

Interim Condensed Consolidated Financial Statements of

GOLDEN LEAF HOLDINGS LTD.

As at and for the three months ended March 31, 2019 (Unaudited)

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Financial Statements
(Expressed in U.S. Dollars, unless otherwise stated)
As at and for the three months ended March 31, 2019

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Notice of No Auditor Review of Condensed Interim Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying interim condensed consolidated financial statements of Golden Leaf Holdings Ltd. for the three months ended March 31, 2019 and the notes to interim condensed consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

As at March 31, 2019 and December 31, 2018

(Expressed in U.S. dollars)

		March 31, 2019	December 31, 2018
ASSETS			
CURRENT			
Cash		\$ 8,288,168	\$ 12,275,372
Accounts receivable	Note 6	749,066	624,453
Other receivables		212,081	297,737
Income tax recoverable		686,600	686,600
Sales tax recoverable		608,519	661,319
Biological assets	Note 7	77,113	74,148
Inventory	Note 7	3,842,026	3,416,906
Prepaid expenses and deposits		1,564,758	1,962,033
Assets held for sale		-	35,274
Total current assets		\$ 16,028,331	\$ 20,033,842
Property, plant and equipment	Note 8	10,244,641	6,188,835
Intangible assets	Note 9	21,705,844	21,782,949
Goodwill		25,471,399	25,471,399
Total assets		\$ 73,450,215	\$ 73,477,025
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 2,001,419	\$ 2,624,967
Interest payable		520,119	92,554
Income taxes payable		69,543	106,808
Sales tax payable		58,980	231,675
Current portion of long-term debt	Note 11	735,573	25,492
Current portion of convertible debentures carried at fair value	Note 10	8,782,131	8,888,946
Warrant liability	Note 12	64,550	369,343
Total current liabilities		\$ 12,232,315	\$ 12,339,785
Long term debt	Note 11	3,501,119	46,229
Note payable	Note 10	312,118	312,118
Convertible debentures carried at fair value	Note 10	5,176,936	4,996,811
Consideration payable	Note 11	9,123,653	8,956,809
Warrant liability	Note 12	41,270	236,138
Total liabilities		\$ 30,387,411	\$ 26,887,890
SHAREHOLDERS' EQUITY			
Share capital	Note 13	\$ 138,511,038	\$ 138,511,038
Warrant reserve	Note 14	4,052,164	4,052,164
Share option reserve	Note 15	5,132,608	4,777,929
Contributed surplus		59,940	59,940
Accumulated other comprehensive loss		(1,018,144)	(125,930)
Deficit		(103,674,802)	(100,686,006)
Total shareholders' equity		43,062,804	46,589,135
Total liabilities and shareholders' equity		\$ 73,450,215	\$ 73,477,025

Going concern (Note 2)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

(Signed) "Alex Winch", Director

(Signed) "Karl R. Miller, Jr.", Director

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statements of Operations and Comprehensive Gain (Loss) (Unaudited)
 For the three months ended March 31, 2019 and 2018
 (Expressed in U.S. dollars)

		For the three months ended March 31,	
		2019	2018
Revenues			
Product sales	Note 20	\$ 4,076,607	\$ 3,200,267
Consulting revenue	Note 20	206,241	-
Total Revenue		\$ 4,282,848	\$ 3,200,267
Expenses			
Inventory expensed to cost of sales	Note 7, 20	2,518,155	2,843,843
Production costs	Note 20	138,736	297,474
Gross margin, excluding fair value items		1,625,957	58,950
Fair value changes in biological assets included in inventory sold	Note 7, 20	161,523	-
(Gain) Loss on changes in fair value of biological assets	Note 7, 20	(303,439)	(293,897)
Gross profit		\$ 1,767,873	\$ 352,847
Expenses			
General and administration		2,999,461	2,795,794
Share based compensation	Note 15	411,926	1,075,452
Sales and marketing		630,962	383,301
Depreciation and amortization	Note 8, 9	706,146	345,279
Total expenses		\$ 4,748,495	\$ 4,599,826
Loss before items noted below		\$ (2,980,622)	\$ (4,246,979)
Interest expense		741,662	649,258
Transaction costs		6,108	471,900
Gain on disposal of assets	Note 8	(16,945)	-
Other income		(141,197)	(159,126)
Gain on change in fair value of warrant liabilities	Note 12	(499,662)	(6,212,222)
Gain on change in fair value of convertible debentures	Note 10	(36,169)	(7,128,616)
Gain (loss) before income taxes		(3,034,419)	8,131,827
Current income tax expense		11,624	-
Net gain (loss)		\$ (3,046,043)	\$ 8,131,827
Other comprehensive loss			
Items that will be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		892,214	19,117
Comprehensive gain (loss)		\$ (3,938,257)	\$ 8,112,710
Basic and diluted gain (loss) per share		\$ (0.01)	\$ 0.02
Weighted average number of common shares outstanding		589,140,903	534,900,058

See accompanying notes to these consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

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

For the three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2018	\$ 108,552,681	\$ 5,083,561	\$ 1,087,640	\$ -	\$ 59,940	\$ 9,828	\$ (97,047,515)	\$ 17,746,135
Issuance of common shares	14,766,632	-	-	-	-	-	-	14,766,632
Issuance of warrants and broker units	-	426,367	-	-	-	-	-	426,367
Exercise of warrants and options for common shares	12,586,356	(1,431,808)	-	-	-	-	-	11,154,548
Share-based compensation	-	-	1,075,695	-	-	-	-	1,075,695
Expiry of warrants and stock options	-	-	-	-	-	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(19,117)	8,131,827	8,112,710
Balance at March 31, 2018	\$ 135,905,669	\$ 4,078,120	\$ 2,163,335	\$ -	\$ 59,940	\$ (9,289)	\$ (88,915,688)	\$ 53,282,087
	Share Capital	Warrant Reserve	Stock options reserve	Shares to be issued	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2019	\$ 138,511,038	4,052,164	\$ 4,777,929	\$ -	\$ 59,940	\$ (125,930)	\$ (100,686,006)	\$ 46,589,135
Share-based compensation (Note 15)	-	-	411,926	-	-	-	-	411,926
Expiry of warrants and stock options	-	-	(57,247)	-	-	-	57,247	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(892,214)	(3,046,043)	(3,938,257)
Balance at March 31, 2019	\$ 138,511,038	\$ 4,052,164	\$ 5,132,608	\$ -	\$ 59,940	\$ (1,018,144)	\$ (103,674,802)	\$ 43,062,804

See accompanying notes to consolidated financial statements.

GOLDEN LEAF HOLDINGS LTD.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

	For the three months ended March 31,	
	2019	2018
Cash provide by (used in):		
Operating activities:		
Net gain (loss)	\$ (3,046,043)	\$ 8,131,827
Depreciation of property, plant and equipment	Note 8 629,043	269,634
Amortization of intangible assets	77,105	75,645
Gain on disposal of assets	Note 8 (16,945)	-
Interest expense	741,662	649,258
Income tax expense	11,624	-
Bad debt expense	68	65,833
Share based compensation	Note 15 411,926	1,075,695
Gain on fair value adjustment to warrants liability	Note 12 (499,662)	(6,212,222)
Gain on fair value adjustment to debt	(36,169)	(7,128,616)
Gain on fair value of biological assets	Note 7 (303,439)	(293,897)
Transaction costs	-	471,900
Reserve for obsolete inventory	Note 7 82,909	366,951
Other non-cash transactions	(952,500)	(438,210)
Changes in working capital items		
Accounts receivable	Note 6 (124,680)	(126,471)
Other receivables	85,656	-
Sales tax recoverable	52,800	(64,493)
Accounts payable and accrued liabilities	(623,548)	12,772
Sales tax payable	(172,695)	-
Biological assets	Note 7 300,474	120,534
Inventory	Note 7 (508,029)	(621,413)
Prepaid expenses and deposits	397,275	(24,698)
Cash used in operating activities	\$ (3,493,168)	\$ (3,669,971)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	Note 8 (539,036)	(339,761)
Proceeds from disposal of property plant and equipment	45,000	-
Payment of deposits and retainers	-	(97,804)
Cash used in investment activities	\$ (494,036)	\$ (437,565)
FINANCING ACTIVITIES		
Issuance of common shares	-	21,669,001
Payment of share issuance costs	-	(1,021,950)
Repayment of long-term debt	-	(97,366)
Interest paid	-	(312,280)
Cash provided by financing activities	\$ -	\$ 20,237,405
Increase (decrease) in cash during the period	\$ (3,987,204)	\$ 16,129,869
Cash, beginning of period	12,275,372	6,009,447
Cash, end of period	\$ 8,288,168	\$ 22,139,316

See accompanying notes to these consolidated financial statements

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. dollars, unless otherwise stated)
As at and for the three months ended March 31, 2019

1. Incorporation and operations

Golden Leaf Holdings Ltd. ("Golden Leaf" or the "Company") is a publicly traded corporation, incorporated in Canada, operating primarily in the Oregon, Nevada, and Canadian markets. The Company's shares are listed on the CSE under the trading symbol "GLH" as well as the OTCQB under the trading symbol "GLDFF".

The Company is in the business of producing and distributing cannabis oil and flower products within Oregon, Nevada and Canada adult-use regulated markets as well as the Canadian medical market, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC, Medical Marijuana Group Corporation and Medical Marijuana Group Consulting Ltd.

2. Going concern

Golden Leaf has been incurring operating losses and cash flow deficits since its inception, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the gradual relaxing of prohibitions on the cannabis industry in the United States and the legalization of cannabis in Canada. As at March 31, 2019, the Company had an accumulated deficit of \$103,674,802 (December 31, 2018: \$100,686,006). The Company's revenues have not yet risen to levels materially capable of covering the costs related to the infrastructure investment (both capital and operating). As such, the Company has been depleting its capital as it simultaneously navigates regulatory evolution and uncertainty, awaits the imminent changes in other United States jurisdictions that will fuel market expansion, and continues to make necessary investments.

As of March 31, 2019, the Company's cash balances were \$8,288,168. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under acceptable terms. As well, there can be no assurance that the Company will be able to generate sufficient cash flows from operations.

These circumstances indicate the existence of material uncertainty that casts substantial doubt as to the Company's ability to meet its business plans and its obligations as they become due, and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019 ("interim financial statements") have been prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future and does not reflect the adjustments to assets and liabilities that would be necessary if it were unable to obtain adequate financing. Such adjustments could be material. If the Company is unable to raise funds and execute its business plans, it may not be able to continue as a going concern.

3. Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended December 31, 2018 ("last annual financial statements"), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. dollars, unless otherwise stated)
As at and for the three months ended March 31, 2019

3. Statement of compliance (continued)

This is the first set of the Company's financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 5.

These interim financial statements were approved by the Company's Board of Directors on May 30, 2019.

4. Basis of presentation

Except where specified, the interim financial statements have been prepared in U.S. dollars, which is the Company's presentation and functional currency, on a historical cost basis except for certain financial assets and financial liabilities measured at fair value. Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements as at and for the year ended December 31, 2018. The changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2019. Certain prior period amounts have been reclassified for consistency with current period presentation.

5. Significant accounting policies

Changes in Accounting Policies - Leases

The Company adopted IFRS 16 *Leases* as of January 1, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and leases liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Company did not act as a lessor as at or for the three months ended March 31, 2019.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial application, if any, is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under International Accounting Standard (“IAS”) 17 and related interpretations. The details of the changes in accounting policies are described below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under International Financial Reporting Interpretations Committee (“IFRIC”) 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone basis. The Company excluded common area maintenance (CAM) and sales-based rent from the lease components as these are considered variable costs under IFRS 16, and accordingly, are expensed as incurred.

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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As at and for the three months ended March 31, 2019

5. Significant accounting policies (continued)

Recognition

The Company leases many assets, including properties, vehicles and certain IT equipment. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value (e.g. IT equipment). The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. Refer to Note 8. At March 31, 2019, the Company did not hold any right-of-use assets that met the definition of investment property.

The Company presents lease liabilities in 'long term debt' in the statement of financial position.

Significant accounting policies

The Company recognises a right-of-use and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

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

Transition

Previously, the Company classified property leases as operating leases under IAS 17. These include retail stores space, production facilities, warehouses, cannabis grows, and offices. The leases typically run for a period of 3 to 10 years. Some leases include an option to renew the lease for an additional term of 3 to 5 years after the end of a non-cancelable period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments and discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at amounts equal to the respective lease liabilities, adjusted by the amounts of any prepaid or accrued lease payments.

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. dollars, unless otherwise stated)
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5. Significant accounting policies (continued)

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company leases a number of vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impact of transition

On transition to IFRS 16, the Company recognized additional right-of-use assets equal to additional lease liabilities. The impact on transition is summarized below.

	January 1, 2019
Right-of-use assets presented in property, plant and equipment	\$ 4,236,692
Lease liabilities	4,236,692

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 11%.

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	5,369,073
Discounted using the incremental borrowing rate at January 1, 2019	2,982,440
Finance lease liabilities recognized as at December 31, 2018	183,275
- Recognition exemption for leases with less than 12 months of lease term at transition	(85,418)
- Extension options reasonable certain to be exercised	1,156,395
Lease liabilities recognized at January 1, 2019	4,236,692

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized \$4,060,153 of right of use assets and \$4,109,001 of lease liabilities as at March 31, 2019.

Also, in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the three months ended March 31, 2019, the Company recognized \$186,259 of depreciation charges and \$143,633 of interest costs from these leases.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
(Expressed in U.S. dollars, unless otherwise stated)
As at and for the three months ended March 31, 2019

6. Accounts receivable

	March 31, 2019	December 31, 2018
Accounts Receivable	\$ 796,669	\$ 718,668
Allowance for doubtful accounts	(47,603)	(94,215)
	\$ 749,066	\$ 624,453

7. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on the selling price less any costs to sell up to the point of harvest.

For biological assets that are still growing, the fair value ascribed to them is a percentage of the fair value at point of harvest, based on where the plants are in their grow cycle. As at March 31, 2019, on average, the biological assets were approximately 47% complete relative to the next expected harvest date.

Production costs are marijuana cultivation costs including post-harvest costs and consist of labor, electricity, water, propane, testing fees, supplies, tools and materials, and depreciation of equipment and leasehold improvements and other related costs.

In determining the fair value of biological assets, management is required to make several estimates with respect to significant unobservable inputs, including the expected yields for the cannabis plants, listed selling price of dry cannabis, the stage of plant growth at which point of harvest is determined, wastage and costs to sell. Estimated yield per plant varies by strain and is obtained through historical growing results or grower estimate if historical results are not available. The Company used 58.37 grams per plant in the valuation of biological assets at March 31, 2019. The listed selling price of dry cannabis varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available. The Company used a price of \$4.50 per gram in valuation of biological assets at March 31, 2019. Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest. For the year ended March 31, 2019, costs to sell were nil as the biological assets were not sold to retail customers.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were key inputs used by management in determining the fair value of biological assets:

- Selling price per gram – calculated as the weighted average selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices. As at March 31, 2019, these prices represented the ultimate selling prices to wholesale buyers.
- Stage of growth – represents the weighted average number of weeks out of the 16-week growing cycle that biological assets have reached as of the measurement date.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Wastage – represents the weighted average percentage of biological assets which are expected to be destroyed due to failure to mature into cannabis plants that can be harvested.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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7. Biological assets and inventory (continued)

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

	March 31, 2019	10% change as at March 31, 2019
Selling price per gram	\$4.50	\$ 11,207
Stage of growth	8 weeks	\$ -
Yield by plant	58.37 grams	\$ 11,207
Wastage	5%	\$ -

The Company accretes fair value according to stage of growth. The plants in flowering cycle are ascribed higher value than plants in propagation and vegetative stages of growth as follows:

Plant stage	Value ascribed	Stage of growth
Propagation	Nominal	2 - 4 weeks
Vegetative	25%	3 - 8 weeks
Flowering <50%	50%	8 - 12 weeks
Flowering >50%	100%	11 - ≥ 16 weeks

During the three months ended March 31, 2019 and 2018, the Company recognized \$141,916 and \$293,897, 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 cannabis flower, concentrated products such as oils and edibles, packaging, trim, and paraphernalia. Inventory costs are costs incurred to bring inventory to the condition and location of sale and include labor, packaging, transportation, depreciation of equipment, and other related costs.

During the three months ended March 31, 2019 and 2018, \$114,970 and \$84,333 of depreciation was allocated to inventory. Any costs incurred to bring inventory to the condition and location of sale are included in cost. Inventory expensed to cost of sales for the three months ended March 31, 2019 and 2018 was \$2,518,155 and \$2,843,843, respectively.

The Company's inventory at March 31, 2019 and December 31, 2018 consisted of:

	Biological assets	Inventory
Raw materials	\$ -	\$ 875,108
Work-in-process	74,148	1,099,840
Finished goods	-	1,441,958
Balance, December 31, 2018	\$ 74,148	\$ 3,416,906
Raw materials	-	889,333
Work-in-process	77,113	1,288,608
Finished goods	-	1,664,085
Balance, March 31, 2019	\$ 77,113	\$ 3,842,026

At March 31, 2019 and December 31, 2018, the Company also recorded a general reserve for excess and obsolete inventory in the amount of \$82,909 and \$150,586, respectively.

GOLDEN LEAF HOLDINGS LTD.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
 (Expressed in U.S. dollars, unless otherwise stated)
 As at and for the three months ended March 31, 2019

7. Biological assets and inventory (continued)

The Company's biological assets at March 31, 2019 are comprised of:

Balance, January 1, 2019	\$ 74,148
Gain on fair value of biological assets	141,916
Increase in biological assets due to capitalized costs	23,633
Transfer to finished goods	(162,584)
Balance, March 31, 2019	\$ 77,113

8. Property, plant and equipment

	Buildings and improvements	Land	Production equipment	Leasehold improvements	Computer Equipment	Furniture and Fixtures	Vehicles	Total
Cost								
Balance, January 1, 2019	\$ 1,043,846	\$ 273,442	\$ 2,256,281	\$ 4,653,026	\$ 405,992	\$ 997,947	\$ 258,112	\$ 9,888,646
Additions	4,189,066	(326)	432,339	40,653	9,376	4,017	-	4,675,125
Dispositions	-	-	-	-	-	-	(21,834)	(21,834)
Balance, March 31, 2019	\$ 5,232,912	\$ 273,116	\$ 2,688,620	\$ 4,693,679	\$ 415,368	\$ 1,001,964	\$ 236,278	\$ 14,541,937
Accumulated Amortization								
Balance, January 1, 2019	\$ (194,353)	\$ -	\$ (1,036,415)	\$ (1,560,685)	\$ (169,113)	\$ (581,736)	\$ (157,509)	\$ (3,699,811)
Expense	(209,641)	-	(128,352)	(204,904)	(27,365)	(29,238)	(29,543)	(629,043)
Dispositions	-	-	-	-	-	-	31,556	31,556
Balance, March 31, 2019	\$ (403,994)	\$ -	\$ (1,164,767)	\$ (1,765,589)	\$ (196,478)	\$ (610,974)	\$ (155,496)	\$ (4,297,298)
Carrying amount								
At December 31, 2018	\$ 849,493	\$ 273,442	\$ 1,219,866	\$ 3,092,341	\$ 236,879	\$ 416,211	\$ 100,603	\$ 6,188,835
At March 31, 2019	\$ 4,828,918	\$ 273,116	\$ 1,523,853	\$ 2,928,090	\$ 218,890	\$ 390,990	\$ 80,782	\$ 10,244,639

Total depreciation expense for the three months ended March 31, 2019 and 2018 was \$629,041 and \$269,634, respectively. Of the total expense, \$114,970 and \$84,333 was allocated to inventory during the three months ended March 31, 2019 and 2018, respectively.

9. Intangible assets

	License	Customer relationships	Brands	Total
Cost				
Balance, January 1, 2019	\$ 10,966,911	\$ 1,512,896	\$ 9,581,746	\$ 22,061,553
Additions	-	-	-	-
Balance, March 31, 2019	\$ 10,966,911	\$ 1,512,896	\$ 9,581,746	\$ 22,061,553
Accumulated Amortization				
Balance, January 1, 2019	\$ -	\$ (278,604)	\$ -	\$ (278,604)
Expense	-	(77,105)	-	(77,105)
Balance, March 31, 2019	\$ -	\$ (355,709)	\$ -	\$ (355,709)
Carrying amount				
At December 31, 2018	\$ 10,966,911	\$ 1,234,292	\$ 9,581,746	\$ 21,782,949
At March 31, 2019	\$ 10,966,911	\$ 1,157,187	\$ 9,581,746	\$ 21,705,844

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10. Convertible debt and notes payable

	March 31, 2019	December 31, 2018
Current portion of convertible debentures carried at fair value	\$ 8,782,131	\$ 8,888,946
Mortgage note payable	312,118	312,118
Convertible debentures carried at fair value	5,176,936	4,996,811
Carrying amount of convertible notes at end of period	\$ 14,271,185	\$ 14,197,875

The Company has elected to account for the convertible debentures at fair value through profit and loss on initial recognition and as of the date of extinguishment for those convertible debentures noted. A gain of \$36,169 and \$7,128,616 was recorded through change in fair value of liabilities on the statement of operations for the three months ended March 31, 2019 and 2018. For the three months ended March 31, 2019, no debentures were converted.

Note payable was at \$312,118 as at March 31, 2019 and December 31, 2018, respectively, and carries an annual interest rate of 10%.

11. Long-term debt and consideration payable

	March 31, 2019	December 31, 2018
Long term debt	\$ 4,236,692	\$ 71,721
Less: current portion	(735,573)	(25,492)
Carrying amount of long-term debt	\$ 3,501,119	\$ 46,229

Long term debt consists of lease liabilities related to leases for properties and vehicles. Refer to Notes 4 and 19.

Consideration payable was at \$9,123,653 and \$8,956,809 as at March 31, 2019 and December 31, 2018, respectively. The Company recognized \$166,844 in accretion expense for the three months ended March 31, 2019.

12. Warrant liability

	Number of warrants issued	Amount
Balance, January 1, 2019	151,835,763	\$ 605,481
Change in fair market value	-	(499,661)
Balance, March 31, 2019	151,835,763	\$ 105,820

Per IAS 9, the warrants are measured at fair value at each reporting date. For the three months ended March 31, 2019 and 2018, a gain of \$499,662 and \$6,212,222 was recorded in the statement of operations, respectively, due to significant changes in the Company's common share price. The Black-Scholes option pricing model was used at the date of measurement with the following assumptions:

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12. Warrant liability (continued)

	March 31, 2019	December, 31 2018
Expected life	0.3 - 1.7 years	0.5 - 1.9 years
Risk-free interest rate	1.47%	1.90%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7492	0.7337
Expected volatility	68% - 73%	68% - 83%

Volatility was calculated by using the Company's historical volatility. 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.

13. Share capital

Share capital consists of one class of fully paid Ordinary Shares, with no par value. The Company is authorized to issue an unlimited number of Ordinary Shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the Company's shareholders' meetings. The Company did not issue new shares during the three months ended March 31, 2019. Number of common shares was 589,140,903 at March 31, 2019 and December 31, 2018, respectively, and share capital was at \$138,511,038 at March 31, 2019 and December 31, 2018, respectively.

14. Warrant reserve

	Number of warrants issued	Amount
Balance, December 31, 2018	20,924,916	\$ 4,052,164
Balance, March 31, 2019	20,924,916	\$ 4,052,164

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

	March 31, 2019	December, 31 2018
Expected life	.1 - 1.7 years	.3 - 1.9 years
Risk-free interest rate	0.57% - 1.79%	0.57% - 1.79%
Dividend yield	0.00%	0.00%
Foreign exchange rate	0.7701 - 0.8134	0.7701 - 0.8134
Expected volatility	70.0% - 88.4%	70.0% - 88.4%

Volatility was calculated by using the Company's historical volatility and 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.

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15. Stock option plan

On January 1, 2015, the Company's Board of Directors approved a Directors, Management, Employees and Consultants Stock Option Plan, to provide an incentive to its directors, executives, and employees.

In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the Ordinary Shares. The 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.

Total number of options at January 1, 2019	49,528,066
Options granted at \$0.14 Canadian dollars	6,800,000
Options expired	(4,823,599)
Total number of options at March 31, 2019	51,504,467
Number of exercisable options issued in Canadian dollars	26,047,654
Number of exercisable options issued in U.S. dollars	100,000
Weighted average exercise price of options at March 31, 2019 in U.S. dollars	\$ 0.18

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

	March 31, 2019	December, 31 2018
Expected life	3 years	3 years
Risk-free interest rate	0.57% - 2.11%	0.57% - 2.11%
Dividend yield	0.00%	0.00%
Expected volatility	70% - 89%	70% - 89%
Expected forfeiture rate	0.00%	0.00%

During the three months ended March 31, 2019 and 2018, \$411,926 and \$1,075,452 was included in stock compensation expense in the statement of operations.

On January 31, 2019 and February 4, 2019, the Company issued 6,300,000 and 500,000 stock options to employees with an exercise price of C\$0.14.

16. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the three months ended March 31, 2019 and 2018 includes the following expenses:

	March 31, 2019	March 31, 2018
Salaries, commissions, bonuses and benefits	\$ 422,430	\$ 270,161
Stock Compensation, including warrants and shares	154,402	381,045
	\$ 576,832	\$ 651,206

Karyn Barsa, CFO, was awarded 500,000 stock options with an exercise price of C\$0.14 on February 4, 2019.

Consideration payable with face value of \$9,527,350, related to the Chalice Farms acquisition, is owed to William Simpson, former CEO, Michael Genovese, COO, and Gary Zipfel, Director.

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16. Related party transactions (continued)

The Company leases both its corporate headquarters in Portland and its grow facility outside of Portland from CPPOR LLC (“CPP”), of which Gary Zipfel, Director, is the sole member. During the three months ended March 31, 2019 and 2018, the Company paid total rents of \$188,867 and nil, respectively, for these properties. In 2018, in an effort to support the Company, CPP entered into a rent abatement agreement with the Company for the grow facility under construction for the entire 2018 year. Rent payments for the grow facility resumed upon completion of construction in January 2019.

17. 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 that optimizes the costs of capital at an acceptable risk. As of March 31, 2019 and December 31, 2018, total managed capital was \$46,605,193 and \$46,871,502, respectively.

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.

18. Legal matters

The Company and its wholly-owned subsidiary Greenpoint Real Estate, LLC, an Oregon limited liability company, 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. On February 1, 2019, subsequent to December 31, 2018 balance sheet date, the parties settled the case. The settlement did not have a material impact on the Company’s financial statements and the amount was accrued in full in the 2018 financial statements.

Greenpoint Real Estate LLC, a wholly-owned subsidiary of the Company, was sublessee of certain real property located at 19630 S. McCord Rd., Oregon City, Oregon. On August 30, 2018, Greenpoint as plaintiff filed a complaint against the owner of the property, Dan Berge, as defendant, in Clackamas County Circuit Court, captioned Greenpoint Real Estate LLC, and Alex Wall v. Dan Berge, Case No. 18CV38386. On September 18, 2018, the court entered a preliminary injunction against Berge. The parties signed a Settlement and Release Agreement on May 14, 2019 and are awaiting an entry of dismissal from the court with prejudice.

19. Financial instruments and risk management

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

(a) Fair value

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

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19. Financial instruments and risk management (continued)

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

Level 1 – 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.

	Category	Level 1	Level 2	Level 3	Total
March 31, 2019		\$	\$	\$	\$
Financial Liabilities					
Warrant liability	FV/TPL	-	-	105,820	105,820
Convertible debentures	FV/TPL	-	-	13,959,067	13,959,067
December 31, 2018	Category	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial Liabilities					
Warrant liability	FV/TPL	-	-	605,481	605,481
Convertible debentures	FV/TPL	-	-	13,885,757	13,885,757

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

The 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 was the expected volatility of the Company's shares which was estimated at 71% and 85% weighted average at March 31, 2019 and December 31, 2018, respectively.

Refer to Note 12 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 March 31, 2019 and December 31, 2018.

The Company's principal financial assets are cash held at a highly rated financial institution and accounts receivable, which are subject to credit risk.

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

The Company does not have significant exposure to any individual customer and has estimated bad debts of \$104,443 and \$235,665 at March 31, 2019 and December 31, 2018, respectively.

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19. Financial instruments and risk management (continued)

(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 March 31, 2019						
Trade and other payables	\$ 2,521,538	\$ 2,521,538	\$ 2,521,538	\$ -	\$ -	\$ -
Loans and other borrowings	4,548,810	4,548,810	735,573	1,563,149	1,317,412	932,676
Convertible debt	13,959,067	13,959,067	8,782,131	5,176,936	-	-
Total	\$ 21,029,415	\$ 21,029,415	\$ 12,039,242	\$ 6,740,085	\$ 1,317,412	\$ 932,676

(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 March 31, 2019:

Financial Assets	
Cash	\$ 3,823,180
Trade and other receivables	288,200
	\$ 4,111,380
Financial Liabilities	
Trade and other payables	70,965
Convertible debt	13,959,067
	\$ 14,030,032

20. Segment Information

The Company defines its major operating segments as Oregon wholesale, Oregon retail, Nevada wholesale, Canada cultivation and Canada consulting operations. Due to the jurisdictional cannabis compliance issues ever-present in the industry, each 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.

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20. Segment Information (continued)

For the three months ended March 31, 2019	Oregon Retail	Oregon Wholesale	Nevada Wholesale	Canada Cultivation	Canada Consulting	Other	Consolidated
Product sales	\$ 2,660,606	\$ 811,763	\$ 256,165	\$ 194,197	\$ 153,876	\$ -	\$ 4,076,607
Consulting revenue	7,871	-	-	-	4,182	194,188	206,241
Total Revenue	\$ 2,668,477	\$ 811,763	\$ 256,165	\$ 194,197	\$ 158,058	\$ 194,188	\$ 4,282,848
Inventory expensed to cost of sales	1,483,040	665,793	216,033	153,289	-	-	2,518,155
Production costs	-	127,349	11,387	-	-	-	138,736
Gross margin, excluding fair value items	\$ 1,185,437	\$ 18,621	\$ 28,745	\$ 40,908	\$ 158,058	\$ 194,188	\$ 1,625,957
Fair value changes in biological assets included in inventory sold	-	-	-	161,523	-	-	161,523
(Gain) Loss on changes in fair value of biological assets	-	-	-	(303,439)	-	-	(303,439)
Gross profit (loss)	\$ 1,185,437	\$ 18,621	\$ 28,745	\$ 182,824	\$ 158,058	\$ 194,188	\$ 1,767,873

As at March 31, 2019

Assets	\$ 5,244,365	\$ 14,750,624	\$ 9,500,837	\$ 2,167,135	\$ 496,173	\$ 41,291,081	73,450,215
Liabilities	\$ 2,261,034	\$ 2,671,881	\$ 232,210	\$ 391,360	\$ 176,704	\$ 24,654,222	30,387,411

For the three months ended March 31, 2018	Oregon Retail	Oregon Wholesale	Nevada Wholesale	Canada Cultivation	Canada Consulting	Other	Consolidated
Product sales	\$ 1,941,987	\$ 539,137	\$ 384,673	\$ -	\$ 318,219	\$ 16,251	\$ 3,200,267
Consulting revenue	-	-	-	-	-	-	-
Total Revenue	\$ 1,941,987	\$ 539,137	\$ 384,673	\$ -	\$ 318,219	\$ 16,251	\$ 3,200,267
Inventory expensed to cost of sales	1,138,121	874,854	340,867	-	1,176	488,825	2,843,843
Production costs	-	114,217	18,855	63,162	-	101,240	297,474
Gross margin, excluding fair value items	\$ 803,866	\$ (449,934)	\$ 24,951	\$ (63,162)	\$ 317,043	\$ (573,814)	\$ 58,950
(Gain) Loss on changes in fair value of biological assets	-	-	(85,549)	(208,348)	-	-	(293,897)
Gross profit (loss)	\$ 803,866	\$ (449,934)	\$ 110,500	\$ 145,186	\$ 317,043	\$ (573,814)	\$ 352,847

As at December 31, 2018

Assets	\$ 3,393,895	\$ 12,546,890	\$ 7,998,464	\$ 2,307,980	\$ 383,832	\$ 46,845,964	\$ 73,477,025
Liabilities	\$ 149,428	\$ 907,952	\$ 4,838	\$ 468,404	\$ 163,757	\$ 25,193,511	\$ 26,887,890