	-	107,500
Stock Compensation, including warrants and shares	936,571	487,156
	\$ 2,186,349	\$ 1,359,656

Don Robinson, former CEO, provided a personal guarantee of the \$1.5 million promissory note between Golden Leaf and BMF/Peter Saladino – Director. This note was settled in full as of December 31, 2017 as part of an offset agreement between Saladino, BMF and GLH.

The Company was engaged in a licensing and leasing arrangement with BMF Washington, LLC in connection with the assets purchased in January 2016. BMF Washington is 100% owned by Peter Saladino, Director. During the year the Company recorded \$1,100,006 of royalty revenues from BMF Washington, LLC, a related party and strategic partner, under its brand licensing arrangement which was deemed terminated as of February 9, 2018, subsequent to the balance sheet date.

On September 5, 2017, the Company converted C\$447,000 and C\$819,000 debentures held by Peter Saladino and Michael Cohl, respectively, at a conversion price of C\$0.21 in exchange for 6,144,132 common shares.

As part of the Company's Bridge Loan financing in September 2017, Gary Yeoman, Director, Gary Zipfel, Director, and Phillip Millar, President of MMGC and MMCC, placed notes of C\$50,000, C\$750,000 and C\$50,000 respectively. These amounts were all subsequently extended as part of the debenture unit placement on November 2, 2017. The same individuals also received 47,600, 714,000 and 47,600 common share purchase warrants respectively.

On October 27, 2017, as consideration for the acquisition of Medical Marihuana Group Corporation, Gary Yeoman, Director, received 2,171,428 common shares as consideration.

On November 13, 2017, as compensation for share pledges made to facilitate the placement of additional financing, Gary Yeoman and Phillip Millar were awarded 937,500 and 2,812,500 warrants exercisable for up to 24 months at an exercise price of C\$0.21.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

25. Related party transactions (continued)

On November 15, 2017, the Company remitted \$467,049 to BMF for a variety of expenses incurred to support the assets of NevWa, LLC prior to the acquisition close in June 2017.

On November 20, 2017, the Company remitted \$267,845 to Peter Saladino, Director, for various costs incurred in support of financing efforts and the NevWa, LLC assets.

On December 29, 2017, as consideration for the acquisition of Medical Marijuana Group Consulting Ltd., Gary Yeoman, Director and Phillip Millar, President of MMGC and MMCC, received 1,785,714 and 5,357,143 common shares, respectively, as consideration.

The Company leases both its corporate headquarters in Portland and its grow facility outside of Portland, which is currently under construction, from CPPOR LLC ("CPP"), of which Gary Zipfel, Director, is the sole member. During 2017, the Company paid total rents of \$96,000 for these properties. Subsequent to the balance sheet date, in an effort to support the Company, CPP entered into a rent abatement agreement with the Company for the entirety of 2018. Rent payments will resume in 2019.

26. Sale of Aurora property & repayment of secured convertible debentures

On September 25, 2017, the Company sold its interest in the Aurora Property. In 2015, the Company had issued secured convertible debentures ("Debentures") in connection with the purchase of the Aurora Property.

The Company repaid the Debentures pursuant to the terms of a repayment agreement dated September 25, 2017. The repayment was in the form of a cash amount of \$403,962 and 9,250,048 shares valued at \$1,321,851 on the date of repayment ("Repayment"). There was no gain or loss recognized upon repayment of Debentures as they were measured at fair value on the date of derecognition.

Pursuant to the terms of the repayment agreement, the Company is required to make further payments to the Debenture holders if within 12 months of the repayment date the shares received as part of the Repayment are sold for gross proceeds less than the amount that would have been received if the Repayment had been in cash. Per IAS 39, this feature meets the definition of a derivative and must be measured at fair value at the reporting date.

In conjunction with the repayment the Company issued 100,000 warrants to a holder to incentivize conversion. Each warrant has an expiry of two years from the date of issuance and have an exercise price of C\$0.28 per common share.

In conjunction with the repayment the Company issued a further 200,000 warrants to incentivize conversion. Each warrant has an expiry of two years from the date of issuance and have an exercise price of C\$0.20 per common share.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

27. 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 December 31, 2017, total managed capital was \$50,006,863. 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.

28. Legal matters

The Company settled an employment related claim which arose during 2014 by paying \$175,000 composed of \$75,000 cash and 400,000 common shares which has been accrued for as at December 31, 2016.

Subsequent to the balance sheet date, the Company settled an employment related claim which arose during 2017 by paying \$45,000 of cash which has been accrued for at December 31, 2017.

The Company is currently finalizing a settlement with a former employee for an employment related claim which was made during 2017. The Claim alleges damages of \$376,003, not including penalties or attorney's fees. The Company expects to settle the claim by transferring to the former employee excess production equipment valued at \$220,000. This amount has been accrued for at December 31, 2017.

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC, an Oregon limited liability company (collectively, the "Defendants"), were sued in the Circuit Court of the State of Oregon in Lane County on November 7, 2017 by the plaintiff, 3590 West 3rd Owner, LLC, an Oregon limited liability company ("Plaintiff"). The claims made by Plaintiff arise out of a lease between the parties and are breach of contract, foreclosure of landlord's lien and foreclosure of security interest. The amount of damages claimed are \$3,210,327, plus interest and certain other fees and costs. The Defendants deny all of the claims made and are preparing an Answer to file in response to the Plaintiff's Complaint against the Defendant's. The parties participated in a judicial settlement conference for Wednesday, March 14, 2018 in Portland, Oregon, for the purpose of attempting to reach a mutually agreeable settlement to resolve this matter. This attempt to settle was unsuccessful and the Company is expecting an Amended Complaint from the Plaintiffs. The Company assesses the likelihood of a potential lawsuit as neither remote, nor probable and therefore has not recorded a provision for this loss at December 31, 2017.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

29. 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 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.

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
December 31, 2017		Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets						
Available for sale purchase option	FVTPL		-	-	-	-
Financial Liabilities						
Warrant liability	FVTPL		-	-	14,300,616	14,300,616
Convertible debentures	FVTPL		-	-	30,631,470	30,631,470

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

The convertible debentures were valued using a binominal option pricing model to estimate the value of the combined convertible instrument. The most significant assumption used in this valuation is the expected volatility of the Company's shares which has been estimated at 70%.

Refer to Note 14 for further information on valuation of warrant liability.

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

(b) Credit risk

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

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

29. Financial instruments and risk management (continued)

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 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 \$0 and \$373,494 at December 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 and convertible notes are carried at a fixed interest rate throughout their term.

(d) Liquidity risk

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

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2017						
Trade and other payables	\$ 2,916,259	\$ 2,916,259	\$ 2,916,259	\$ -	\$ -	\$ -
Loans and other borrowings	601,907	601,907	521,526	80,381	-	-
Convertible debt	30,631,470	30,631,470	271,245	30,360,225	-	-
Total	\$ 34,149,636	\$ 34,149,636	\$ 3,709,030	\$ 30,440,606	\$ -	\$ -

(e) Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currencies. The Company has financial assets and liabilities denominated in Canadian dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The following is an analysis of U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at December 31, 2017:

Financial Assets	
Cash	\$ 4,269,495
Trade and other receivables	152,905
	\$ 4,422,400
Financial Liabilities	
Trade and other payables	\$ 964,542
Loans and other borrowings	407,604
Convertible debt	30,631,470
	\$ 32,003,616

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

30. Segmented Information

The Company defines its major operating segments as Oregon wholesale, Oregon retail, and Nevada wholesale operations. Due to the jurisdictional cannabis compliance issues ever-present in the industry, each state operation is by nature an operational segment. The Oregon wholesale and retail operations share supply chain components and cannot be discretely separated beyond gross margin; however, they have disparate revenue and margin metrics and thus will be presented as such. The Nevada wholesale operations are geographically and jurisdictionally distinct and are reviewed based on gross margin performance. The Canadian companies, although under common management, are different business models and thus are reviewed by management independently based on revenues and gross margin.

Key decision makers primarily review revenue, cost of sales expense and gross margin as the primary indicators of segment performance. The Oregon wholesale operation has historically been the major focus on the Company's management activities, however the addition of Retail and Nevada has further broadened the scope of management's activities. As these management activities continue to coalesce, the segment information will expand based on management's agreed upon allocation of costs beyond gross margin.

2017	Retail	Wholesale	Nevada	Canada Cultivation	Canada Consulting	Other unallocated	Consolidated
Total Revenue	4,821,617	5,127,419	462,196	-	-	1,100,066	11,511,298
Cost of sales expense	2,669,020	6,555,864	578,376	-	-	-	9,803,260
Gross Margin	2,152,597	(1,428,445)	(116,180)	-	-	1,100,066	1,708,038.00
Assets	3,540,876	9,800,715	3,389,811	1,336,736	213,939	57,502,704	75,784,781
Liabilities	221,724	516,381	113,243	399,517	206,801	56,580,980	58,038,646

31. Taxation

The Company reconciles the expected income tax recovery (expense) at the combined U.S. and Canadian statutory income tax rate of 30.66% (U.S.-38.26%, Canada-26.5%) to the amounts recognized in the consolidated statement of operations.

The Company has estimated an income tax liability for the years ended December 31, are as follows:

	2017	2016
Loss before income taxes	\$ (55,929,112)	\$ (21,403,953)
Estimated tax recovery at combined rate of 32.0% (2016 - 31.9%)	(17,413,409)	(6,827,861)
Expenses not deductible in U.S.	2,260,421	4,121,181
Expenses not deductible in Canada (Permanent items)	4,140,773	560,963
Losses - benefit not realized in Canada	3,787,441	-
Losses and other tax attributes not recognized in the U.S.	4,514,529	-
Losses not deductible under IRC S 280E in the U.S.	2,710,245	2,071,581
Income tax (recovery) expense	\$ -	\$ (74,136)

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

31. Taxation (continued)

Deferred tax assets (liabilities) arising from temporary differences and unused tax losses are summarized as follows:

	January 1, 2017	Recognized in profit and loss	December 31, 2017
Loss carryforwards	\$ 948,900	\$ (3,017,177)	\$ (2,068,277)
Convertible debentures	(1,554,600)	-	(1,554,600)
Warrant liability	(110,400)	-	(110,400)
Financing fees	716,100	-	716,100
Intangible assets	-	6,040,849	6,040,849
Valuation allowance	-	(3,422,849)	(3,422,849)
Depreciation	-	454,617	454,617
Unrealized FMV gain on biological assets	-	(55,440)	(55,440)
	\$ -	\$ -	\$ -

The Company did not make any estimated tax payments to US federal government, State of Oregon, and municipal governments during the year ended December 31, 2017.

The Company has recorded income taxes recoverable of \$432,000 based on estimated payments made during 2016 which have not yet been fully applied towards its tax liability and \$143,000 of income tax expense for the current year applied toward this receivable. The Company can offset the remaining overpayments against future tax liabilities.

The combined tax rate in the State of Oregon and municipal governing bodies is 7.6% which is deductible for U.S. federal tax purposes. In aggregate, the estimated total U.S. federal and state tax rate is approximately 38.26%. As the Company is subject to Internal Revenue Code Section 280E, the Company has computed its U.S. tax on the basis of gross receipts less cost of goods sold. 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. ORS 317.763 allows Oregon taxpayers filing a corporate excise or income tax return to deduct business expenses otherwise barred by IRC §280E if the taxpayer is engaged in marijuana-related activities authorized by ORS 475B.010 to 475B.395.

As of December 31, 2017, the Company has estimated Canadian non-capital losses of \$22,560,409. These non-capital losses are available to be carried forward, to be applied against taxable income earned in Canada over the next 20 years and expire between 2034 and 2037. The deferred tax benefit of these tax losses has not been set up as an asset.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise stated)
For the years ended December 31, 2017 and 2016

32. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

33. Subsequent events

Subsequent to the balance sheet date, C\$6,006,000 of debentures have been converted into 28,480,952 common shares.

On January 31, 2018, the Company announced the closing of its bought deal private placement of 39,980,000 units at a price per unit of C\$0.45 for gross proceeds of C\$17,541,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of C\$0.55 for a period of 24 months from the closing of the offering.

On January 16, 2018, the Company announced the appointment of Craig Eastwood as Chief Financial Officer.

On March 27, 2018, the Company announced the signing of a letter of intent with BlackShire Capital to launch the Chalice Farms franchise model.

On January 24, 2018, the Company issued 21,600,000 stock options to employees and consultants with an exercise price of C\$.39.

On March 27, 2018, the Company announced the signing of a letter of intent to acquire a California cannabis operation. Under the terms of the LOI, the Company would pay \$1.25 million USD in cash and \$500,000 in GLH stock upfront, with additional earn-out payments up to \$8 million USD based on future revenue thresholds.